

EMPOWERING THE POOR

**UNCDF'S CONTRIBUTION
TO POVERTY REDUCTION AND LOCAL GOVERNANCE**

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Abstract

This paper synthesizes the main issues of the forthcoming United Nations Capital Development Fund (UNCDF) concept paper '*Empowering the Poor. Local Governance for Poverty Reduction*'. The paper explores the potential contribution of UNCDF in translating the Millennium Development goals and indicators into reality and discusses the underlying reasons and assumptions of the UNCDF focus on local governance and local governments in poverty reduction. UNCDF interventions are characterized by a model based on building partnerships with programme country governments, local authorities and communities. A flexible strategic tool, the 'Local Development Programme' (LDP) aims at supporting, in a coherent manner, local development and decentralized planning and financing as well as at providing local governments with adequate block grants for public investment. A major point raised by the paper is that local governance can help tackle poverty but is conditioned by macro-economic concerns and national policy direction.

UNCDF AND THE ATTAINMENT OF MDGs

Our world is persistently marked by deprivation, destitution and oppression (Sen, 2000). Poverty is more widespread than ever and it continues to be "pervasive, intractable, inexcusable" (OECD, 2001:20).

However, today, an unprecedented international attention focuses on poverty issues, in parallel with a more refined understanding of the nature of poverty itself and its underlying determinants. Within the last decade, several initiatives have been supported by international institutions. Plans have emerged on a global or regional scale to breathe new life into on-going efforts to reduce poverty in developing countries.

Among them, the *Millennium Development Goals* (MDGs), pioneered by the United Nations, is considered as the most comprehensive agenda for reducing the causes and manifestations of poverty by 2015. Established by world leaders at the United Nations Millennium Summit and adopted by the General Assembly in September 2000, the MDGs are intended to promote peace, human rights and environmental sustainability. They comprise eight goals, with a total of eighteen specific measurable targets, including the one for eradicating extreme poverty and hunger, which affects more than 1 billion people.

The MDGs constitute a vision and a challenge for the development community. They provide a framework for the entire UN system to work coherently together toward a common end. The Declaration “embodies the common vision of the Members of the United Nations for a more peaceful, prosperous and just world, in which all human beings can live better and safer lives.” (UN, 2002: 1). The *Implementation of the United Nations Millennium Declaration* by the General Assembly (31 July 2002) points out the “world (is) divided between rich and poor as never before in human history” and that “one sixth of humanity struggles for daily survival, in a life-and-death battle against disease, hunger and environmental catastrophe.” The MDGs call for “a coordinated strategy” between states, international institutions and agencies, including those of the United Nations, the private sector and non-governmental organizations. The declaration encourages concrete measures in favour of “the poor, the vulnerable, those trampled by conflict or suffering under tyranny and discrimination.”

On several occasions, the MDGs have been reaffirmed with an unparalleled consensus. The Monterrey Conference in 2002, for instance, by emphasizing the importance of nationally-owned strategies for reducing poverty and by stressing the need to increase the quantity and the quality of aid, became a major reference for thinking in poverty reduction. In this perspective, the Poverty Reduction Strategy Papers (PRSPs), prepared by country authorities, have become the principal planning framework for financing, implementing and monitoring specific strategies.

The United Nations will play a leading role in helping developing countries, especially Least Developed Countries (LDCs), implement their poverty reduction strategies, meet the MDGs and break out of the poverty trap. Through financial and technical assistance, UN agencies will assist in designing and implementing pro-poor development programmes, according to their own mandate and specialization.

Among these agencies, the United Nations Capital Development Fund (UNCDF)¹, emphasizes the need to support new patterns of democratic governance at local level and to assist local elected authorities to play a crucial role in poverty reduction.

However, MDGs do not analyze the roots of poverty and do not provide a roadmap to poverty reduction, but only a general poverty-reduction conducive framework. Therefore, the main challenge for UNCDF, as any other multi- or bi-lateral institution, is to translate targets or indicators into more specific strategic choices.

UNCDF MANDATE AND COMPARATIVE ADVANTAGE

The overarching goal of UNCDF is to help reduce poverty through local development programmes and microfinance operations. Its ‘strategic results framework’ implicitly stresses the linkages between activities of good governance and multi-dimensional

¹ Established in 1966 by the United Nations General Assembly as a special purpose organization primarily for small-scale investment in the poorest countries, UNCDF has become in recent years through intense and far-reaching changes. As a result, today, UNCDF works to help reduce poverty by piloting small-scale investments in two areas of concentration, local governance and microfinance. For more information, see <http://www.uncdf.org>

measures for poverty reduction. Its intervention is characterized by a model of local governance, based on building partnerships with programme country governments, local authorities and communities.

In implementing the general corporate policy, the operations of the Local Governance Unit (LGU) aim to support the institutions of local governance in a limited number of LDCs and, particularly, to strengthen the capacities, responsiveness and accountability of elected local governments. The specific objective is to achieve direct poverty reduction and improved local governance. However, present understanding of the nature of poverty as well as thinking on priorities in poverty reduction shape its strategic choices.

By designing, backstopping and monitoring operational support to decentralization through Local Development Programmes in especially poor rural areas of LDCs, UNCDF activities:

- Empower the poor and promote civil society participation in identifying development priorities in a structured dialogue with local leaders;
- Promote a decentralized participatory approach to the delivery of basic infrastructure and the protection/management of renewable natural resources, in order to ensure that local investments match the needs of the poor, are managed efficiently, and are sustainable in the long term;
- Achieve poverty reduction, by delivering demand-responsive local public and community investments in social and economic infrastructure and services, and in improved natural resource management;
- Improve the efficiency, responsiveness and transparency of delivery systems for local investments, through development of local planning, budgeting, and implementation procedures;
- Provide ‘hands-on’ capacity building for local governments (mostly democratically elected) to promote transparent local institutional arrangements with civil society;
- Identify and test local innovations in practice, which, once proven, can then be mainstreamed into the national policy and institutional reform.

UNCDF is committed to the attainment of the MDGs and works in partnership with UNDP and other larger donors to maximize its comparative advantage. Its ‘added value’ in upstream policy dialogue is to advocate for broader policy and institutional reform and for the devolution of powers and financial resources to sub-national spheres of government, those that are closer to the poor.

FOCUSING ON LOCAL GOVERNMENT AND GOOD GOVERNANCE

UNCDF strategy is best understood against the backdrop of the intense current debate on democratic decentralization as a means for poverty reduction. Democratic decentralization (or ‘local democratic governance’) is supposed to efficiently address a large number of key issues, such as: the severe limitations of centralized planning and management; the over-concentration of power, authority, and resources at the centre; the weak contact between government and local people, including civil society and the

private sector; the low equity in the allocation of resources; the insufficient representation of various political, religious, ethnic and tribal groups in the decision-making process; the inadequate exchange of information; the inefficiency of service delivery, etc. (Manor 1997). Furthermore, a government which is more knowledgeable about and hence more responsive to the needs of the people is expected to lead to pro-poor policies and outcomes (Moore & Putzel, 1999:20).

However, the current debate points out that the conditions of effective governance are not particularly widespread, especially in poor countries (Norton & Foster, 2001). In addition, there is no clear evidence of a linear relationship between democratic decentralization, local governance and poverty reduction nor between democracy and allocative efficiency. Furthermore, democratic regimes are not necessarily the most effective means to foster economic growth and their lack of effectiveness may erode confidence in emerging democracy.

To explicitly counteract some of the negative outcomes of decentralization for the poor, there is a range of other mechanisms, instruments or institutional modalities that can be brought into the reform process, such as the provision of adequate funds and adequate powers for elected bodies at lower levels as well as reliable mechanisms for the accountability of elected representatives to citizens and for accountability of bureaucrats at lower levels to elected representatives (Manor, 2000)

The central focus of UNCDF approach to poverty-reduction stems from different considerations:

- Democratic governance is believed to ultimately create the conditions for sustainable development and poverty reduction — it is a driving force to initiate change both on the ground and at the national policy level (although more empirical evidence is needed);
- Supporting and strengthening local, democratically elected governments and building more inclusive, responsive, accountable and transparent local government institutions are means of enhancing local democratic governance. (It should be emphasized that the terms ‘local government’ and ‘local authorities’ are used to refer to the entire community, as administration is the responsibility of everyone, not merely elected representatives);
- Effective local government is crucial for the sustainable livelihood and well-being of all groups and for improving the dialogue between local institutions, civil society and the private sector;
- Local government-based development activities tend to protect and favour local identities and territorial collective identity (Mabileau, 1994:9,11).

UNCDF believes that its programmes, by providing local stakeholders (local authorities as well as local civil society) with power and resources within the context of administrative, fiscal and political decentralization, may have a considerable and undeniable impact on local livelihoods and on poverty reduction. Its approach essentially intends to demonstrate that sound institutional arrangements, together with increased

opportunities for better economic performance and sustainable rural livelihoods, may empower the poor, strengthen their participation in local political life and decision-making and improve their condition.

The major challenge is to create the conditions at the local level that favour ‘pro-poor’ democratic governance *and* ‘pro-poor’ development, bringing economic and political decision-making closer to local communities, fostering operational strategies suited to local conditions, and making local authorities more accountable to their constituencies. The rationale of the approach derives from one of the key lessons learned from the current debate on decentralization on the importance of policies, institutions, and governance in poverty reduction.

The linkages between support to democratic governance and poverty reduction are still blurred and initial results of ongoing experiments are still mixed. Therefore, by adopting its approach, UNCDF is taking significant risks. However, its pilot programming takes place only where essential conditions of effective governance have been put in place (i.e., local authorities receive adequate powers and clear accountability mechanisms have been established) and where there is clear political commitment by the central government to accompany the experiments with appropriate measures.

The underlying assumption of UNCDF approach is that local stakeholders can more effectively define local priorities and local authorities can more efficiently implement poverty reduction measures. In this manner, the UNCDF strategy reflects a political perspective to democratic decentralization which stresses the ‘new social contract’ which can be established between the state and civil society, through local government (poverty reduction being an integral part of the ‘social contract’).

KEY PERSPECTIVES ON POVERTY AND GOVERNANCE

The UNCDF approach highlights eight key perspectives of poverty reduction and governance.

1) Empowering people to reduce poverty

As poverty is linked to powerlessness, injustice and exclusion, UNCDF focuses on the potential role of local empowerment in poverty-reduction and addresses issues, which are not necessarily linked to lack of income. Empowering the poor, as part of the agenda of good governance, requires the removal of all the institutional barriers that prevent them from taking action to improve their well-being and limit their choices. More particularly, empowering the poor includes strengthening the basic principles of good governance, by enhancing popular participation, improving efficiency in pro-poor development and promoting democratic accountability and transparency.

UNCDF emphasizes the comparative advantage of local governments in fostering democratic governance and in designing, financing, managing, supervising and monitoring local development measures and initiatives aimed at reducing poverty. Its approach gives a pre-eminent place to local authorities (e.g., at municipality, district,

‘commune’ or sub-district level), by providing them with adequate power and financial resources, while creating and/or consolidating a network of interactions with the organizations of civil society and deconcentrated state administrations (considered to be providers of technical services and support).

By empowering local authorities, democratic decentralization may:

- Better emphasize users’ preferences and priorities, give greater voice and representation of citizens, stress local ownership as an effective instrument of implementation and bring greater grass-roots level control over resources and their utilization;
- Remove social constraints and administrative obstacles as well as limit the power of the central state (e.g., in the management of natural resources);
- Stress the fact that the poor constitute highly differentiated groups, with diverse priorities;
- Facilitate collective action in the provision of public goods and in the protection/management of natural resources and make more efficient the delivery of public services;
- Make central government more responsive to citizen needs and produce more acceptable government decisions.

From this broad perspective, decentralization and democratic governance are essentially economic and political issues. They are means to enhance local economic development, local delivery of infrastructure and social services, and local control, access to and use of productive renewable natural resources.

2) Defining the roles of local government

Within the context of a formal or informal democratic process, local government is considered by UNCDF programming as a permanent institution which has a range of precise rights and obligations, with separate existence and functional autonomy and a formal mandate to provide a range of services to their respective constituencies. Recipient of formal power to receive resources from the central state, local government has the power to formulate bylaws and regulatory frameworks on social and environmental issues; the capacity to establish agreements with the organizations of civil society and the private sector; and the institutional mandate for economic and social development, environment, sanitation, education, culture, health, and municipal police. It may finally constitute a privileged place for education in democracy and a learning centre and laboratory to design and experiment with new forms of political participation and pro-poor local development, respectful of local social identities.

For UNCDF, supporting and strengthening local authorities means recognizing their leadership in local development, a way of guaranteeing their ownership in the local development agenda, particularly in terms of poverty reduction. However, this approach encompasses three crucial institutional perspectives:

- Local governments cannot be considered independent (not even semi-autonomous) organizations; while free to act without formal approval by the centre on all their matters, sub-national governments have to keep close relationships with the central government. Made possible by the centre, local governments need the political oversight and the technical guidance of the centre, according to the principle of ‘balanced powers’ (de Tocqueville argued that “the political strength of local autonomy is intended not only to constitute a school of democracy, but also to create a necessary balance between powers”);
- Local governments should establish and/or strengthen *horizontal* relationships among themselves in order to collectively tackle mutually shared problems;
- Local governments should establish pro-active interactions with lower levels of political life. The local-level institutions of interest groups, user groups, associations, networks and disparate groupings which constitute “the building blocks of political action and interchange” and which form “a broad tapestry of social, political, and economic communication” (Chazan et al. 1999, 75). It is now broadly acknowledged that local social context and systems, including local norms and networks of civic engagement, profoundly affect the strength, responsiveness and effectiveness of institutions (this is the basic argument of Putnam, 1993).

3) Supporting administrative/political decentralization

By capitalizing on major elements drawn from current debates on poverty as well as the lessons learned by its own programmes, UNCDF stresses, among other factors, the fact that decentralization may influence good governance in the public sector *only if it is*: (i) supported by necessary legal and administrative arrangements; (ii) accompanied by capacity building of local stakeholders; (iii) includes adequate, predictable, and sustainable funding; and (iv) supported by an enabling and regulating framework for local government, which is provided by central government.

The underlying assumption is that good governance will, ultimately, create the conditions for sustainable development and poverty reduction. In line with the conclusions of the current debate, UNCDF argues, “democratic governance can trigger a virtuous cycle of development” where political freedom empowers people to force the expansion of social and economic opportunities and open debates allow communities to define their own priorities (UNDP, 2002).

The general debate about whether or not to support decentralization as a strategy for poverty reduction is unproductive. In spite of the variety of its forms, democratic decentralization is today a political trend worldwide, especially in the LDCs, which can no longer be ignored and there is no ‘back to square one’ on this matter. Rather, the real debate in terms of poverty-reduction, should focus on:

- The quality of decentralization design, the pre-conditions of decentralization (e.g., reforms), and the necessary accompanying measures (e.g., capacity building);
- The aspects of decentralization which can enhance the quality of local governance and political life;

- The external factors favouring good governance, such as the social infrastructure of civic communities and the democratic values of both officials and citizens.

4) Fostering the impact of governance on public service

In order to improve the impact of governance on public service, on local economic development and on local control of natural resources, UNCDF stresses the comparative advantage of local government in the provision of many essentially local public services. When measured against other organizations, this advantage derives from its potentially greater pressure for responsiveness and accountability on local development decision-making; its greater familiarity with local problems; its relative permanence and legal backing.

A major contention therefore is that these advantages offer the potential for more efficient, effective and sustainable service delivery for poverty reduction. Therefore:

- By being better informed about local preferences and by better matching public services to local preferences, local governments may improve the efficiency of resource allocation.
- As compared to central agencies, local governments face democratic pressure from councilors and their constituents for a larger volume of modest, small-scale, widely spread ‘primary’ facilities — feeder roads, health posts, primary school classrooms — which tend to favour the poor.
- Local governments are better placed to identify the poor, to respect local social identities, and to respond more efficiently to local variations in conditions, tastes, standards, affordability, location requirements and so on for services or infrastructure, and to do so faster.
- Local governments are generally better informed not only about local preferences and politics, but also about local variations and costs. Local governments, once more, are potentially able to allocate resources that are more efficiently used to benefit the poor.
- Local governments are able to ensure more efficient service delivery, through better information and closer oversight and control of service staff — teachers, health workers, road crews, etc. — where absenteeism can be significantly cut. Private contractors are also used more efficiently — similarly, through better information and closer oversight and control.
- Local governments are better able to ensure more competitive tendering as well as better performance and contract-compliance from private firms under contract to implement infrastructure investments.
- At least potentially, local governments can better ensure horizontal co-ordination of line department staff, budgets and activities at the local level, and thus increase the scope for mutually reinforcing activities.
- Finally, the advantage of local authorities in delivering services derives from the (potentially) greater pressures for responsiveness and accountability on local government decision-makers.

For UNCDF too, as for other international donors supporting decentralization, one of the main challenges is “to design decentralization so that it creates incentives that hold each

entity accountable for its responsibilities and make explicit the institutional relations between each entity” (Litvack et al., 1998:26). However, in order to increase accountability, UNCDF programming stresses the ways local governments make necessary arrangements to involve local communities, for instance, by adopting transparent budget processes, by using transparent public procurement procedures, by using performance-based budgeting to allow their constituents to know the nature and use of the inputs and by devolving essential environmental stewardship to them.

5) Developing institutions

In line with those of other international organizations, a number of UNCDF reports and assessments argue that *institutional weakness* has constituted, and still constitutes, a major constraint in developing countries and that the entire debate on institutions is a crucial issue of development. ‘Institutional development’ – which may be defined as the establishment (and enforcement) of clear rules (set of incentives and constraints or ‘rules of the game’) for local institutional stakeholders (i.e., ‘the players’) as well as the strengthening of these institutional stakeholders – is considered to be the crucial dimension of UNCDF approach to poverty reduction. In other words, institutional development relates to building organizational values and competencies, which development requires (Salmen, 1992:19), and refers more specifically “to the administrative bodies, systems, and mechanisms of government, both local arrangements and the intergovernmental mechanisms that help to manage and support decentralization” (Smoke, in UNCDF 2001:35).

By defining policies, managing resources, implementing investment and delivering appropriate services, local institutions are essential to local development and poverty reduction. They also shape actors’ identities, power and strategies (Putnam, 1993:8). The sustainability of poverty-reduction measures is rooted in the institutional arrangements and organizations that emerge from local ‘social capital’ and express local ‘social cohesion’ (although social capital and cohesion are values difficult to assess).

As such, the focus on institutions comprises both institutional organizations and institutional arrangements. In fact, UNCDF stresses three basic elements:

- The importance of an appropriate and sustainable *institutional architecture* with specific levels of governments, each with its own sphere of governance;
- The importance of *coherent institutional arrangements* to define how decentralization can improve the involvement of each level of government (the institutional stakeholders) in public service delivery, local economic development, local environmental governance and transparent fiscal decentralization;
- The emphasis on *the dynamics that institutions* (both organizations and norms) *are capable of generating*, especially in terms of releasing the energies of the poor and channeling them towards a collective management of local development. From a perspective of sustainability, the effort is also to provide full legitimacy to existing social and government structures rather than empowering ephemeral organs that will last the lifetime of a project. This will also avoid any discrepancy between the time

allocated to a 'project' and the time necessary for more substantial political and institutional changes.

A basic assumption of this approach is that a complete decentralization *cannot be done* and is not even desirable. It should also be pointed out that some re-centralization might even be necessary to make certain that the needs of the poor are not ignored (Luckham et al., 1998:38).

Central and provincial institutions are better fit for assessing broader problems and trends (such as ensuring significant pro-poor policies) and for acting as arbiters to solve certain local conflicts. A worldwide study of decentralization experiments in many countries reveals the most successful pro-poor experiments involved a pro-poor ideological commitment from the government; readiness to actively engage in local politics (even for political selfish reasons) and to challenge resistance from local elites; and guarantees of implementation (Crooke & Sverrisson, 2001:48). To that, it should be added that poverty is fundamentally a national problem and that local government efforts to reduce poverty have to be viewed within the broader national context.

Sub-national authorities are just *one* stakeholder among others: decentralization is essentially the setting up of networks involving different actors. For instance, decentralization should accompany efforts intended to strengthen the range of institutions of civil society. An active 'civic community' and democratic values (norms and networks) are preconditions for a good local government; in parallel, a functionally decentralized good government allows the emergence of a dynamic civil society. This is particularly true in Africa, where, because of complex social structures, governments do not have monopoly over power and are not the only legitimate authority. Civil society networks may facilitate local governance by helping to mobilize additional resources, by enhancing the accountability of local level political and management officials and by creating synergies leading to innovations and higher levels of productivity (Olowu, in UNCDF, 2001:41).

Thus, the entire decentralization process is based on three key principles:

- *Subsidiarity*, by which all planning and implementing activities is the responsibility of the level closest to the grass-roots, because of the comparative advantage of each institution (a higher authority would act only if a lower authority cannot act or has proven its incapacity to act);
- *Complementarity*, by which each institutional level will operate in its own areas of action according to its own responsibilities and the principle of 'tangled powers', (whereby the same area of action may be affected by different institutional levels, in a different manner but at the same time);
- *Equity*, by which the rights over local resources of all local stakeholders are legally recognized and legitimized.

There is no clear division between types of public services and levels of government, as several levels of government may be involved in many types of services and infrastructures and the same services may need the involvement of several institutional

levels. In other words, “the problem is to determine how the different levels of government could and should operate” (Proudhomme, 1995:218).

6) Building local capacity

At the heart of the UNCDF approach is an emphasis on building and strengthening the capacity of sub-national governments to plan, implement, manage, and assess local development policies and strategies (especially because local low capacity is used as an argument against decentralization) *as well as* the capacity of the organizations of local civil society.

The debate on local capacity is broad. On the one hand, it is pointed out that the central government cannot devolve significant power to local institutions and to local authorities, because they lack essential technical capacity to handle their responsibilities. Bureaucrats regard not only local leaders, but also newly elected authorities as unlettered, rustic, inexperienced and/or corrupt. In particular, local elected people are considered blind to the larger concerns which animate those at higher levels in the system (Manor, 1997). On the other hand, it is argued that local authorities (and other local leaders) will not develop real technical capacities without some forms of effective transfer of authority and resources.

On this matter, UNCDF adopts a pragmatic and dynamic approach. As local governments of the young democracies are still very fragile, the approach recognizes that the decentralization process is dangerously ambivalent: decentralization’s strengths can be transformed into their opposites, inefficiency replacing expected efficiency, irresponsibility a concern for an improved management, and dependency an expected autonomy (Baguenard, 1996:74). Accountability procedures are still limited or poorly performing, and the participation of all local stakeholders is seldom satisfactory.

Although important, capacity building should not be considered an absolute pre-condition to decentralization. It should rather provide concrete *incentives* — in terms of investing in capacity building or seeking “creative ways to tap into existing sources of capacity” (Litvack et al 1998:28)— to public officials, private sectors, and civil society on how to be responsive to their constituencies and how ‘to be in touch’ with them. This will require the emphasis on specific know-how on participatory planning and programming, budgeting, financial management, procurement, and monitoring and evaluation.

Effective capacity building is a multi-layered component, addressing all local stakeholders:

- (i) *Local governments* in their specific role to plan, programme, budget, implement and monitor different aspects of local development as well as to exercise ‘legality’ controls.
- (ii) *Deconcentrated governmental services* (both at provincial and regional level) in their role to provide appropriate technical support to local authorities.
- (iii) *Organizations of local civil society* (including NGOs, village organizations, women and youth associations, interest groups — such as pastoralists associations

— customary leaders, etc.) in their (potential) role to actively participate in the identification, design, implementation and monitoring of development activities as well as in the provision of technical services.

Additionally, the capacity building that UNCDF projects promote may also address representatives of the *central government* in order to improve their understanding of the changes in their roles and responsibilities brought by decentralization. This is in line with a view that considers decentralization as a restructuring of the respective roles of different levels of government: decentralization is not a zero sum shift from central to local government or to local bodies. UNCDF strongly supports the conclusions of several international organizations which point out that only strong and supportive central government institutions are able to make the role of local governments more effective, which is in opposition to any misleading dichotomy between ‘bottom-up’ versus ‘top-down’ approaches.

UNCDF’s capacity building component addresses the following key issues which are likely to influence the performance of decentralized local governance and will increase its impact on poverty reduction:

- (i) *Human capital*, including technical capacities, i.e., basic skills and knowledge for local governments in order to carry out their specific responsibilities as well as education for all the members of civil society;
- (ii) *Physical capital*, including necessary equipment and technology as well as the material means needed by local governments to carry out their tasks;
- (iii) *Incentive structures* for local government staff, especially in terms of salaries and other benefits.

7) Allocating funds to local governments

UNCDF provides local governments with *block grant transfers*, to spur performance, to help build incentives in the institutional development process and to ensure that the resulting capacity includes the means to deliver the locally-determined micro-projects. The ‘Local Development Fund’ (LDF) is a financial facility aimed at supporting local governments’ budgets for the financing of rural development and poverty reduction. Local government only receives its annual allocation if it is judged to be in satisfactory compliance with *minimum conditions* (e.g. satisfactory book-keeping and audit report; prescribed committees established and functional). However, given the capacity and institutional weaknesses of local governments, most current UNCDF projects adopt an ‘incremental’ approach, by distinguishing lighter requirement in the first (and second year) and more stringent requirements in the following years.

Furthermore, the approach stresses also the importance of *performance criteria*, whereby the annual allocation is adjusted upward (or downward) to reward (or penalize) improved (or worsening) performance on key policy objectives (e.g. rates of local tax collection, the pro-poor content of the investment plan, the adequacy of maintenance arrangements in place). The general objective is to provide local governments with more time to ensure

compliance with rigorous minimum conditions and, more important, to adapt capital injections according to local governance capacity.

The allocation of LDF is a crucial issue in designing a programme, which is responsive to the poor. The majority of UNCDF projects do not use an open application process (in which eligible bodies would submit proposals for projects — the model adopted by the social funds), but rather an approach that uses predetermined *block grants*. In UNCDF projects, basic annual allocations to municipalities usually amount to about US \$2 to \$4 per capita. This corresponds to an allocation of \$1.50-3.00 per capita per year which most international organizations consider to be sustainable and absorbable in the context of local governments in LDCs.

However, fund allocations need a formula for fund allocation. A general tendency of UNCDF/LGU projects is to use several variables to better reflect local variations, especially in terms of poverty, and to reduce regional disparities. Drawing from existing best practices, it is believed that an equitable allocation formula should try to respect: (i) *simplicity* (easily understood by as many stakeholders as possible, to provide for a maximum amount of transparency); (ii) *verifiability* (objective and verifiable criteria, based on verifiable data that are generally agreed upon); and (iii) *equity* (leading to equitable — not equal — allocations).

LDFs allow eligible stakeholders a large number of eligible investments, especially in terms of infrastructure types and public services. UNCDF projects support the participatory establishment of operations manuals with detailed mechanisms and procedures supporting transparency and accountability.

8) Strengthening fiscal decentralization

The inherent mismatch between the optimal decentralization of public expenditures and the optimal decentralization of public revenue collection is at the heart of the fiscal decentralization policy challenge. It is now generally agreed that few local governments outside large cities can finance their expenditures from their own resources and that they need central support.

The specific goal of fiscal decentralization is to give local governments greater responsibilities of taxation and expenditure as well as power to decide on the level and structure of their expenditure budgets. A local government, with the autonomy to make independent fiscal decisions, is considered by UNCDF to be a necessary pre-condition for fiscal decentralization. This autonomy involves taxing powers, to avoid an overly strong dependency from the centre as well as the authority to make allocations and prioritize competing demands. UNCDF also helps local governments to assume responsibilities for their fiscal operations and to improve their performance in the public sector by assessing existing resources and identifying potential resources, identify real fiscal responsibilities of local governments and improve the management of transfers from the central government.

ADDRESSING SPECIFIC DIMENSIONS OF POVERTY

While fully acknowledging the multi-dimensional aspect of poverty, UNCDF stresses the necessity of arriving at a working definition of poverty and in translating the general poverty reduction goal into a range of specific operational objectives. Thus, UNCDF directly addresses three distinct dimensions of poverty (or three inter-related deprivations), with positive empirical correlations.

- *Poverty as a lack of power.* This form of deprivation is powerlessness; lack of voice in decision-making and public policy choices or in the access to resources required to rise out of poverty; lack of basic political freedoms; social exclusion and lack of social rights; and limited capacity to access and influence state institutions and/or social processes shape resource allocations. This dimension of poverty is endemic in rural areas. However, it may affect more particularly specific social categories, or certain groups, mainly because they are mostly uneducated and dispersed, live in remote and inaccessible areas.
- *Poverty as inadequate access to social service.* This form of deprivation, characterized by poor access to services creates low rates of literacy and education, prevents economic growth, decreases people's productive capabilities, limits use of adequate technologies (e.g., for farm and non-farm activities) and hampers communication and exchange of information. The effects of this deprivation are weak participation in civil society and weak civic engagement.
- *Poverty as insecure livelihood and vulnerability to environmental risks and poor access to infrastructure:* This dimension of poverty, which is characteristic to rural areas, basically concerns *assets* and *commodities* as well as poor access to basic infrastructure. Livelihood is insecure when stocks, capital, resources, flows of food and cash are inadequate to meet basic needs.

FRAMEWORK FOR ACTION

UNCDF's work in local governance has moved *towards an institutional development paradigm* (with legally institutionalized stakeholders) and away from delivery through direct 'project type' instruments. Supported by democratic decentralization, the new focus is on programmes, through greater consultation with local stakeholders and on local ownership.

UNCDF has developed a flexible strategic tool, the *Local Development Programme* (LDP), which aims at supporting local development, decentralized natural resource management and decentralized planning and financing, within the context of poverty reduction. The LDP is a tool, allowing planning and implementation to occur in steps, and incremental knowledge gained in the process to be continually incorporated. Lessons learned and best practices in previous programmes are also incorporated into the LDP strategy. In regards to local institutional stakeholders, the LDP has the following general objectives: to define and implement a coherent and sustainable institutional strategy,

which will strengthen their responsibilities; to provide them with incentives for collective action and operation; to make them capable to define, plan, and implement local development; and to facilitate their support to coordinate civil institutions capable of supporting the efficient delivery of infrastructure and social services, the effective promotion of local economic development, and the sustainable use of local natural resources.

ADOPTING AN INTEGRATED AND ITERATIVE APPROACH

The LDP approach establishes positive relations between different elements, such as reforms, local governance, capacity building and institutional development.

a) Reforms

Administrative, political, fiscal and land reforms, carried out at national and provincial level and addressing legal and regulatory frameworks, are intended to create a clear and enabling environment. On this matter, a major role for UNCDF is to advocate reforms that (i) create opportunities to maximize the use of assets, (ii) are based on a more comprehensive understanding of the poor, and (iii) take into account the complex mechanisms that produce and reproduce poverty. UNCDF endeavours to upstream the lessons learned from its pilot projects into the national debate on pro-poor reforms and macropolicies. Thus, policy reforms themselves are not only pre-conditions and accompanying measures, but also a target or a key *objective* of poverty reduction programmes.

- *Land reforms* are particularly critical elements for economic development and for poverty reduction, because land issues, usually underestimated, are politically and socially complex.
- *Administrative reforms* (including civil service reform) may directly affect poverty reduction, by clearly defining who is responsible for the different components of the policy process and by creating an enabling environment for democratic local governance.
- *Fiscal reforms*, especially inter-governmental fiscal reforms, are likely to have a direct impact on sustainable poverty-reduction initiatives, by involving larger political, institutional and social factors.
- Finally, general *macroeconomic policies and reforms* can greatly benefit the poor, by expanding their opportunities to engage in productive and remunerative employment, for instance, or by reducing distortions in relative prices, exchange rates and trade policies and by removing trade restrictions on trade of agricultural commodities. (Greeley, 2001:56).

b) Local governance

Different and complementary components of good local governance are aimed at reducing poverty and strengthening inclusive planning and programming approaches. For UNCDF, supporting local governance refers, more particularly, to:

- ***Empowering local stakeholders:*** Local administrations and legal institutions may exercise real power and responsibilities in a manner that is more efficient, responsive and accountable to all citizens. The UNCDF approach strongly favours the involvement of all categories of citizens, including women, in decision-making and in local politics and to remove local barriers and discriminations — hence, the clear support given to formal institutions, while experimenting with informal ‘shadow’ institutions. Thus, democratic governance may create new spaces and avenues for people to fully participate in decision-making processes and have influence on local politics as well as favour the emergence of a dynamic civic society.
- ***Improving local social governance:*** Local authorities may have specific roles in the delivery (and maintenance) of public social services (primary health and education, water and sanitation, transport and agricultural support) by taking into account: (i) the nature of each service, (ii) the intrinsic characteristics of the delivery and (iii) the asset inequalities across gender lines. The challenge is to create an enabling environment and to embrace decentralized service delivery within a more qualitative demand, to get services and knowledge to grass-roots levels and to remote areas, and to promote opportunity. One of the key issues for local governments is to ensure that their own service provision priorities are in line with national goals, priorities, norms and standards.
- ***Promoting local economy:*** Local government, community-based groups and the private sector are actively interacting in order to create an enabling economic environment, by managing existing resources, stimulating the economy, and increasing economic growth and employment. The intervention by the local authority, and its community and private sector partners is supposed to assist in creating an environment and infrastructure conducive to investment, and to provide seed funding and advice (Mokate, nd). There are natural synergies between local economic development and poverty reduction; increases in education, literacy, employment, income and public investment in economic and social infrastructure are likely results of broad-based economic growth (Fofack, 2002:19). However, economic growth is not always pro-poor (Greeley, 2001:68). and is not, *per se*, a sufficient condition for poverty reduction. The experience of many countries shows that there is no relationship between rates of growth and rates of poverty reduction (Osmani, 2000:3).

By stressing the importance of a comprehensive framework (the LDP) and not of individual, independent micro projects, the UNCDF approach differs from the model adopted by the social funds, whose initiatives are insufficiently or not at all integrated into policies of local governments. The three dimensions of local governance correspond to the three dimensions of poverty UNCDF is focusing on (lack of power, inadequate access to social services, poor access to infrastructure and insecure livelihood, presented above) as well as to three sets of coherent deliverables:

- Greater citizen participation and empowerment, access to and influence on public affairs, inclusive decentralization, and creation of institutional space for interaction between the public and the local state;

- Access of the poor to basic services (e.g., primary health, primary education);
- Improved access of the poor to basic economic infrastructure (markets, roads, etc.) as well as improved livelihood – through collective action for natural resource management (especially in terms of institutions, regulatory frameworks and technologies to improve productivity, maximize yields and minimize risks, such as crop failure, epizootics, etc.) and prevention, management and resolution of local conflicts.

c) Local capacity building

As previously stated, a major LDP dimension is the building and/or strengthening of local capacity. The challenge is to support and manage the responsibilities given to local stakeholders by decentralization and to improve their performance. Without this component, the entire decentralization process, considered as a transfer of power and resources from the centre to local government, would not be possible. The process of democratic election and the process of selection on the basis of technical capacity do not match up; competence and democracy are two separate issues.

d) Local institutional development

It has already been pointed out that the institutional perspective of UNCDF addresses two distinct and complementary issues, the adequate organizational architecture for local institutional stakeholders and sound institutional arrangements to influence the behaviour of local stakeholders. Norms and arrangements are aimed at creating the ‘rules of the game’ for collective and concerted action, particularly for a range of mechanisms and procedures related to participatory planning and budgeting, incentives, prevention, management and solution of local conflicts.

TARGETING THE POOR

Because of its very mandate, UNCDF operates in LDCs at the lowest level of the human development index: 14 out of the 17 countries where new LDPs are currently carried out are among the thirty poorest countries in the world. Furthermore, by combining a socio-territorial targeting, UNCDF operations target *people living in the poorest rural areas*. The underlying assumption is that the proportion of rural populations living below an acceptable standard has dramatically increased over the last decades because of a combination of ecological, economic, social and political factors. The assumption of this mixed ‘socio-territorial’ targeting approach is that it may: (i) allow an explicit focus on the poor; (ii) take into account a basic ‘spatial dichotomy’ (large administrative and industrial centres and the countryside with a subsistence economy); and (iii) avoid some shortcomings of ‘spatial’ targeting (for instance, the risk of trapping people “in low growth areas without any guarantee that this will attract new investment and growth into the area, thus resulting in the creation of fictional growth points” (Mokate nd.).

Another rationale is that it is especially in the rural areas that the poor rarely sustain coherent, encompassing political organizations and tend to be responsive rather than proactive in politics (Moore & Putzel, 1999:12).

The rural-bias does not neglect the crucial catalytic role played by small or intermediate urban centres in rural areas. A major challenge for UNCDF is to include these centres in its rural perspective, because of the multiple social and economic linkages existing between them and rural settlements. Today, the rural/urban divide is subject to intense revision. Categories are increasingly becoming blurred, as multi-spatial households combine different sources in their livelihoods. The economies of small towns and their rural areas are inter-twined: the economic sphere of urban-based populations is beyond the built-up area and, conversely, rural producers retire a substantial proportion of their income from off-farm activities.

However, the rural bias simply stresses the present lack of equity in the allocation of resources between urban and rural areas, the inadequacy and low level of services provided to rural populations as well as the political exclusion of large segments of rural populations from politics. Furthermore, the UNCDF approach fully recognizes — without yet having a clear answer — some risks of leakage implied by regional targeting as the non-poor in poor regions benefit while the poor in rich regions are neglected. (Lipton & Ravallion, 1995: 2617).

In poor rural areas, UNCDF employs several tools to better target the poor. For instance, diagnostics and assessments lead to a better understanding of local poverty determinants and also help to establish a typology of poverty ('structural' or 'chronic' poverty and 'conjunctural' or 'transitional' poverty). Resource allocation formulae take into account relevant poverty-reducing factors (such as child mortality), and allocation of grants that in addition to setting parameters linked to land area and population, adopt parameters which are poverty-sensitive (e.g., use of a geographical coefficient to take into account differential costs of basic services and infrastructures).

As already pointed out, a major problem is created by differences among rural communities and by their inherent economic inequality. The results of anthropological studies show, for instance, that village communities are not egalitarian, despite the existence of different forms of corporate solidarity. Also, the social organization of a majority of rural societies, dominated by kinship links and patronage, hampers making units of collective action. In this context, the poor could hardly be considered an 'interest group'.

Another impediment to targeting the poor is created by the "economic" (non-) viability of sub-national governments whose rural constituencies have low or very low incomes, are weakly involved in market transactions, and are dispersed in wide geographical areas.

EVALUATING THE IMPACT

UNCDF/LGU evaluates impact in three ways: (i) asset generation and ownership at the village level; (ii) leverage created by local institutions; and (iii) the decentralization of responsibilities and capital from the central government.

Decentralization is not, however, viewed as a panacea for poverty and impacts are assumed to be highly influenced by other actors and other efforts. Several standard evaluations challenge the measurement of the impact of decentralization: it can be difficult to attribute a reduction in household or individual poverty to improvements in local governance as so many other factors influence individual welfare.

Given these challenges, UNCDF evaluation methodologies focus on the increase in infrastructure and services beyond where they would have been. They also aim to determine how decentralization achieves any positive results, but quantifying the extent of institutional leverage and service provision is, in the end, undermined by legitimate ambiguities.

Generally speaking, measuring the impact of decentralization on poverty reduction is “fraught with enormous difficulties” (Crook & Sverrisson, 2001:17) because (i) situations with or without decentralization should be compared, (ii) decentralization-related measures should be distinguished from other sectoral interventions, and (iii) any analysis would require time.

From the UNCDF perspective, *direct* and *indirect* results of its ‘innovation in practice’ have to be distinguished. The direct impact is at the institutional level, most widely defined. Therefore, direct impact takes place at the levels of the international donor community, national governments, local governments, and rural communities. These impacts are all about (i) the creation of an *enabling environment* through policy, law and regulation; (ii) *the development of systems’ capacity*, particularly at the local level; and (iii) raising *community awareness* about channels of communication and resulting involvement in the local development process.

The result of the *enabled* and *empowered* system is a more locally-sensitive and sustainable process of local development. Ultimately, this means the delivery of various items of infrastructure and services, funded through UNCDF, which, of themselves, are therefore directly attributable to the organization. Those directly attributable community assets then generate benefits that can be traced to specific dimensions in the range of multiple deprivation. If such assets are supplemented by local government investment and resulting services, then so much the better. The point is that the desired result from all the institutional reforms, through the various local governance initiatives, should be a discernible improvement in the multiple deprivation statistics.

The directly attributable impact of UNCDF is: (i) at the four levels of institutional reform and (ii) with the results of the infrastructure and services funded through its capital funding.

UNCDF’s experiences provide a positive answer to the fundamental assumption concerning the impact of decentralization on poverty reduction. However, it is subject to three important conditions:

- That macroeconomic policy and national economic management is conducive to economic growth, which includes the systemic let alone structural imbalances between regions;
- That the infrastructure and service provision arising from the local governance (institutional) reforms are seen as being mediated by local development planning and implementation initiatives that are not solely dependent on UNCDF micro-capital investment;
- That local government is the final arbiter on the resulting infrastructure and services impact on indicators of multiple deprivations, with the guidance of central government (for data collecting consistency).

The resulting impact on poverty is normally a mixture of local governance achievements directly attributable to UNCDF and other (mainly) public investments.

In short, the four levels of UNCDF intervention to support local governance goes some way to lever infrastructure and service provision which would, by allocative process and resulting provision, simply not take place. To quantify the extent of such an assertion, however, is not justifiable in absolute terms.

THE WAY FORWARD

For UNCDF, the local development programme model shows that, from a perspective where economic growth and political democratization are mutually reinforcing factors, successful poverty-reduction initiatives are likely to generate the conditions for new reforms, institutional development and capacity building. Also, economic growth and improved education/health reinforce the legitimacy of democratic decentralization. The educated poor, by participating in local politics and by being involving in local decision-making processes, may be in a better position to influence pro-poverty policies and reforms as well as to voice their own priorities.

Operationalizing MDGs and indicators

The agenda of UNCDF is firmly rooted in its contribution to the attainment of the MDGs in LDCs. UNCDF takes concrete steps in order to operationalize these goals and indicators.

First of all, UNCDF/LGU stresses the importance of essential MDGs' *prerequisites* at the local level:

- An adequate *institutional framework* will allow the poor to fully participate in decision-making processes concerning local development and will address the lack of participation in the exclusion of politically marginal groups, particularly women, from decision-making and from the benefits of collective action. Without efficient, accountable and democratic institutions, the voice of the poor will not be heard, poverty reduction and economic growth will not be possible, and gender discrimination will not be eradicated (3rd goal);

- Efficient *capacity building* will allow the poor to improve and/or get basic education (2nd goal). Without education, economic growth will not be sustainable, and participation in local politics will not be durable;
- Adequate access of the poor to locally-based and managed, efficient *social services and basic infrastructure*, especially in the area of health, will reduce child mortality (4th goal) and incidence of major diseases (6th goal) which cripple local livelihoods and hamper local economies;
- Promotion of economic development and growth through a number of interrelated measures are designed to promote *environmental sustainability* (7th goal) and to *protect* renewable productive natural resources and *to improve* their productivity, and to identify household economic opportunities (farm and non-farm) to generate income. The objectives are the improvement of secure access to food for the poor and the enhancement of household food security (1st goal). Thus, attacking hunger at the local level essentially necessitate higher agricultural productivity, an improved supply system and increased purchasing power for farm and non-farm households.

Through its LDP approach, UNCDF links the ‘social’ goals of the declaration with other goals connected to governance, such as empowerment, human rights of marginal and vulnerable groups, enhancement of local social capital, eradication of all forms of discrimination, equality of opportunity, freedom, livelihoods, employment and the like.

Another key UNCDF contribution to the MDGs is to help *assess and measure their progress at local level*. The majority of the goals are measurable and tangible. UNCDF, through its information system and monitoring/evaluation activities is collecting basic indicators, within the context of a sustainable, long-term development strategy, to assess the real impact of its programmes on poverty.

Adopting and testing poverty reduction strategies

In line with the Poverty Reduction Strategy (PRS) guiding principles, by not imposing a ‘blueprint’ for poverty reduction strategies, UNCDF stresses the crucial role of a process that should imperatively reflect local circumstances and characteristics.

The LDP approach reflects the three key steps indicated by the PRS for effective poverty reduction:

- Adequate diagnostics aim at providing “a comprehensive understanding of poverty and its determinants.” Among these determinants, UNCDF gives a special priority to the institutional arrangements underlying decision-making processes as well as the access to and use of local natural resources;
- Participatory planning mechanisms and procedures, involve not only different institutional stakeholders, but also different segments of local populations. These mechanisms allow for the identification of what the PRS define as “the mix of public actions that have the highest impact on poverty reduction.” Legitimate and

representative local governments and communities have the role of selecting and prioritizing policies based on their expected impact on achieving local poverty targets;

- Finally, definition of a set of appropriate indicators to monitor and track the progress of governance and the reduction of poverty, both in terms of *performance* (the quality of governance, for instance) and of *process* (the institutional inputs that produce outcomes).

The UNCDF approach may contribute to the solution of some of the weaknesses and the conceptual and operational problems of the PRS. For example:

- UNCDF's major focus is on local governance as a motor for poverty-reduction as well as on the institutional factors underlying poverty (the thinking on 'local governance' and on the institutional determinants of poverty is weak in the PRS).
- The main challenge of UNCDF is to integrate local development initiatives into local policy and budget frameworks (another element which is widely neglected by PRS).
- It has also been acknowledged that PRSPs do not necessarily lead to new patterns of participation among local stakeholders and that they tend to treat 'the poor' as an homogenous group. In contrast, the LDP methodology stresses the interactions among local governments, civil society and communities in the decision-making process. Furthermore, UNCDF strongly addresses the *inherent duality* of the societies, with the growing gap dividing an educated and economically powerful élite from the rest (Mahwood ed. 1993: 5), who are unable to influence the allocation of resources, or the gap along gender lines (gender analysis being largely missing in the PRS).
- Because of some structural problems of the framework, several PRS papers, especially in Africa, while addressing environmental issues (suggesting, for instance, plans to improve resource management) do not mention land issues in their analysis of poverty (land rights, access to and use of natural resources by local producers, etc.) For UNCDF, conversely, local environmental governance is an integral part of local governance.
- Finally, PRS do not provide real leadership to national governments, let alone local governments, in poverty reduction. UNCDF, on the contrary, stresses the unique and crucial role of local sub-national authorities, while acknowledging their interactions with higher levels of government (at provincial or regional and national level). Thus, a major challenge of UNCDF is to advocate for the necessity of 'local' PRSPs, which should be formulated and operationalized by local authorities and other institutional stakeholders.

CONCLUSION

Within the international development architecture, more particularly within the UN system, UNCDF, with its portfolio of policy-based operations and its practice-based expertise, has a clear comparative advantage: its ability to match technical assistance with its small-scale grant capital funding generates concrete public socio-economic investments that directly reduce poverty. Its portfolio offers a rich vein of growing practical experience as a basis for grounded research, advocacy and advisory work in local governance practice and decentralization policy.

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