



Chapter 8

Towards place-based, multi-sectoral development strategies in Africa

Adopting a place-based approach will help policy makers articulate sectoral policies more effectively for structural transformation. This chapter proposes a seven-step methodology to crafting development strategies, stressing four main areas of improvement: designing informed policies through better statistics; defining integrated strategic priorities through regional foresight studies; building capacity at multiple levels of government; and mobilising adequate financing for regional economic development at both local and national levels.



In brief

Given the limited outcomes of specific regional development and spatial inclusion policies in Africa so far, new approaches are needed by all government levels, aiming at the medium to long term. Africa's mounting and diverse demographic and spatial challenges demand that people and places be at the centre of development strategies, where sectoral policies are articulated. Those place-based strategies should take a closer look at subnational and cross-border levels, where the untapped economic potential of African regions lies; and they must be designed and carried out with the participation of regional economic and social stakeholders, who are best placed to identify and activate local resources. Development strategies will necessarily be specific to each country and combine different approaches, depending on the various economic, demographic and spatial challenges. For nearly all countries though, financing regional development requires drastically increasing efforts to mobilise domestic resources at the national level and enhancing fiscal legitimacy at local levels.

The strategic process must be redefined to promote regional development and spatial inclusion

The nature and magnitude of Africa's structural transformation challenge call for more than dedicated spatial policies: regional development strategies need rethinking. A more comprehensive approach by all government levels is needed to unlock the potential of a country's many places.

A development strategy is a public good and therefore needs public support. It "takes as its core objective development, the transformation of society" (Stiglitz, 1998). It goes beyond economics and connects policy making with **visions** of the future shared by stakeholders and constituents. It entails a process of defining **priorities** based on those visions. Unlike indicative planning, a development strategy is not aimed at making reality fit into such visions, rather at guiding thinking and longer-term investments in a context of uncertainty (ibid.).

Development strategies should thus be more than a collection of sectoral policies: this report argues that they should provide an overarching framework for balancing sectoral policies, macroeconomic policies and place-based policies.

Indeed, Chapter 7 showed that regional policies in African countries resulted in uncoordinated action, and they have tended to target specific places separately. Regional policies have mostly been designed and implemented by central governments, using central resources, sometimes in pursuit of the interests of specific groups. Therefore, they have not promoted a country's full potential because they have neglected places with less obvious economic prospects and with organised vested interests. Even if those policies were made more efficient, with more resources and capacity, they would not be comprehensive enough to remedy the consequences of inherited spatial asymmetries and accelerate the structural transformation of African economies. Cities are booming, rural areas keep growing and changing fast, and yet a large part of the potential that could provide the much needed economic and social opportunities for new generations remains locked in regions, under the radar of central governments.

This section stresses that traditional approaches to regional development in African countries ought to be revised, before proposing concrete steps towards devising region-sensitive development strategies.



Place-based and participatory approaches can unlock the potential of regions

Opportunities for growth in African regions too often go unseen, partly because of the long-standing policy focus on external economic rents such as commodity-related export revenues or aid (see Chapter 6) and policy blind-spots (see Chapter 7). The potential for regional growth to boost national growth – by mobilising specific local assets and improving attractiveness for foreign direct investment – is thus insufficiently tapped.

Examples of successful regional development are found in countries at various stages of development (see Boxes 8.1 on China, 8.2 on OECD countries and 8.5 on Brazil). Quoting the World Bank (1997), Stiglitz (1998) points to “one measure of China’s success in devising a strategy: if the separate provinces of China were treated as separate ‘data’ points, the 20 fastest-growing economies in the world between 1978 and 1995 would all have been Chinese”. This is in stark contrast with Africa, where development remains largely concentrated in big, coastal cities (see Annex 6.A3).

Box 8.1. China’s strategy and regional development

China developed several strategies for regional development that have helped the country tackle its demographic transition and strengthen the links between its urban and rural areas, thus accelerating structural transformation.

China’s numerous plans to promote regional development include more than the well-known special economic zones (SEZs). SEZs were trialled in the late 1970s by China’s State Council in four remote southern cities. By 2008, after four successive waves of grants, 92% of China’s municipalities had a special economic zone. Early projects increased productivity and local wages, while only moderately raising the cost of living and hardly affecting housing prices. However, zones developed later tended to distort location choice of foreign direct investments and resulted in smaller wage increases. China has promoted SEZs in Algeria, Egypt, Ethiopia, Mauritius, Nigeria and Zambia, with varying degrees of success (Bräutigam and Tang, 2014; see Chapter 7).

Since 1999, the Chinese national government has launched three development strategies to boost regional economies: China Western Development, the Northeast Area Revitalisation Plan and the Rise of Central China Plan. In 2008, the National Development and Reform Commission devised a “Catalogue of Encouraged Industries for Foreign Investment in Central and Western China”. This catalogue gives specific industries tax-related, land-use and other incentives to invest in specific provinces, in order to make local competitive advantages more attractive and match them with a targeted industry’s technological requirements. However, questions are raised regarding transparency, the business environment and the regions’ capacity to attract foreign investment (Huang, Joie and Sullivan, 2010).

In 2011, China undertook its 12th Five-Year Plan to expand the market area from the coast inland. It foresees a network connecting urban areas to various regions through development corridors. The plan adopts a multi-scale approach by promoting local development within the cities, linking cities to their hinterlands and connecting the different provinces to each other (National People’s Congress of China, 2011).

Based on the lessons of regional development in several countries (Box 8.2), new models are emerging that may provide guidance for remedying the pitfalls of past regional policies in African countries (Table 8.1). Top-down, subsidy-based interventions aiming to temporarily alleviate regional inequalities must give way to a broader family of policies increasing regional competitiveness and mobilising untapped resources.



Instead of assuming that all regions have the same growth path, this new approach recognises that they all have resources they can mobilise, although of different natures and on different scales, to participate in the development of the country. The aim should be to avoid building “cathedrals in the desert” with major exogenously defined investments but rather to entice private local and external actors to make the most of regional resources and attractiveness. The new paradigm of regional development thus has the following characteristics:

- a multidimensional, long-term strategy covering a wide range of factors that directly and indirectly affect the performance of local businesses and attractiveness to foreign investors
- a focus on endogenous assets, among other things as the basis to attract and mobilise exogenous investments
- an emphasis on opportunity rather than on disadvantage
- a participatory multi-level government approach, involving national, regional and local governments plus other stakeholders, with the central government playing a convener role.

Table 8.1. Old and new paradigms of regional policy

	Old paradigm	New paradigm
Objectives	To compensate temporarily for disadvantages due to the location of lagging regions	To tap underutilised potential in all regions, enhancing regional competitiveness
Strategies	Sectoral approach	Integrated development projects
Tools	Subsidies and state aids	Mix of soft and hard capital (capital stock, labour market, business environment, social capital and networks)
Actors	Central government	Different levels of government

Source: Based on OECD (2009a).

Box 8.2. Stylised facts of regional development policy in OECD countries

The OECD envisions regional development policy as a way to promote economic growth without compromising social inclusion or environmental sustainability. Since the 1990s, the OECD’s territorial policy reviews have provided key lessons based on evidence from its member countries:

- Opportunities for growth exist everywhere. While large populated centres tend to have higher levels of productivity and GDP per capita, some rural regions grow faster than urban hubs (OECD, 2009b).
- Factors driving regional growth tend to reinforce one another. For instance, improving infrastructure can have positive effects on growth when combined with human capital accumulation and regional innovation (OECD, 2009b). Multi-sectoral approaches are essential to regional development.
- A well-defined framework for regional policy can reach multiple objectives, reduce policy trade-offs and identify policy complementarities. To obtain multi-sectoral policy outcomes, regional policies must i) consider the assets of a specific place when designing strategies, and ii) co-ordinate the different sectoral policies affecting that place (OECD, 2011). Regional policies may be better suited for identifying complementarities between policies, because outcomes are usually more evident at the local level. National output can be maximised by tapping underutilised potential and focusing on endogenous assets, rather than on exogenous investments and transfers (OECD, 2009b).
- Policy makers should identify the relevant place for policy interventions. Interventions should not necessarily correspond to administrative boundaries. For example, catchment regions for providing health services might not coincide with those for education. The priority should be to generate data, tools and institutions that promote vertical and horizontal co-ordination at different scales, instead of adding additional layers of government (OECD, 2014a).



The reasons for adopting a new paradigm are many. Three are particularly worth stressing. The first has to do with asymmetry in information and knowledge between different national and local actors, which raises the need for opportunities and incentives to engage different actors in multi-level government settings. The second reason is related to the nature of products that, because of Africa's asymmetric regional development (see Chapter 6), may represent untapped resources for development. Often these regional resources are specific, e.g. cultural heritage, the rural landscape and human resources, and can be “activated” when they are used and get a market value (Box 8.3). The third reason is that different public investments have complementarities and trade-offs that come with the place where they are located.

Box 8.3. Regional development and the process of activating “specific resources”

Generic resources, such as non-qualified labour force and raw materials, are independent from the particularities of the place where they are located. For those to translate into integrated development, however, backwards and forwards linkages often need to be established with the local economy and neighbouring regions.¹ In the case of Botswana's diamond production, the country used its bargaining power as a major world producer to promote forward linkages. Together with the leading firm De Beers, the country set up a 50-50 joint venture to control diamond supply, releasing a specified quantity to local manufacturing companies for cutting and polishing. The venture contributes to creating employment by setting targets for training domestic workers. Penalties for non-performance mean that incentives for De Beers correspond with national interests (AfDB et al., 2013).

By contrast, **specific resources** stem from specific features of places and must be activated through the common strategy of local stakeholders. They depend on the local economic, social and institutional conditions where they are produced. Before resources can be activated, they must be assessed and recognised. This is a challenge because knowledge about land use in particular is limited in most African countries, and statistics are often rough estimates or based on land surveys which are limited in size (Kiregyera, 2013). One way to “activate” specific resources is to use and develop designations of origin. Examples include Algeria's dry figs from Béni Maouche and Béni Khedache in Tunisia (Table 8.2).² Such products can then be used to develop local assets and diversify regional economies, for instance through tourism (Campagne and Pecqueur, 2014).

Table 8.2. Examples of specific resources activated through the participation of local stakeholders

Specific local resources	Country	Development outcome
Dry figs from Béni Maouche Pepper from Ighil Ali	Algeria	Productivity increase, added value to product, income increase
White pepper (IGP3*) from Penja	Cameroon	Profit rate increase, income increase, product protection
Dry figs and weaving from Béni Khedache	Tunisia	Commercialisation and valorisation of the product, income increase
Fine garments	Madagascar	Massive creation of employment, industrialisation, exportation increase
Regional Park W's natural and cultural endowments	Benin, Burkina Faso, Niger, Nigeria	Ecotourism, cultural tourism, tree-planting using indigenous species, processing of goods made from natural resources
Tedla's landscape heritage	Morocco	Ecotourism, employment creation as local tour guides

Note: *IGP stands for *Indications Géographiques Protégées*.

Source: AFD/CIRAD (2014); Campagne and Pecqueur (2014); Fukunishi and Ramiarison (2012); SWAC/OECD (2005).

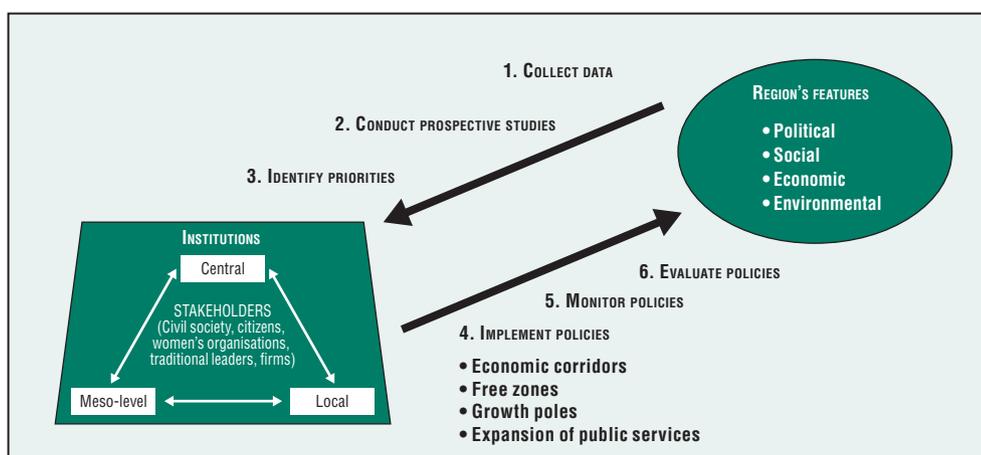


Seven main steps can guide the formulation of regional development strategies

Seven main steps should guide the formulation of regional development strategies. Based on those steps, Figure 8.1 suggests a multi-dimensional and participative method for devising a strategy for regional development and activating local assets:

- Stakeholders and traditional institutions collect reliable data, including statistics, to obtain the most knowledge possible about the region. However, a dearth of data should not prevent the process from continuing.
- Scenarios for the region's future are laid out through foresight studies and participatory processes, taking into account uncertainties related to missing data (see below). This leads to building a vision for the country's future based on local potential and opportunities.
- Based on the scenarios and the economic, demographic and spatial conditions underpinning them, stakeholders and government identify integrated priorities and spell out multi-annual policies for meeting them. The priorities are those that contribute the most to the country's long-term development strategy.
- Multiple levels of government, civil society and traditional institutions implement these policies, particularly as they participate in the scenario planning, priority setting and policy design steps. They co-ordinate their actions and use formal and informal checks and balances to ensure transparency (see Box 8.6).
- Policy implementation is monitored according to the key priorities. A pre-defined incentives framework ensures that the various levels of government responsible for implementing those policies are rewarded or penalised based on their achieving specific goals.
- Policy outcomes are evaluated to enable the various levels of government to address inefficiencies, adjust their multi-annual plans and, if outcomes are not met, reassess and redefine their vision and priorities.
- Fiscal revenues are used to support the overall strategy (not represented on the figure below).

Figure 8.1. A strategic process for regional development



Four aspects deserve particular attention, i.e. creating mechanisms to inform policy design and implementation, defining integrated strategic priorities through regional foresight studies, building capacity at multiple levels of government and scaling up resources for multi-level governance.



Better data will help improve mechanisms to inform policy design and implementation

Putting in place mechanisms for building and carrying out better-informed policies will help policy makers understand the specificities of regions and adopt timely measures as the needs of their jurisdictions evolve. An evidence-based culture of policy making also helps set targets and track progress in public sector performance. The Post-2015 Development Agenda has emphasised the need to gather more nationally relevant data. Goal 17 in particular sets out an ambitious roadmap for Least Developed Countries and Small Island Developing States to enhance the national availability of high-quality, timely and reliable data by 2020. By 2030, developing countries aim to collect their own sustainable development statistics, including disaggregated and geo-referenced data (PARIS21, 2015). Although efforts to improve statistical capacity have been significant, designing regional development strategies requires improving the quality of subnational data further through i) greater co-ordination among statistical agencies and ministries,³ ii) adopting cost-efficient and innovative methods for collecting and processing evidence, iii) sharing statistics and other information more widely among stakeholders and iv) improving available information on economic competitiveness and on the quality of life in different regions, and by v) combining official statistics with other sources of data (Box 8.4). Giving citizens access to official statistics can stimulate a democratic debate on public policy and increase accountability.⁴

Box 8.4. Defining functional urban areas

“The OECD, in collaboration with the European Commission and Eurostat, has developed a methodology for defining urban areas as functional economic places in a consistent way across countries. [...] The methodology consists of three main steps:

- Identification of contiguous densely inhabited urban cores. [...] Population grid data at 1 km² are used to define urban cores, [which are] made up of contiguous municipalities that have more than 50% of their populations living within “high density” cells. This use of population grid data to identify urban cores compensates for the fact that traditional administrative units are unevenly sized and vary greatly within and between countries.
- Identification of interconnected urban cores that are part of the same functional area. [...] Two urban cores are considered part of the same polycentric functional urban area if more than 15% of the population of any of the cores commutes to work in the other core. In countries where commuting distances are steadily increasing, large urban areas are developing in a polycentric way, hosting highly densely inhabited cores that are physically separated but economically integrated.
- Definition of the outlying area or hinterland of the functional urban area, linked by commuting flows to the urban cores. [...] Any municipality that has at least 15% of its employed residents working in a certain urban core is considered part of the same functional urban area. [...]

This methodology has clear advantages over the use of administrative regions to identify urban areas:

- It captures a city’s socio-economic area of influence. [...]
- [I]t identifies all of a country’s urban systems with a population of at least 50 000, thus enabling analysis of urban areas of different sizes, including small and medium-sized urban areas.
- It enables the identification of polycentric urban areas, which better illustrates the economic and geographic organisation of urban areas and the linkages between such places.
- It allows the analysis of different patterns of urban development of the cores and surrounding municipalities (‘hinterlands’) of each urban area.



Box 8.4. Defining functional urban areas (cont.)

- It provides a sound analytical base to examine governance challenges and the economic development of functional urban areas.” (OECD, 2013a)

In Africa, the Africapolis study uses “a geostatistical approach that combines demographic surveys and geographic information systems” (GIS) to identify urban areas and estimate urban growth in 16 West African countries (AFD et al., 2009). The method involves seven steps:

- 1) localising the population
- 2) “accessing satellite images or topographical maps”
- 3) creating polygons that represent the considered built-up areas
- 4) “creating buffer zones of 100 metres
- 5) merging blocks
- 6) cleaning up”
- 7) making statistical adjustments (AFD et al., 2009).

Among other advantages, Africapolis provides data at several geographical scales; enables methodological steps to be verified; is compatible with any Global Positioning System (GPS) and provides urbanisation data to regions that crucially need it.

Source: OECD, 2013a; AFD et al., 2009.

Integrating geographical information systems (IGIS) into statistics can help policy makers adopt place-based approaches more easily. In many countries, regional policy analysis has traditionally used data collected for administrative regions, that is, the regional boundaries as organised by governments. Such data can provide sound evidence on the contribution of regions to national performance as well as on the persistence of disparities within a country. Data on **administrative regions** can also help us to understand the role of subnational governments in policy planning and public service delivery.

At the same time, the places where people live, work and socialise may have little formal relationship to the administrative boundaries around them: for instance, someone may inhabit one city or region but work in another and regularly visit relatives in a third. Regions interact through a broad set of linkages – including, for example, job mobility, production systems or collaboration among firms – which often cross local and regional administrative boundaries. The analysis, therefore, should take into consideration the geography most relevant to the policy in question, whether this geography reflects the administrative boundaries of a region or instead reflects an economic or social area of influence known as the **functional region**. Functional regions are well-suited for analysing how geography plays a part in production, productivity growth, the organisation of urban labour markets, and the interactions between urban and rural areas. This notion can better guide the way national and city governments plan infrastructure, transportation, housing, schools, and space for culture and recreation. In summary, functional regions can trigger a change in the way policies are planned and implemented, better integrating them and adapting them to local needs.

Regional and local data are increasingly available from a variety of sources: surveys, geo-coded data, administrative records, big data and data produced by users. The range of techniques to integrate and analyse these different sources has also changed the supply of data at different geographical scales, with the potential for dramatically improving both the quantity and timeliness of local information. New technologies provide reliable and cost-efficient means to map local resources that local stakeholders can easily use. For



example, very high spatial resolution (VHSR) satellite images, with metric or inframetric resolution, accurately map land used for agricultural and other purposes (Imbernon, Kabore and Dupuy, forthcoming). In Burkina Faso, a local project recently produced a detailed regional map with fewer than 2% errors in area estimation.⁵ Likewise, using the intensity of nightlights captured from satellites can complement official measures of income or inequality (Henderson, Storeygard and Weil, 2012; Mveyange, 2015). Big data can also help understand and predict local dynamics. Mobile phone data have been used to optimise bus routes in Abidjan; they may also serve to assess the impact of policies. The post-2015 agenda touted data revolution as a fundamental pillar for improving government statistical capacity (UN, 2014).

Box 8.5. Brazil's experiences of multi-sectoral and regional development

Brazil boasts several examples of regional development programmes involving multiple levels of government and non-state actors that aim to improve social inclusion, reduce poverty and bring basic services to rural families.

In 1998, a **Municipal Human Development Index (MHDI)** was made widely accessible to citizens. It provides a detailed assessment of social, economic and demographic changes between the 1991, 2000 and 2010 censuses (Fundação João Pinheiro/IPEA/UNDP, 2013). The index is central to Brazil's multi-level policies of positive regional discrimination. It feeds the country's Atlas of Human Development, which monitors subnational poverty levels. In addition to civil society, various government levels use the atlas: the municipal level to define priorities; states' and central government's officials to target towns and cities eligible for regionally based benefits; and federal development programmes that bring together multi-sectoral policies in regions with low-MHDI scores.

SUDENE, the **Superintendency for the Development of the Northeast** – a regional administrative institution created in 1959 – aims to solve place-based problems of water shortages, as well as a lack of transport, communication and sanitation infrastructure. SUDENE uses a multi-sectoral approach and territorial strategy that seeks to promote a balanced and well-connected system of cities (Diniz, 2009). SUDENE has invested mainly in infrastructure, universities, agriculture and industries and has helped northeastern federated states develop spatial plans. The institution has successfully reduced regional inequalities. From stagnation in the 1950s, the region's GDP grew by an annual average of 3.5% in the 1960s and 8.7% in the 1970s (SUDENE, 2015).

The cash transfer programme **Bolsa Família** clusters beneficiaries in a single registry to avoid programmes' overlapping. Its decentralised approach involves all three levels of government as well as civil society. *Bolsa Família* benefits mostly rural areas and small towns. It contributes to reducing uneven income distribution throughout the country (Muller and Muller, 2014).

The federal programme **Luz Para Todos** (Light for Everyone, see Chapter 7) provided electricity to an additional 1 million people between 2003 and 2009, essentially by waiving customers' installation fees. This programme was an outcome of the 2000 census, which had identified at least 2 million families without access to electricity in rural areas (Camargo et al., 2008). *Luz Para Todos* has sparked the interest of several African countries, such as Angola, Cameroon, Kenya, Mozambique, Nigeria and South Africa.

South Africa is one of the most advanced countries in disseminating socio-economic information as a participatory mechanism. In 2014, Statistics South Africa published a national Multidimensional Poverty Index; the next year, the Gauteng City Region Observatory produced its own index (see Box 8.5 for a similar experience in Brazil).



The costs of improving statistics will depend on the needs and size of a country's population. In countries whose GDP per capita is below USD 2 000 in purchasing power parity, closing all remaining survey gaps would cost donors less than USD 300 million per year, a fairly small share of global aid budgets (Demombynes and Sandefur, 2014; PARIS21, 2014).

Integrated strategic priorities can be defined through innovative approaches

The dearth of subnational statistics in most African countries cannot justify inaction. Even with limited data, foresight studies – a participatory process for building scenarios for the future and setting policy priorities – can help identify opportunities and challenges and formulate development strategies (Alvergne, 2008: 172-174). By bringing together different levels of government – national, regional and local – as well as non-state actors to map possible futures, regional foresight studies can stimulate debates on pathways to development and lead to more place-based solutions.

Many African countries plan for the long term, but few use regional foresight studies and carry out a genuine participatory process. According to the AEO 2015 experts' survey, 27 out of 37 countries have medium- to long-term strategies. The large majority (70%) span 20 years or more, but only 38% foresee alternative scenarios. Many governments update their original strategies as they evolve in the context of shorter four- to six-year development plans – usually coinciding with electoral cycles.

Most strategies set targets for political and socio-economic progress at national level without integrating multi-sectoral strategies or local specificities. For example, Morocco opts for separate long-term strategies, which focus on only one sector each (AEO experts' survey, 2015). South Africa has developed a long-term development strategy, mobilising independent experts and organising several consultations; however, the strategy is based on a single scenario, which makes it vulnerable to unforeseen events, and the initial approach was too sectoral to identify spatially integrated challenges (Giordano, 2014). At the continental level, several foresight studies have meaningfully contributed to building scenarios for Africa's future, although they usually have few implications for regional and local policies (World Bank, 1989; OECD/SWAC, 1999; UNDP and African Futures Institute, 1998; Lundsgaarde, 2011; Cilliers, Hughes and Moyer, 2011). Because their perspective is mainly continental, the methodology tends to disregard the multiple regional scales that policies affect differently. Finally, those studies are not always participatory, undermining their impact on African policy debates.

Capacity should be built at multiple levels of government and multi-level governance improved

According to the OECD Territorial Review on Brazil, “The relationship among levels of government resulting from decentralisation is characterised by mutual dependence, since it is impossible to have a complete separation of policy responsibilities and outcomes among levels of government. It is a complex relationship, simultaneously vertical, across different levels of government, horizontal, among the same level of government, and networked. Governments must therefore bridge a series of challenges or ‘gaps’ between levels, both vertically and horizontally.

These gaps include notably the fiscal capacity of governments to meet obligations, information asymmetries between levels of government, gaps in administrative responsibility, with administrative borders not corresponding to functional economic and social areas at the sub-national level, gaps in policy design, when line ministries



take purely vertical approaches to cross-sectoral regulation that can require co-design of implementation at the local level and often a lack of human, or infrastructure resources to deliver services and design strategies. Countries may experience these gaps to a greater or lesser degree, but given the mutual dependence that arises from decentralisation, and the network-like dynamics of multi-level governance, countries are likely to face them simultaneously.

Countries are increasingly developing and using a wide variety of mechanisms to help bridge these gaps and improve the coherence of multi-level policy making. These mechanisms may be ‘binding’, such as legal mechanisms, or ‘soft’, such as platforms for discussion, and they must be sufficiently flexible to allow for territorially specific policies. Involvement of sub-national governments in policy making takes time, but medium- to long-term benefits should outweigh the costs of co-ordination.” (OECD, 2013d)

More specifically, out of 41 African countries, 10 identified co-ordination among different levels of government as one of the three major threats to spatial management policies (AEO experts’ survey, 2015). Limited local ability and unclear responsibilities between various government levels have led central governments to intervene in local affairs, thus limiting local autonomy and preventing effective decentralisation. Without sufficient capacities, local governments cannot successfully translate public investment into growth (Garcilazo, Martins and Tompson, 2010). In many countries, central governments have used decentralised structures mostly to consolidate ruling parties’ power through alliances with local elites (Crook, 2003; Cabral, 2011: 6; Koelbe and Siddle, 2012: 110; Paulais, 2012). Building capacity at multiple levels of government is thus essential for effective and transparent decentralisation (Rodríguez-Pose, 2008).

Involving multiple levels of government and increasing joint ownership can be done in different ways. For example, Rwanda’s Joint Action District Forum provides a participatory process for local government and stakeholders to articulate District Development Plans, set budgets and allocate district resources. The lowest community administrative unit, *Umudugudu*, facilitates dialogue between the government and the community. District mayors commit to the activities identified in their annual District Development Plans by signing performance contracts with the president.

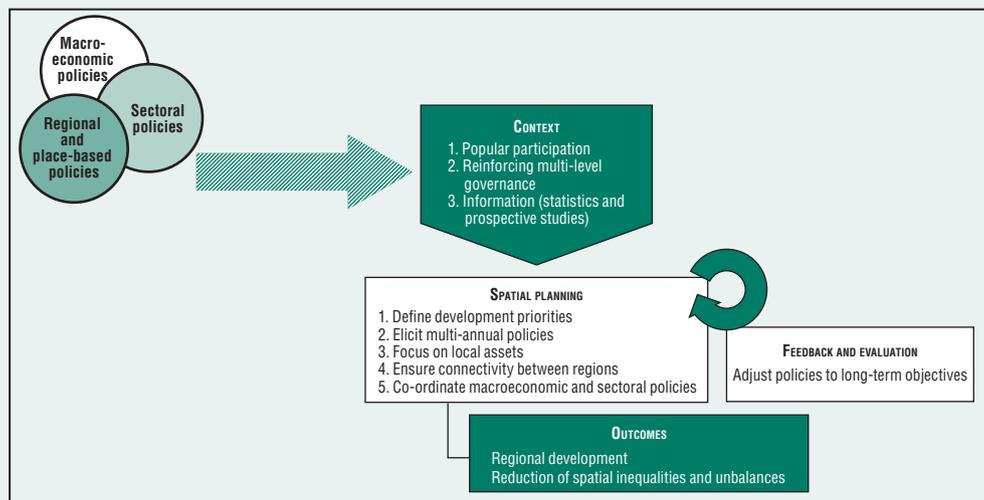
Box 8.6. From place-based strategies to policies: Spatial planning in Benin

Spatial planning can help overcome the limitations of sectoral policies (see Chapter 7). It does not imply creating new administrative structures, but increasing transparency to better manage local and regional development. Effective spatial planning involves government institutions at the supranational, central, meso and local levels, based on the subsidiarity principle, i.e. a central level of government should only assume functions that lower levels cannot perform. By taking into account a region’s political, social, economic and environmental dimensions, spatial planning helps formulate strategies that, instead of superseding sectoral policies, build on linkages between them. Its participatory process encompasses all social actors such as citizens and women associations, traditional leaders, and private and non-profit companies (Matus, 1993). Citizens’ participation enables policy makers to identify strategic development priorities, notably through national debate and local ownership. Spatial planning crucially depends on inputs from different stakeholders to ensure local ownership and effectiveness in activating local assets (Diop, 2010). Figure 8.2. zooms into spatial planning to illustrate how to develop a spatial plan.



Box 8.6. From place-based strategies to policies: Spatial planning in Benin (cont.)

Figure 8.2. Developing a spatial plan



Benin provides a successful example of policy co-ordination through spatial planning. While an environmental action plan was carried out between 1993 and 2002, its policies lacked an integrated approach to rural and urban areas and to infrastructure development. The country faced an anarchic peopling of both rural and urban areas as well as a concentration of the population on the coast with 38% of the population living in only 5% of the country’s area. The National Policy Declaration on Regional Planning (*Déclaration de politique nationale d’aménagement du territoire au Bénin, DEPONAT*) responded to these shortcomings by setting out guidelines for spatial planning and decentralising certain responsibilities. Today, spatial planning is carried out at national and local levels. This helps reduce poverty, promote the regional management of resources, and improve infrastructure and services. DEPONAT has successfully improved the functioning of local administrations, promoted the design of communal plans, strengthened the capacity of communitarian agents and clarified the role of mayors in co-ordinating decentralised services. Areas for further improvement include a lack of resources, controversial interpretations of legal texts on decentralisation and polarised decision making at the local level (Agossou et al., 2010).

Resources for multi-level governance must be scaled up

Meeting the challenges described in the previous sections calls for substantially scaling up the financing of local economies as well as strengthening public and private institutions. Central governments will have to provide most of the funding, which can come from more effective taxation of natural resource extraction and innovative finance mechanisms. At the local level, fiscal systems must also be bolstered across the board by using transfer mechanisms, expanding the local fiscal base and tapping capital markets.

Central governments can mobilise a large share of the finances needed

Natural resources for regional development

African countries tend to tax natural resources less effectively than other regions. This is despite the fact that multinational companies do not rank tax considerations high among the concerns guiding their investment decisions (Keen and Mansour, 2009). Underexploited potential also dents revenues: a 1 million barrel increase in sub-Saharan oil production could increase public revenues by 1% of the continent’s 2011 GDP, or USD 12 billion annually (IMF, 2012). Generous concessions to foreign investors averaged



an annual loss of USD 38 billion between 2008 and 2010 in Africa, slightly more than the entire development assistance it received during the same period.

Illicit outflows represent an annual average of USD 60.3 billion – about 4% of the region’s GDP – that could be added to what the continent could harness in revenues (see Chapter 2). Some initiatives have begun to counteract this tendency. Between 2004 and 2014, the number of countries of the Southern African Development Community offering tax incentives fell: from 9 to 7 for tax holidays, from 9 to 6 for export incentives, and from 9 to 5 for initial capital allowance (OECD, 2014a).

Last but not least, tapping the development potential of natural resources requires investing in production transformation. Several countries, such as Chile, Colombia, Peru and South Africa, are setting up mechanisms to channel revenues from natural resources towards production transformation (see Box 8.7). Communities that host natural resource-intensive activities claim rights on the use of the rents, and reaching agreement on what to finance with those rents is difficult. Creating public funds based on royalties is an option, though issues of design, management and governance are complex. Political leadership and long-term support are required for central and regional governments to learn how to manage such financing schemes (OECD, 2013b).

Box 8.7. International experience of reforms of royalty payments: The case of Colombia

“Given the substantial contribution of the extractive sector to the public purse in oil and mining economies, the ability of governments to collect royalties and taxes, and to generate and manage volatile revenues, has been subject to increased public debate. When commodity prices are on the rise, as they have been for the last decade, producing countries may become more exposed to public scrutiny. Public demand tends to arise for a fair balance between the need to distribute overall public benefits, share risks and reward investors. Many producing countries have recently undergone or announced the adoption of reforms of tax/royalty regimes or revenue mechanisms in an effort to respond to evolving market conditions. [...] In July 2012, Australia imposed a new mining rent tax, widened the base of the petroleum resource rent tax and launched a number of initiatives aimed at spreading the benefits of the mining boom throughout the economy and helping businesses adapt to the transformations under way (OECD, 2012). [...] In Chile in 2011, the government approved the Fund for Regional Investment and Restructuring (FIRR). This allocates USD 100 million per year for a four-year period in the mining regions of the country, to fund development projects of regional governments and municipalities. The national government is also negotiating a new fund to be directed to mining municipalities and regions (Fondenor).”

Colombia is a case in point. “The national government radically reformed the allocation of royalty payments in 2011. The new policy framework involved a constitutional reform and a set of laws and regulations. The former National Royalties Fund was replaced by the General System of Royalties (SGR) that now collects and manages the overall royalty payments. Since 2012, the SGR allocates revenues across six main funds:

- The SGR allocates 10% of the biannual revenue to the Territorial Pension Savings Fund (FONPET), managed by the Ministry of Finance, which covers pensions for sub-national public employees.
- Up to 30% is allocated to the sub-national Savings and Stabilisation Fund (managed by the Central Bank of Colombia). In 2012, this fund absorbed 25% of the overall revenues. In the next few years, this percentage will rise consistently by half of the percentage rate of increase in expected royalty revenues.
- The SGR allocates 10% of revenues to the science, technology and innovation (STI) Fund. This fund aims to promote regional STI by supporting projects that contribute to the production, use and appropriation of knowledge, including projects related to biotechnology and information technologies. It is managed by Colciencias (the Department of Science, Technology and Innovation of Colombia). Regional universities are involved in the selection process. STI funds are allocated to departments proportionally with the Regional Compensation Fund (RCF) and Regional Development Fund (RDF) (see below).



Box 8.7. International experience of reforms of royalty payments: The case of Colombia (cont.)

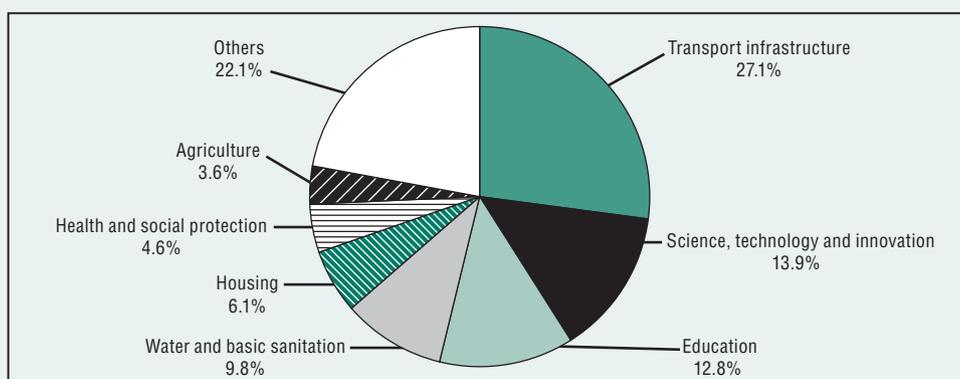
- Direct royalty payments are reserved for resource-based departments and municipalities (including those involved in the logistics of natural resources). This fund totalled 25% of the royalty revenues in 2012. The share was set to be reduced progressively to 17.5% in 2013, 12.5% in 2014 and then 10% from 2015 until 2020. The difference between 2012 and 2014 will be allocated to the RCF and RDF.
- The RCF, once fully operational, will receive 24% of the royalties after 2015 and will invest in local infrastructure and economic development projects in the poorest regions and municipalities. It will allocate revenues to departments and municipalities based on poverty rates and on an index of non-satisfied basic needs.⁶ The RCF allocates 60% to departments and 40% to municipalities (75% to the poorest municipalities in the country and 25% to the smallest municipalities in Colombia). The fund will last for 30 years, after which its resources will be transferred to the RDF.
- The RDF will receive 16% of the royalty revenues after 2015. Its objective is to promote regional competitiveness, as well as social, economic, institutional and environmental development, by financing investment projects with an impact on large territories. A formula guides the allocation of funds, with a weighting of 60% of the distribution formula to demography and 40% to poverty rates. This fund will operate indefinitely.

The reform introduced two main innovations. First and foremost, all departments and the vast majority of municipalities in Colombia now have access to royalty revenues, regardless of their specialisation in extractive activities. Secondly, funds are not earmarked to sub-national levels. [...] The departments and selected municipalities have the possibility of deciding how to invest the additional resources on the basis of their needs, strategic priorities and programming documents.”

The SGR was introduced in September 2013. Within four months, it “generated a total investment of USD 5.2 billion. Sub-national governments invested royalty revenues in four main areas: [...] road connectivity, including primary and secondary road networks” (approximately 27%); research and development (14%); delivery of education in the regions (13%); and water purification (10%) (Figure 8.3). “[...] Investing to improve road connectivity and human capital is also a way to promote competitiveness in the extractive sectors.”

Figure 8.3. Shares of natural resource royalty payments by sector

Investments projects approved between 2012 and September 2013



Source: National Planning Department of Colombia (2013).

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“The SGR is exclusively used to support capital investment”, e.g. build or maintain infrastructure such as schools or hospitals. “Sub-national governments cannot use the additional revenues generated by royalties to finance operating costs” such as wages of doctors, nurses and teachers. “This requires negotiation, and a formal agreement, between the sub-national authorities and the ministry” that will cover operating costs.

Source: OECD (2014b).



Innovative finance for regional development

Many African countries can use innovative financial mechanisms, for instance through funds from emerging countries, remittances or diaspora bonds. Chapter 2 deals with further examples of Africa's progress in finding new funding mechanisms.

Funding from emerging countries. "Shifting wealth" holds promises for new mechanisms and sources for financing local investments (OECD, 2010). South Africa has become the leading investor on the continent (see Chapter 2). China invested about USD 11.7 billion between 2009 and 2014 in 129 greenfield projects in Africa, creating approximately 48 000 jobs (fDi Markets, 2014). China's investments targeted infrastructure to meet the demands for energy and natural resources, often through loans backed by supplies of raw materials. Chinese provincial governments also have the capacity and resources to directly co-operate with African local governments through 73 decentralised aid agreements in 28 countries (Lévy, Gaborit and Rotteleur, 2008).

Sovereign wealth funds (SWFs) may also contribute more to financing Africa's long-term investment needs. SWFs, with combined assets of over USD 5 trillion (Hurst, 2014), can meet half of Africa's infrastructure gap over the 2010-20 decade by investing only 1% of their assets (Turkish, 2011). Their long-term liability allows for investing in illiquid and long-maturity assets that other institutional investors, such as private sectors funds, cannot afford. Furthermore, as SWFs are not financially leveraged by debt, they impose fewer withdrawal constraints. Consequently, they can help reduce the volatility of investment flows (Lensink and Morrissey, 2006). The 2008 financial crisis has led SWFs to diversify their portfolios into private investments, especially in industry and infrastructure. It is now up to African countries to create attractive investment environments and to maximise the benefits for local economies (Paulais, 2012). African governments will need to work with SWFs and development partners to tap this opportunity.

Funding from remittances. In 2014, remittances from African migrants represented about USD 61.8 billion (see Chapter 2). Policies can encourage receiving households either to save larger shares of their remittance income in the formal financial sector or to invest it in productive capital (OECD, 2014c). Remittances may be used to turn sovereign external loans into securities and to improve countries' credit ratings (Ketkar and Ratha, 2001). Remittances have two possible end uses: non-productive activities or productive investments (Paulais, 2012). Evidence from households in five African countries shows that remittances have increased and are used to buy agricultural equipment, build houses, start businesses, purchase land and improve farms (Plaza and Ratha, 2011).

Diaspora bonds. The savings of sub-Saharan African emigrants are estimated at about USD 28 billion per year (Ratha, Mohapatra and Plaza, 2008). Currently, the majority of these funds are invested outside Africa, but by issuing targeted bonds, governments could collect some of the savings (Paulais, 2012: 183). Ethiopia was the first country to issue diaspora bonds of this nature, but Cabo Verde, Ghana and Kenya are planning to follow the initiative (AfDB, 2013). Estimates show that by issuing diaspora bonds, sub-Saharan Africa might raise about USD 5-10 billion per year (Mohapatra, Ratha and Silval, 2011).

Local government finance remains critical for regional development

Regional development requires strong local fiscal systems and transparent governance to finance local economies and the necessary infrastructure. Bolstering the fiscal legitimacy of local governments is necessary to improve the local fiscal capacity: taxpayers are more likely to comply with paying taxes and to accept new forms of taxation if they consider the taxes to be legitimate (AfDB/OECD/ECA, 2010).⁷ Local governments have three main ways of raising funds: regional budget transfers, local taxes and debt instruments.



Regional budget transfers from the central government

Regional budget transfers commonly serve for balancing regional development. Out of 22 African countries, 10 use transfers as one of the main tools of their regional strategy (AEO experts' survey, 2015). Transfers from central governments serve as fiscal equalisation instruments to supplement subnational budgets, especially in regions with low revenues. Ethiopia, for example, has successfully distributed central resources towards its poorest regions (Khan et al., 2014: 41). In South Africa, the "Equitable Share" mechanism serves to redistribute resources across regions to reduce inequalities.

To be effective, transfers must be transparent and predictable. They can act as an insurance mechanism, absorbing local governments' income volatility: less generous in times of high fiscal revenue and more generous in times of low fiscal revenue. In Uganda, unconditional transfers are based on the amount of the previous year; they are corrected for inflation and take into account the cost of new responsibilities transferred to the local governments as well as changes in the cost of existing responsibilities (Yatta, 2015: 12).

By contrast, delayed payments and uncertainty impede local governments' planning capacity. This has been the experience notably in Burkina Faso and South Africa (Yatta, 2015: 16; Koelbe and Siddle, 2012: 149). Out of 41 countries, 24% of country experts surveyed perceived transfers as an opportunity for regional development, but 32% considered them as a threat (AEO experts' survey, 2015). In 38 African countries, transfers are deemed inexistent, unreliable or irregular (UCLG Africa, 2013). Inadequate fiscal capacity is one explanation: in most African countries, the central government's overall tax rate is 8% on average, compared with 40-50% in OECD countries, and 25% in Latin America (Yatta, 2006: 229).

Box 8.8. Bringing finance to the local level

Taking a local-level approach to development requires filling gaps in local systems, especially in terms of financing. Indeed, fiscal decentralisation is important but not sufficient to address the funding gap at the local level:

- National resources are frequently too low to cover the needs on the ground.
- Donors' funds are not a sustainable source of financing.
- Local authorities do not have sufficient legal and technical capacities to mobilise their own funds.

Therefore, local economic development calls for a strategy involving the private sector and the domestic financial sector as actors in financing local development.

Domestic capital mobilisation can help increase financial resources for local development. Innovative methods for finance can reduce risk at the local level and attract further resources. Through fiscal decentralisation and by mobilising their own revenues, local authorities can provide more public goods and services such as bridges, roads, health centres and schools. Public-private partnerships can help meet other investment needs, especially those with a revenue-generating capacity including irrigation systems, food storage facilities and markets. International agencies can bring additional funding and technical expertise to develop innovative financial instruments at the local level.

Source: UNCDF.



In addition, transfers earmarked for specific activities can be disconnected from local needs (Cabral, 2011; Koelbe and Siddle, 2012: 185). Such grants can also encourage local governments to spend more and reduce their tax efforts, thus damaging their fiscal legitimacy (Blöchliger and Petzold, 2009). They risk increasing deficits and debt at different government levels.

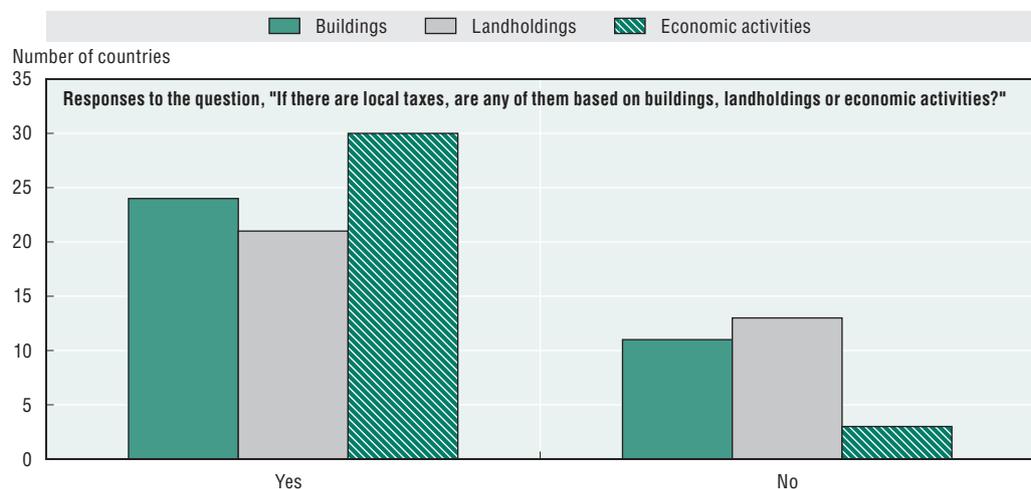
Governments can put mechanisms in place to limit the adverse effects of transfers, such as reduced accountability or inefficiency. Cameroon, Senegal and South Africa regularly evaluate the costs of services transferred to the local governments. Namibia evaluated local governments' performances, revealing the lower cost of public services provision if delivered locally (Yatta, 2015: 7; 13). The United Republic of Tanzania and Uganda have introduced similar performance-based grants (Elroy Africa, 2012: 20). Consequently, local governments should clearly define their expenditure objectives *ex ante* and then be evaluated *ex post* in regards to achieving objectives.

Local taxes

Strengthening local fiscal capacities is indispensable for all African countries. Most of them mobilise far fewer local resources than those in other regions of the world (AfDB/OECD/ECA, 2010). At least five do not levy any local tax (AEO experts' survey, 2015). Local tax collection is estimated to be of the order of 1% of national income in African countries with a high concentration in large urban areas (AfDB/OECD/ECA, 2010: 114). Introducing property taxes could increase local resources for a more progressive tax system, without burdening employment in the informal and formal sectors.

Many subnational governments do not use property taxes efficiently. Property taxes generally contribute more to local government revenues in Africa's English-speaking countries than in its French-speaking ones (Yatta, 2006: 231). But there are wide discrepancies: Burkina Faso does not levy property taxes; in Côte d'Ivoire, property taxes represent almost a third of subnational government revenue; in Mali, property tax revenues go directly to the central government. Many countries do not levy any local taxes on buildings and landholdings, or even on economic activities (Figure 8.4).

Figure 8.4. Local taxes on economic activities and property in Africa



Source: AEO experts' survey, 2015.

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Subnational governments can better mobilise property taxes to increase their budgets. This will be facilitated by an urban population likely to increase beyond 700 million by 2030 (UNDESA, 2014; see Chapter 6). Property taxes are more stable, more difficult to evade and less exposed to business cycles than taxes on local economic activity such as income tax or licences (Blöchliger and Petzold, 2009). Also, they can fund local public services in the areas where they are levied (Yatta, 2006: 246). Although politically contested, property-related taxes potentially represent a valuable income source for local governments (Blöchliger and Petzold, 2009). Cabo Verde and South Africa have successfully decentralised urban property tax collection (AfDB/OECD/ECA, 2010: 118). Property taxes can be important for countries with high levels of informal employment and tax evasion (Durand-Lasserve, 1994: 15). Those countries in particular should improve registers and records of property ownership (Épargne Sans Frontières, 2010).

Understanding the sizeable informal sector is crucial for establishing an equitable and effective tax system. In 12 coastal and Sahelian cities in West Africa, the informal sector accounts for 40-80% of local GDP and 70-90% of local employment; it contributes more to local government revenues than the formal sector (Yatta, 2006: 173, 175, 248; Chen et al., 2005). However, the cost of collecting taxes is typically high, while potential fiscal revenues are limited (Joshi, Prichard and Heady, 2012: 9). Each tax administration must therefore conduct a careful cost-benefit analysis to decide how far they can go in their efforts to upgrade informal businesses (AfDB/OECD/ECA, 2010). Several tax options exist for the informal sector including indirect taxation, e.g. value-added taxes, withholding taxes, import and export duties, and presumptive taxation (OECD, 2010: 97; Joshi, Prichard and Heady, 2012: 12). The right tax mix largely depends on the context and may vary by country and area.

Local debt instruments: A limited alternative

With a better local tax base, local governments could join financial markets, provided they respect national guidance for macroeconomic stability. In Cabo Verde, most locally generated income stems from property taxes, whereas transfers from the central government represent 28% of the municipal budget on average. In addition, local governments are able to borrow from commercial banks. However, borrowing is limited to avoid over-indebtedness. Credits are mostly limited to five years and have relatively costly interest rates of 13-14%. To reduce risks, the central government has to approve every loan. Cabo Verde's average municipal budget is relatively high: in 2007, it represented EUR 276 per inhabitant, against EUR 7 in Senegal (Paulais, 2012: 321).

Federal states in Nigeria are allowed to borrow on domestic capital markets with the permission of the central government. Lagos State generates 60% of its own resources (Paulais, 2012: 351). Through the emission of bonds and public-private partnerships, Lagos has managed to mobilise additional resources and improve local infrastructure since 2008.

Nonetheless, local governments that rely on high growth perspectives can make the bond-emission model less useful for other regions. Johannesburg gained access to capital markets by emitting bonds, but the Development Bank of Southern Africa, a key partner of local governments, faces difficulties in financing smaller cities because of the high risk of default. In Tunisia, specialised finance institutions have led to over-indebtedness of local governments (UCLG, 2010: 53).



Box 8.9. Place-based policies and donors

Embedding place-based policies in development co-operation can increase aid effectiveness by strengthening local capacities, reducing sectoral biases, addressing local needs and improving the co-ordination of aid delivery. Donors play a crucial role in building local capacities in poor countries but must avoid crowding out local resources. In some cases, they may finance up to 90% of the decentralisation process (Demante and Tyminsky, 2008). In Mali, donors financed 68% of the 2009 budget of the Diema rural community, while their own resources represented 25% and central government transfers 7% (Épargne sans Frontières, 2010). Involving regional financial institutions and building local capacity to raise resources can help diversify local revenues.

Donors mainly working with central governments and sectoral ministries sometimes overlook the actual needs of local populations (Yatta, 2009). In Uganda, a decentralised country, donors unintentionally reinforced the power of various sectoral ministries; as a result, they reduced the role of the Ministry of Local Government as well as that of local governments (Smoke and Winters, 2011).

Donors' efforts to improve co-ordination will make decentralised co-operation more effective. For example, while some bilateral donors devolve decision-making power to local levels, multilateral lending agencies largely work with ministries of finance to control financial flows from central to local governments (Dickovick, 2013: 8).



Notes

1. Lumwana, Zambia, offers the case of a rural setting that was turned into a modern town after a new copper mine was opened, creating more than 4 000 jobs within the mine itself and another 8 000 in supporting activities (AEO Country Note).
2. There are many other success stories: Japan's One Village One Product programme has promoted more than 300 local specialty products that recorded over USD 1.3 billion in sales in 2001 (UNIDO, 2008: 9). Launched in 1979, it used a participatory approach involving local residents and stakeholders to activate otherwise untapped resources.
3. Regional and local statistics offices are often solicited for data without receiving feedback or knowing about the work of their peers in other regions. Some statistics are collected by several uncoordinated agencies. For example, in the Democratic Republic of the Congo, five offices in addition to the National Statistics Office collect trade statistics, each counting a slightly different group of goods. Discrepancies in the numbers reported by different agencies create confusion for users (Pole Institute, 2007).
4. Statistics visualisation tools can help non-technical actors to use data, and new technologies can help countries share information at lower cost (AEO experts' survey, 2015).
5. Alternatively, a registry of agricultural plots with differential GPS and aerial photos can accurately measure cultivated areas. However, pilot projects carried out in Central America have proven expensive and raised concerns of corruption (Ostrom, 2001). In addition, the fiscal and administrative complexities of these projects may not sit well with entangled traditional and legal land systems in Africa. Finally, mapping land use by remote sensing has not been able to distinguish crops and natural spaces for official use (Jaffrain, 2013).
6. This index uses a group of indicators including critically overcrowded housing, housing with inadequate services, households with high economic dependence and households with school-age children not attending school (DANE, 2011).
7. For instance, tax compliance increased in Malawi after the Revenue Authority began rewarding businesses with tax compliance certificates in 2004. Local banks started to unilaterally use those certificates in their rating of businesses' credit worthiness. As a result, domestic revenue increased from 9% of GDP in 1998 to 14.7% in 2005 (AfDB/OECD/ECA, 2010).



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