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Integrated local development

Integrated local development

Ben Slay and Clare Romanik



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Many development policies and programmes are designed to be implemented sub-nationally, and cut across sectoral and thematic lines. This issue of *Development and Transition* provides a survey of the practical issues that arise in this context, with a particular focus on UNDP's integrated local development programming in the developing and transition economies of Europe and Central Asia.

The issue begins with Clare Romanik's overview of 126 UNDP local and area-based development programmes and projects in this region. She finds that, despite many important accomplishments, this programming has not yet captured its full potential—precisely because genuinely integrated programming approaches are only rarely applied. This is followed by Zoran Morvaj et al., who present lessons learned from integrated local development programming in Tajikistan. The authors conclude that a \$100 million investment in scaling up on-going small hydro and energy efficiency programming could provide reliable wintertime electricity for 1 million people, as well as a \$200 million boost for the local economy and 4000 'green jobs'. Marta Marczi's overview of the Cserehat programme in Hungary describes how \$300,000 in initial UNDP funding for integrated local development in one of northeastern Hungary's poorer regions was scaled up into a \$640 million programme for the entire country. A similar note is struck in Vrej Jijyan's and Hovhannes Sarajyan's description of UNDP's integrated local development programming in Armenia.

The critical role played by local governments in promoting local development is investigated by Oksana Remiga, who finds that much of Ukraine's housing and communal services infrastructure is teetering towards collapse. She also describes how community- and area-based development programming in Ukraine is helping local governments, and local communities, to respond to housing sector challenges. Nick Maddock points out that thinking about how governments promote local economic development in these countries is heavily influenced by current trends in the European Union. In Great Britain, regional development agencies are now being disbanded in favour of new forms of public-private partnerships that are driven by the expansion of dynamic urban economies into peri-urban areas. Whether this model of local development can be applied to the transition and development economies of Europe and Central Asia remains to be seen.

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A new definition of local development

Clare Romanik



UNDP recently assessed 126 of its local development projects in 22 European and CIS¹ countries, to understand what assets could be used for moving to a new stage of local development for the region.² In this new stage, local development objectives should encompass collective action for judicious use of natural and other resources and developing human capital (from basic education to management skills and entrepreneurial abilities) to the goals of adequate service delivery, maintaining cultural heritage and environmental assets, and creating sustainable livelihoods.³

Compared to other regions, the CIS context for local development is particularly challenging because, prior to the 1990s, there was no recent tradition of democracy or market economy. This has implications for what can be done in a certain timeframe. Social capital constituting entrepreneurs, active communities, trust between communities and local governments, confidence of local governments, and member associations are some of the essential elements for transitioning to the next stage of development.

UNDP assistance in this region has created these missing elements through support to SMEs and other income-generating activities, and participatory decision-making, particularly in micro-projects.⁴ The micro-projects have addressed critical service delivery needs through small infrastructure investments, often with matching contributions from beneficiary communities. To UNDP's credit, the projects have been customized to particular local contexts; project staff members have built a rapport with local stakeholders.

Communities may become empowered by implementing micro-projects and learning about participatory budgeting. But are they consulted in decisions regarding the community's natural resources?

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1 Commonwealth of Independent States (CIS)
2 Germán Correa-Díaz, 'Assessment of Local Development Projects in Eastern Europe and CIS', February 2011. The author of this article was the originator and chief reviewer of the assessment.
3 This definition draws on different local development theories, including 'concerted collective action' emphasized by Gabi de Ottati in Giacomo Becattini et al., *From Industrial Districts to Local Development* (2003) and 'production of specific knowledge and resources' from Gioacchino Garofoli, in 'Local Development in Europe: Theoretical Models and International Comparisons' in *European Urban and Regional Studies* (2002).
4 The term micro-projects refers to community selected and supported small investments to rehabilitate infrastructure or other ways to improve quality of life.

Achievements included improvements in service delivery and basic infrastructure, and a greater understanding on the part of local officials of the need to include the community in budget and investment decisions. Another result is a stronger capacity of local governments in terms of efficiency and accountability. Collectively, these achievements form a base for moving forward.

The pilot legacy

In many cases, however, communities or local governments cannot sustain initiatives begun under UNDP projects because they do not have the needed resources (human, technical, financial, physical), and they are unable to attract non-donor resources. The metaphorical chicken gets fed, but the area around it cannot support it in the future. In practice, scalability or replication rarely happens; many beneficiaries seem to have the problem of sustaining their own achievements through time and as processes clearly embedded in the dynamics of their development.

The assessment found that these projects typically focused on a particular municipality or set of municipalities, without creating institutional, financial and/or economic links for supporting these initiatives. The most common stakeholder was the local government (75 percent of projects). Less than one third of the projects simultaneously

engaged stakeholders at levels above and below local governments, such as district or regional government agencies, local civil society organizations or business associations.

Much of UNDP's work has been with small, rural municipalities that have little hope of moving beyond donor assistance if they remain isolated from the economic dynamics of the region in which they are located. Do municipalities have knowledge of labour and product market trends in nearby urban areas? Can they benefit from more sophisticated human and technical resources in neighbouring municipalities, e.g., for monitoring land degradation, delivering services, or processing agricultural produce? In the new stage of local development, there must be a concentrated effort on connecting them to resources in other municipalities as well as public and private institutions at the meso and national level.

Projects employing the value chain approach (such as a regional aid for trade project in Central Asia and a value chains employment project in Bosnia and Herzegovina) make this connection through private sector actors. However, they do not always involve relevant government counterparts that could support with infrastructure, resource conservation strategies or agricultural extension services. Several Western Balkan countries have employed inter-municipal cooperation tools to create meso-level conditions⁵ for achieving economies of scale not possible at lower levels. Inter-municipal cooperation connects local governments, but can also involve private sector actors via concessions or contracting out of services.

In a few cases, longstanding projects have evolved from the implementation of micro-projects to creating financially sustainable solutions involving the private sector or working with meso-level government bodies on developing the region's comparative advantages. In the case of the 'Crimea integration and development programme',⁶ private district-level water service companies provide community water associations with advanced technical support, while districts are using renewable energy to solve infrastructure obstacles to non-coastal tourism.

An interlocking design

Although different methodological approaches to local development are used in the region,⁷ they have much in common, including a focus on community participation and the intention to move from a pilot to programme model and become integrated in approach. What is sometimes missing, however, is a thorough analysis of the set of problems particular to a territory that is incorporated into the programme design to make clear how synergies will be created among the different programming areas. In addition to fleshing out synergies, attention must be paid to the sequencing of interventions based on human or social capital prerequisites.⁸

The assessment found that numerous activities happening at the local level were not connected. Instead of programmes addressing multiple development dimensions—economic productivity, participation and inclusion, energy management, environmental protection—projects were more typically dedicated to a single dimension.⁹ Only a third of the projects encompassed two or more dimensions. Some of these multi-dimensional projects addressed economic issues together with service delivery improvement or

5 In fact this approach is particularly relevant where meso level government does not exist.

6 See Sascha Graumann, 'Crimea: From Conflict Prevention to Development', *Development and Transition*, 23 March 2007 (<http://www.developmentandtransition.net/Single-Article-Issue.118+M595c3ee4d9f0.html>).

7 These include area-based development, community-based development, integrated local development, and integrated strategic planning.

8 For example, the Georgian project 'Support to the modernization of vocational education and training system' learned that the development of particular skills needed to meet market demands should be mainstreamed into local development projects.

9 However, almost all of the conflict prevention and recovery projects involved other dimensions. For example, 'Alliance for cultural tourism in Eastern Anatolia' (economic productive issues) 'Conflict prevention and mitigation in the Fergana valley' (economic and environmental issues), 'Community development program in Hadareni Village in Romania' (integration of minorities).

planning and budgeting.¹⁰ Other projects addressed energy management or environmental protection together with planning and civil society development.¹¹ By contrast, the Bulgarian project 'Grassland biodiversity conservation through support for the traditional local economy' was one of only a few projects that looked at environmental and economic issues together.

The fragmentation of project objectives was recognized and addressed in some countries even before the assessment was undertaken. For example, the Communities Programme in Tajikistan has from the first sought to integrate UNDP project activities conducted in the same geographical area. Coordination among activities was initially improved by designating staff to be focal points of all activities in a particular region. This was followed by the realization that coordination was only the first step, and that conceptual links among these projects were needed. For example, because municipal service delivery, job creation, and sustainable livelihoods required energy, promotion of small-scale renewable energy became a cornerstone of local development activities. The lesson learned is that to get to the next stage of local development, the project design needs to not just identify components, but connect these components to a specific territory and identify causal relationships between them.

From micro to meso and national

The 'Crimea integration and development programme' shows that projects focused on community level activities can evolve so that they engage meso-level stakeholders. In contrast, the engagement of meso-level stakeholders was part of the project design of the community-based approach to local development in Ukraine; buy-in from meso-level stakeholders was a prerequisite for working in a particular district. By requiring commitments from regional- and district-level governments not only in terms of staff and office space, but also certain processes, the project created a platform that has been used in non-project contexts as well to identify and support priority investments at the village level.

These interventions should also be supported by national level policy reform, to create financial incentives for replication and legitimize what is being done at the local level. Sectoral projects have the advantage of working on priority issues with a dedicated ministry to set up systems that will support the interventions. The 'Sustainable management of peatlands' project in Belarus, for example, was able to develop comprehensive national-level policy support, including an action programme, technical codes, and methodological recommendations, for sustainable peatland management.¹²

Many local development projects that focus on a particular region do not seek to create the policy structure to maintain the initiative. This is most likely to succeed, however, when there is an intention from the beginning to create methodological or policy support for ongoing interventions. For example, in the Former Yugoslav Republic of Macedonia, the 'Support for decentralization reform' project set as a goal the creation of a methodology for preparing regional development plans; the methodology was adopted by the government and utilized for other regions beyond the pilot regions assisted by UNDP. However, this happened after the end of the project, which emphasizes that the typical project cycle is often insufficient to create a sustainable policy framework to support initiatives.¹³

Governance as a connecting thread

The assessment found that involvement of multiple stakeholders in projects was generally for isolated activities, and therefore did not create national and local level policy linkages. Vertical integration can be strengthened by working with public and private sector organizations that can lobby for national policy change. With this in mind, the 'Joint integrated local development programme' in Moldova is helping the congress of local authorities to play a more active role in the country's decentralization process. By reflecting the needs and capacities of its members nationwide, member associations play a critical role in scaling up initiatives.

As the challenges being addressed under local development initiatives expand, so must the scope of the accompanying work on participatory and legitimate governance. Communities may become empowered by implementing micro-projects and learning about participatory budgeting. But are they consulted in decisions regarding the community's land, water, and other natural resources? A greater emphasis on local environmental governance would strengthen citizens' understanding of the economic and health dimensions of their natural resources and environment—and the risks posed to it by economic development. The 'Conservation of biodiversity and sustainable land use management in Dragash' project in Kosovo¹⁴ is involving the local community in developing a management plan for a neighbouring national park that may expand to

10 Examples include 'Kukes region tourism and environment promotion' in Albania, the 'Srebrenica regional recovery programme' in Bosnia and Herzegovina, 'Regional development in the Kakheti region' in Georgia, and 'Enhancement of living standards in the Fergana Valley' in Uzbekistan.

11 Examples include 'Sustainable development at local level' in Belarus, 'Community-based local development' in Ukraine, and 'Support to sustainable spatial planning and development in northern municipalities' in Montenegro.

12 Floris Deodatus, 'Terminal evaluation of Renaturalization and sustainable management of peatlands in Belarus to combat land degradation, ensure conservation of globally valuable biodiversity, and mitigate climate change', December 2010.

13 Tomislav Novovic, 'Review of the project Support to the Decentralization Reform in FYR Macedonia on its path to EU', April 2011.

14 As per UN Security Council resolution 1244.



While projects focus strongly on community participation, they still struggle to address more than a single dimension of development.

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their municipality's territory. This is a typical case of good laws on public participation not being implemented without an extra push, in this case from UNDP.

Investing in development

New challenges posed by climate change must be reconciled with more traditional challenges of inclusive economic growth and accountability in governance systems. Future work would benefit from several investments in this respect. First, as part of designing a new project, an assessment of assets from previous projects should be combined with a multi-dimensional analysis of the developmental processes (and critical obstacles) particular to that region. Second, a programmatic approach should be adopted to bring a long-term view to the partnerships, capacity development, and social capital needed to support development goals. This entails greater complexity in project design, in order to identify and measure intermediate results (and their interrelationships) that lead to final outcomes. It also includes defining the role of meso-level partners to achieve scale, sustainability and a supporting national policy framework. The local government remains the central stakeholder as the logical institutional entrée to engaging communities (including the business community), but assistance provided should mature to focus on systemic improvements at the departmental level. Third, the capacity of those implementing these initiatives needs to be developed so that they bring a multi-sectoral understanding of potential and constraints.

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Tapping small hydropower in Tajikistan



Energy and poverty in Tajikistan

Tajikistan is widely regarded as the poorest country in the former Soviet Union; roughly half of the population lives below the poverty line (\$41 per month).¹ Poverty in Tajikistan is closely linked to household access to reliable energy supplies, particularly in rural areas. While Tajikistan has a high (over 90 percent) electrification rate, the power grid that belongs to the Barqi Tojik state monopoly is in places severely dilapidated. This deterioration combined with wintertime supply-demand imbalances produce severe and reoccurring cutoffs and blackouts that deprive most rural areas of stable winter electricity supplies. Three quarters of the population lives in the countryside, but only 8-11 percent of the country's electricity is consumed in rural areas; cities, especially the capital Dushanbe, and aluminium industry use most of the power generated.

Electricity shortages, combined with Tajikistan's lack of gas and central heating infrastructures and the absence of affordable coal or liquefied gas supplies, force many rural households to heat by burning wood, shrubs, cotton stems, and dung. These coping strategies have significant side effects: a recent study found that, due in large part to use of wood for fuel, Tajikistan's mountainous regions have lost up to 70 percent of their forest cover since the late 1990s.² The average rural household uses more than 20 kilos of firewood and/or dung per day; women and children spend up to six hours per day collecting and preparing these fuels. The lack of lighting reduces living standards and basic economic activities, especially in winter.

A number of micro hydropower plants have been built as an immediate response to power shortages.

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¹ <https://www.cia.gov/library/publications/the-world-factbook/geos/ti.html>.

² This figure comes from GIZ, 'Forest Sector Analysis of the Republic of Tajikistan', 2010.



Tajikistan is very much in need of short-term solutions to rural energy insecurities. Small hydropower plants such as the one in Nurofar can meet these challenges.

© UNDP Tajikistan

Because of its extensive water resources, Tajikistan has great hydropower potential. Most of its electricity is generated from hydropower stations that were constructed along the Vakhsh river during the Soviet period; other large hydropower plants are currently at various stages of construction—with the Roghun hydropower plant being a top national priority. However, because the construction of large-scale hydropower plants is a long-term proposition, it is unlikely to reduce energy insecurity for rural households in the short term. Nor do such projects address the deterioration of the national power grid.

Small-scale renewable energy and poverty reduction

Tajikistan is very much in need of short-term solutions to rural energy insecurities, which would also reduce rural poverty and boost rural development. Evidence increasingly suggests that decentralized renewable energy technologies—particularly small hydropower plants that are managed by local communities and in line with local economic development needs—can meet these challenges.³

Nearly every village in Tajikistan is close to at least one water flow. A number of micro hydropower plants⁴ have therefore been built and are operated by local communities throughout the country.⁵ These installations typically operate off-grid during the winter, and remain idle during the summer when electricity from the national grid is available. However, most of these plants are made out of spare parts; they are typically improvised and quite inefficient. They are prone to freezing during the winter; and as these installations do not benefit from regular maintenance schedules, they break down with some frequency. Still, these installations are critically important for local communities (particularly during the winter), who pool their limited resources in order to cover operations and maintenance costs.

The expansion of small hydro technologies in Tajikistan has been held back by five constraints:

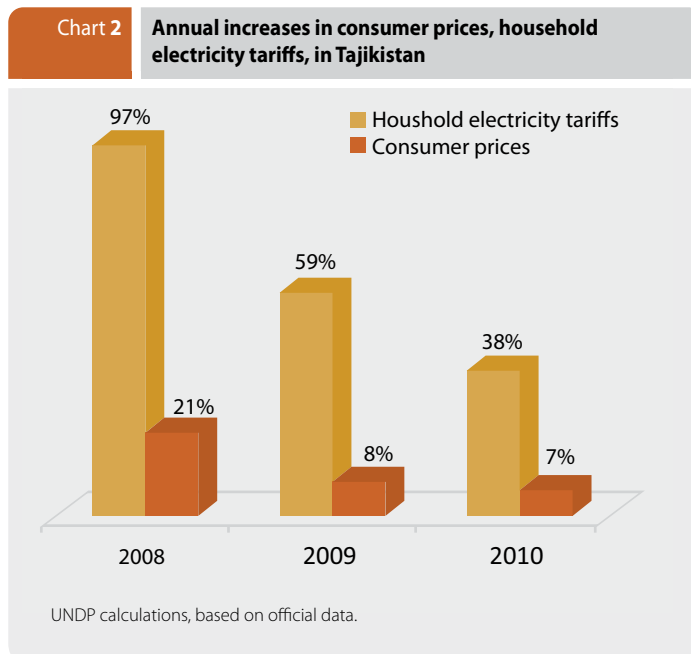
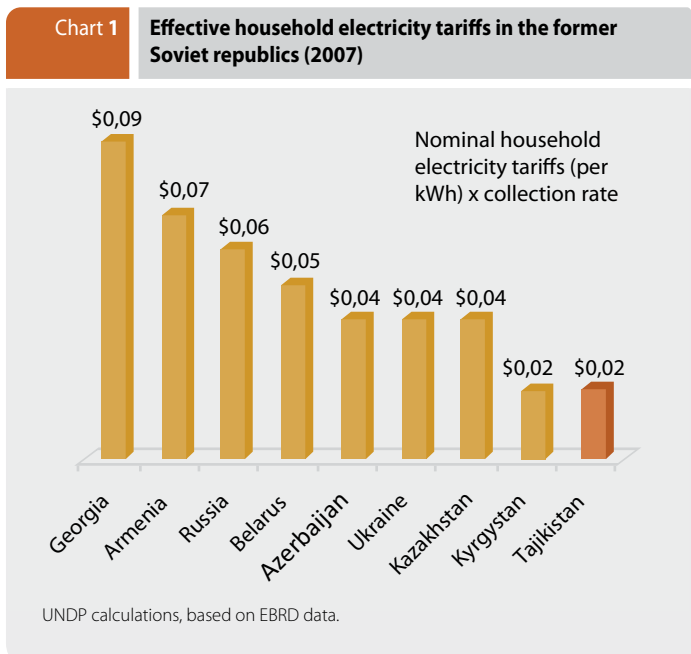
- Low electricity tariffs;
- Uncertainties in the legal and regulatory frameworks for independent power producers;
- Lack of financing and under-developed mechanisms to attract and transparently manage resources from donors, local communities, and the state budget in support of decentralized renewables;
- An absence of the local expertise needed to produce and maintain small hydropower station equipment; and especially
- A lack of awareness about the potential short-term significance of decentralized renewables, particularly for reducing household winter energy insecurity.

The data in Charts 1 and 2 show that household electricity tariffs in Tajikistan have been among the lowest in the Europe and Central Asia region—but also that these tariffs have been growing at rates well above consumer price inflation. However, in the aftermath of the April 2010 popular uprising in neighbouring Kyrgyzstan—which was precipitated in part by popular anger over energy tariff increases—further tariff hikes seem to have been taken off the table, at least for now. Household electricity tariffs have not been increased in Tajikistan since January 2010. Still, international lending conditionalities and

³ With 280-330 sunny days per year, Tajikistan also possesses abundant but underutilized solar energy resources, especially in mountainous areas. This presents opportunities for the use of solar thermal collectors and photovoltaic systems.

⁴ Micro and mini stations are machinery that can transform hydroelectric power from a river or water cascade into electrical energy serving a small community or industrial plant. According to Tajikistan's renewable energy legislation, micro hydropower plants have less than 100 kilowatts, mini hydro plants 101-1000kW, and small hydropower plants 1001-30000kW of installed power. Micro hydro technologies are most often used in small communities, single families, or small enterprises. For purposes of simplification, the term 'small hydropower station' is used in this text for all of the plants of installed capacity lower than 30 megawatts.

⁵ Other small hydropower facilities are operated by the Barqi Tojik state-owned electricity monopoly, and by the Pamir Energy public-private partnership that operates in eastern Tajikistan's Gorno Badakhshan region. According to Barqi Tojik, some 340 small (or micro or mini) hydropower plants are currently operating in Tajikistan.

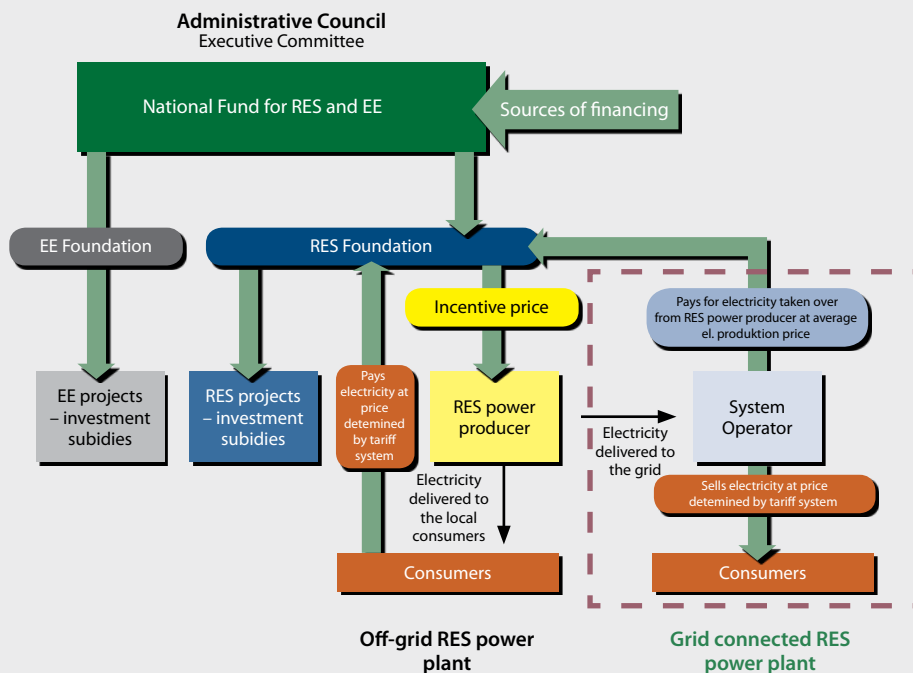


financial pressures on electricity companies suggest that tariff hikes will be back on the table sooner or later. Problems of 'low' electricity prices may therefore be diminishing. In December 2010, Tajikistan's Ministry of Energy and Industry approved a methodology for calculating tariffs for electricity generated by independent power producers (including those using small hydro and other renewable technologies) who are connected to Barqi Tojik's grid. It also approved a basic model contract for power purchase agreements between Barqi Tojik and independent power producers. By clarifying the procedures by which small hydropower plants (and other independent power producers) can sell excess electricity back to the national power grid, these developments should make possible the expanded use of small hydro technologies to alleviate poverty and promote development in rural areas.

In order to help finance the construction (or reconstruction) of small hydro stations, UNDP has proposed a trust fund to promote the expansion of decentralized renewable and energy efficiency technologies. This trust fund would both fill in the missing pieces of the institutional framework and support the development of local capacity to produce and maintain small hydropower station installations and equipment (see Box 1). Among other things, this trust fund would co-finance Barqi Tojik's purchases of excess (typically summer time) electricity generated by independent power producers using renewable energy technologies, thereby reducing the commercial risks associated with third-party access to the national electricity grid.

Taken together, these activities form an approach to boosting the feasibility of small hydro, which is now being piloted by UNDP in Tajikistan for possible subsequent scaling up. This approach has three key characteristics:

Box 1

A national trust fund for community-based renewable energy and energy efficiency⁶

UNDP has designed a national trust fund for small-scale renewables and energy efficiency in Tajikistan. This trust fund would be a legal body that would:

- ⇒ Collect fees for incentivizing the use of renewable energy and energy efficiency technologies in rural areas;
- ⇒ Manage electricity purchases from independent power producers (the 'buy-back mechanism') that are connected to the grid;
- ⇒ Provide financial support for renewable energy and energy efficiency projects in rural areas that are not covered by the electricity buy-back mechanism. Activities eligible for co-financing from the Fund would include:
 - Promotional campaigns for renewable energy and energy efficiency technologies (100 percent co-financing);
 - Education programmes for professionals working on renewable energy and energy efficiency technologies (100 percent co-financing);
 - Financial support for the preparation of renewable energy and energy efficiency projects, including investment studies (40 percent co-financing);
 - Financial support for thermal and off-grid renewable electrical energy installations, as well as for energy efficiency improvement projects (in rural areas and in the public sector, 100 percent co-financing would be available; in all other cases, 40 percent co-financing would be available).

⁶ For more on this, see "Energy Efficiency Master Plan for Tajikistan: Energy Efficiency for Economic Development and Poverty Reduction", which is available at http://europeandcis.undp.org/uploads/public1/files/vulnerability/Senior%20Economist%20Web%20site/EEMP_Tajikistan_v1.pdf.

- Small hydro projects should be part of integrated local economic development strategies for beneficiary communities;
- Where possible, the sale of electricity generated in excess to local needs to Barqi Tojik's grid should be promoted; and
- The expanded use of small hydro technologies should be combined with intermediate energy efficiency improvements, which can reduce electricity shortages and generation costs and improve household health conditions. Improvements in household insulation by using locally available resources (e.g., straw, cane) and technologies (e.g., lathing and furring); enhancing single glazed windows or replacing them with double glazed windows; replacing old stoves and cooking equipment—such measures can reduce fuel consumption and the time spent by children and women gathering fuel. They can also improve overall health conditions within the home (by reducing indoor smoke, or increasing winter temperature indoors).⁷

Small scale renewables, energy efficiency, and integrated rural development

Communities in Tajikistan can use local water resources to better meet multiple household and commercial need. Flowing water from a nearby stream or small river can be captured by a small hydro installation, thereby providing much needed wintertime electricity to households and to public buildings (hospitals, schools). This electricity can also power a pumping station to provide households with drinking water and sanitation. After its release from the hydropower installation, water can irrigate fields downstream.⁸

In the summer, the electricity generated by the small hydropower station can be sold back to the national grid, allowing Barqi Tojik to collect more water in its large hydropower stations along the Vakhsh river cascade. These revenues would reduce the payoff period, or the subsidies (from donors or the state budget) needed to make investments in small hydropower facilities financially viable.

This local power generation capacity would create jobs and commercial opportunities, support the production of local goods and services, and reduce household use of traditional biomass for heating. The small hydropower stations that are at the heart of this scheme can be privately or community owned and operated. Empowerment for small hydro-based integrated local development can in this way accelerate progress towards meeting the Millennium Development Goals (MDGs). One way or another, local communities should be engaged in the production and distribution of the electricity. In addition to creating a local income stream from the sale of electricity to Barqi Tojik, this can be done by involving community-based organizations as facility operators or payment collectors.

Sustainability and scaling up

Some illustrative scenarios showing the possible impact of scaling up existing support for small hydro has been developed by UNDP-Tajikistan (see Table 1).⁹ If the number of inhabitants without access to reliable electricity supplies in Tajikistan is taken as 1 million, and if the households in which they live are assumed to have 10 members each, then the construction of 1000 small hydropower plants each with 100 kilowatts of installed capacity would provide each of these households with one kilovolt of electricity—sufficient for year-round indoor lighting.

7 A 2008 World Bank study found that replacing kerosene lamps with electric lighting had daily health benefits estimated at \$2.50 per household. Source: 'The Welfare Impact of Rural Electrification: A Reassessment of the Costs and Benefits', World Bank, Washington DC, 2008.

8 Solar thermal systems could also be used to provide households with hot water and public buildings with heat.

9 These calculations are taken from 'Intermediate Strategy for Renewable Energy Sources', pp. 49-50; UNDP-Tajikistan, 2010 (available at http://europeandcis.undp.org/uploads/public1/files/vulnerability/Senior%20Economist%20Web%20site/Final_Draft_IntermediateStrategyTajikistan.pdf)

Table 1 Costs and benefits of scaling up small hydropower plants to benefit 100,000 vulnerable households in Tajikistan

Capacity provided per household (kilowatts kW)	1 kW	2 kW	3 kW
Total installed power capacity needed (megawatts)	100	200	300
Total number of small hydropower plants needed (average unit capacity = 100 kW)	1000	2000	3000
Total investment required	\$100 mil.	\$200 mil.	\$300 mil.
Financial return to the local economy	\$200 mil.	\$400 mil.	\$600 mil.
Total jobs created	4000	8000	12,000
Income for local community generated by sale of excess electricity to the national grid	\$1.75 mil.	\$3.5 mil.	\$5.25 mil.
Reductions in annual firewood consumption	n/a	500,000 m ³	2.5 million m ³
Reductions in greenhouse gas emissions (tons of CO ₂ equivalent)	n/a	900,000	4.5 million
Total financing needed ¹⁰	\$101.75 mil.	\$203.5 mil.	\$305.25 mil.

The cost of constructing a small hydropower facility with 100 kilowatts of installed capacity based on intermediate (best available local) technologies is estimated at around \$100,000. This scenario posits an average construction cost of \$1/kW/household. Satisfying the unmet basic electricity needs of 1 million vulnerable people therefore carries a price tag of \$100 million. Moreover, each additional megawatt of installed capacity in a small hydropower plant is estimated to generate more than 40 direct and indirect jobs.¹¹ Using best locally available technologies also increases the multiplier effect of this spending on the national (and local) economy. It has been estimated that, with the current capacity of Tajikistan's small hydro-related industry, some 50 percent of the funds invested in the construction of small hydropower plants are reinvested in the local economy. This roughly corresponds to a multiplier of 2, so that \$100 million invested in the construction of small hydropower plants would generate \$200 million in additional output and incomes for Tajikistan.¹²

¹⁰ Total investments required plus surplus electricity buyback.

¹¹ This estimate is based on Nepal's experience, where it was estimated that more than 500 jobs were created for less than two megawatts of installed capacity. However, the number of jobs created seems likely to decrease with each next megawatt installed, particularly in light of specific Tajik conditions.

¹² As per standard macroeconomic multiplier analysis, according to which the change in total income and output resulting from an initial change in expenditure is given by the expression $\Delta \text{income} = \Delta \text{expenditure} / \text{leakages}$. Here, $\Delta \text{expenditure} = \100 million and $\text{leakages} = .5$.

In conducting the scaling up exercise, we assumed that average on-grid time per annum is 3500 hours (40 percent of the total possible), with actual generation at 50 percent of capacity. The price Barqi Tojik would pay to purchase this electricity is assumed to be \$0.01/kWh, while the guaranteed purchase price paid to the small hydropower producers is assumed to be \$0.02/kWh. The difference between the two would be financed by the national trust fund. In calculating the savings in CO emissions, it was estimated that the average household uses 0.5 cubic metres of firewood for cooking only and another 2.5 cubic metres of firewood for combined cooking and heating, annually. This biomass absorbs 1.8 tons of CO emissions per cubic meter.

If resources could be found to double or triple the electricity delivered (i.e., provide two or three kilowatts of installed power per household), the benefits of such investment—in terms of access to energy, job creation, reductions in deforestation and greenhouse gas emissions (from burning coal, firewood, dung), and health benefits (in terms of fewer respiratory ailments associated with burning firewood, coal, peat, or dung)—would likewise expand.

Small hydro can pay off big

These calculations suggest that the basic electricity needs of Tajikistan's roughly one million rural residents who do not at present benefit from reliable electricity supplies can be met at a cost of approximately \$100 million, or roughly \$100 per person. In contrast to the large hydropower projects that are being promoted in Tajikistan (and Kyrgyzstan)—which would rely on existing electricity grids and would therefore not improve off-grid energy security—these small hydropower projects do not have large upfront capital costs. Because they are labour-intensive, they can create employment and commercial opportunities in rural areas where income-generation prospects are often hard to come by. Their low up-front capital costs allow these installations to be constructed fairly quickly, without over-burdening the state budget; management of donor and community funding via the proposed trust fund for renewables and energy efficiency technologies could further reduce the burden of financing these projects. And because small hydropower stations rely on run-of-river technologies, they do not alter river flows and should not be a concern to downstream countries.

Improving electricity supplies for vulnerable families would ease the burdens on the women and children who collect firewood and dung, and who spend the most time exposed to the indoor pollution and low winter temperatures associated with heating with biomass. This would provide rural women with more time for income-generation activities or leisure; and children in rural areas would be more likely to regularly attend school, particularly during the winter. Tajikistan's forest cover (carbon sinks) would have a better chance of recovering, while land degradation pressures would diminish. More efficient energy use by these households, via the installation of more and better insulation and improvements in heating and stove technologies, would also reduce indoor pollution and improve health conditions.

In short: investments in small hydro (and, where feasible, other decentralized renewables), as well as in energy efficiency, can generate large benefits, in terms of poverty reduction and sustainable local development.

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Most of the improvised micro hydro plants are made out of spare parts and are quite inefficient.

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The 'Cserehat model': Area-based development and Roma inclusion

Marta Marczis



The programme's starting point was the principle that the resources and solutions to Cserehat's socio-economic problems could be found locally—'all in one place.'

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This article presents lessons learned during the six years in which the 'Cserehat programme'¹ for integrated local development has been working in one of northeastern Hungary's poorest regions. This programme represents a departure from conventional development programming, in that it has replaced sectoral, top-down approaches with a focus on area-based capacity development in order to help marginalized communities. Conventional local economic development programming focuses primarily on attracting private capital and infrastructure funding, from government or EU sources. Promoting economic growth is the main goal. Such programming is often technocratic and commercial in nature, and beneficiaries are often separated from the design and implementation of the development projects pursued. When such programming embraces participatory processes, it often starts with the preparation of a strategy, which can exclude beneficiaries without strong educational backgrounds or experience—who are put off by 'development jargon'.

¹ For more information, see http://www.cserehat_en.siteset.hu/.

However, in many cases such approaches need to be supplemented by alternative local development initiatives that focus on sustaining and rebuilding livelihoods, non-profit financial and social services, small-scale energy production and infrastructure development, micro-farming, and the like. Empowering communities to solve their own problems, and protecting the quality of life, are the main goals of this approach.

The Cserehat programme represents a successful application of this approach to local development.

Why Cserehat?

Despite substantial investments in regional development, territorial disparities are increasing in many new member states of the European Union, as well as in Southeast European countries that are currently negotiating for EU membership. These disparities can be largest at the micro-region (NUTS 4) level,² where multiple social, economic, and infrastructure shortfalls are often present (see Box 1). In addition, Hungary faces problems posed by the growing territorial segregation of marginalized Roma communities in poor areas.

Located in economically depressed northeastern Hungary with a population of 100,000, the Cserehat micro-region suffers from unemployment rates that run as high as 50 percent in some areas. While the 2001 census found that Roma made up 2 percent of Hungary's population, their share in Cserehat was 15 percent—and has likely risen in the intervening decade. Poverty and social exclusion are particular issues among Roma youth; one study found that 14-18 years-olds comprise 80 percent or more of the population in Cserehat's most vulnerable Roma communities.³ Access to social services and information is often poor; initiatives to raise household incomes and mediate local ethnic tensions are very important. Roma and non-Roma residents in many of Cserehat's 114 local communities suffer from vicious cycles of poverty, exclusion, low expectations, and apathy.

Together with the Government of Hungary, UNDP in 2004 began to develop a programme for tackling these problems. During the next six years, more than 100 local projects were designed and implemented within an area-based development framework in Cserehat. (Some of these projects also worked across Hungary's border with Slovakia.) These projects focused in particular on the:

- Social inclusion of disadvantaged Roma and other vulnerable communities, with a particular focus on women, children, and the elderly;
- Mobilization of local resources for employment and income generation, business development, and small infrastructure projects; and
- Strengthening local communities' abilities to attract and absorb national government (and potentially EU) funds for regional development.

The programme's \$2.8 million in initial funding (\$300,000 from UNDP, \$2.5 million from the Hungarian Government) was not large, in comparison either with other initiatives or with the scale of Cserehat's problems. The programme's value can be seen in the funds raised from other sources, including \$5 million from EU funds and the Norwegian Government. Moreover, the Hungarian Government scaled up the Cserehat programme to create a \$640 million national local integrated development programme, for implementation during 2009-2013. Some \$40 million of these funds were allocated to the Cserehat programme. Perhaps more important than the money raised has been the application of the integrated development paradigm combined with the mobilization of social capital and capacity development activities for local stakeholders within a given area. These included:

2 This acronym stands for the EU's statistical nomenclature of territorial units.

3 Judit Molnar, 'Socio-geographical analyses of vulnerable groups living in geographical and social peripheries in tiny villages in the Cserehat geographical area', 2008, University of Miskolc (Hungary).

- **Community coaching and global grants**, to empower poor people and mobilize resources at the local level;
- **Mapping local partners and development ideas** in line with partnership building;
- **Grant schemes** to help poor households and to leverage local resources;
- **Establishing a social resource centre** to serve as a local organizational facility, a place for information dissemination (*inter alia* regarding resource mobilization opportunities);
- **Special planning processes** to ensure participation of vulnerable groups.

Box 1 Analysis of territorial differences in Hungary

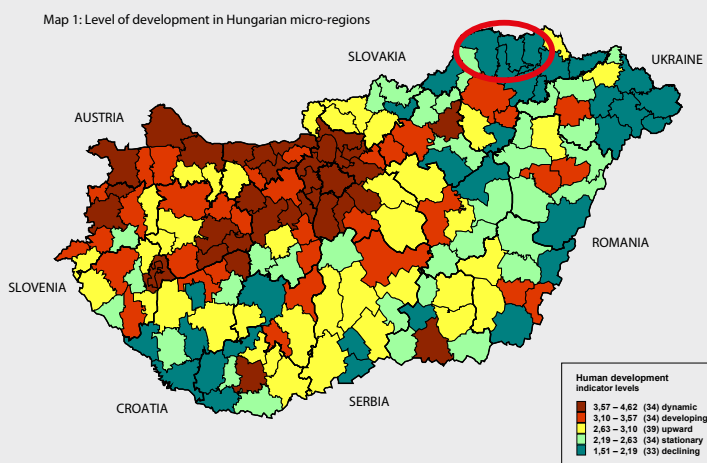
During 2002-2004, researchers at Hungary's Central Statistical Office and the Academy of Sciences identified five categories of micro-regions (NUTS 4) in terms of their scoring on a special human development indicator: dynamic, developing, upward, stationary, and declining.⁴ These indicators are based on some 40 types of data, including on:

- numbers of foreign-owned, small, and medium-sized enterprises;
- household incomes estimated from personal income tax files;
- unemployment rates;
- numbers of Roma;
- net migration; and
- numbers of cars and telephone subscriptions.

These 40 sub-indicators can be aggregated at the county (NUTS3) and regional (NUTS2) levels as well.

Note: The Cserehat region is circled in the map.

Source: Albert Faluvegi, *Information about the highly supported Micro-regions in Hungary*, Central Statistical Office, 2008.



4 See Albert Faluvegi, 'Regional pattern of socio-economic characteristics in the period of transition and the expected effects', Hungarian Academy of Sciences-Central Statistical Office 2004 (<http://mek.oszk.hu/01800/01875/01875.pdf>); and 'Socio-economic situation of micro-regions (NUTS4) in Central Hungary (Budapest, Pest County)', Central Statistical Office, 2005. (http://www.aszodikisterseg.hu/file.php?file_id=183)

Programme principles and methodology

The programme's starting point was the principle that the resources and solutions to Cserehat's socio-economic problems could be found locally—'all in one place'. This principle spoke to the need to apply integrated, flexible processes that simultaneously empower disadvantaged communities, confront ethnic tensions and prejudice, create jobs, introduce more sustainable environmental practices, and promote gender equality, while also developing solutions for the special problems facing the region's youth. This principle has been realized by a focus on developing capacities through an integrated area-based development *process*, rather than on designing, managing, and financing detached *projects*. Within this framework, key operational principles include:

- **Participation and social organization.** Effective area-based development programming requires community engagement in its design and implementation. In addition to providing information, training, advice, and funds, the programme invested in expanding Roma communities' ambition, skills, and organizational networks.
- **Development is for everyone.** Local development should include everyone in a community, including the most vulnerable. Everyone has ideas and can contribute. The mission is to create the capacity of locals to transform their perceived needs into projects. Experts should not tell people how to live, or what to do. Learning is an interaction among equals.
- **Better communication.** The programme established a social resource centre that serves as an information and coordination hub. It focuses on conveying best practices across the region; bringing in helpful partners; and enabling people and organizations within and outside the region to communicate with each other.
- **Start small.** Working with people with no development experience, the first actions have to be small-scale, reflecting local actors' limited capacity. The first step might indeed be very small, like buying a football and shoes or organizing a village day for local Roma. But activities can rapidly grow, as actors gain confidence and skills under the guidance of the coach. Their small size helps local communities to 'own' and benefit from the programme.
- **Co-financing.** The poorest households often face the greatest difficulties in accessing project funding because they are unable to put up co-financing. The Cserehat programme therefore set up a special \$700,000 co-financing fund, to supplement the resources of the poorest localities for larger projects drawn up with community participation. This fund helped local beneficiaries to attract some \$5 million in additional financing during 2008-2010.



This woman is 72 years old and lives in Encs, which is part of the Cserehat region.

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This woman is 66 years old and lives in Alsóvadász in Cserehat.

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The programme formula consists of the following steps:⁵

- 1) Identify an area that is suffering from regional disparities, and is suitable in size for inclusion in the programme.
- 2) Put in place a community coach and a team working with all relevant local stakeholders, in order to make things happen.
- 3) Mobilize local communities and conduct capacity development activities.
- 4) Bring representatives of marginalized groups together with other community members, including public and business representatives and civil society organizations, in order to foster mutual communication, reduce ethnic tensions, and support local partnerships. Diverging interests can be reconciled via the creation of a local action plan, which is less sophisticated than a full strategy, but closer to the participants' reality. These plans are formally approved by both the local communities in Cserehat and by the national authorities.
- 5) Generate activities and projects that engage the resources present in the region and the energies of local communities, including the poor and vulnerable.
- 6) Create a structure for effective partnerships between the different stakeholders. Their capacity to do local development without outside assistance is needed to ensure the *sustainability of the process* of local development.
- 7) Ensure that the process is sustainable and 'localized' by pursuing the programme over a period of time.

Programme results and lessons learned

Thanks to the Cserehat programme 60 Roma self-help groups were established, and networked together, in Cserehat's 114 local communities. Some 1400 jobs were created (50 percent of which were filled by Roma), including via the establishment or expansion of 43 social enterprises (90 percent of which provided employment for Roma). Under the 116 projects supported by the programme's grant schemes, some 2,500 local development partners were mobilized and their activities mapped out. The creation of green jobs via energy efficiency, water management, and nature protection projects was a major focus of these projects, as was better access to information, innovative social services, housing, small business formation, and community economic development. In addition, a website and the Independent Roma News Agency were established.

Perhaps the programme's most important accomplishments lie in its challenges to beliefs that the poor and vulnerable have no good ideas for improving their own lives, and can therefore be ignored in the design and implementation of projects from which they are to benefit. Instead, the Cserehat programme shows that development should be done *with*, rather than *for* (or *to*) beneficiaries. It also challenges the assumption that mainstream economic development is the sole or most important driver in eliminating territorial disparities. The programme shows how local resources and energy can be mobilized to help development take hold in disadvantaged communities—which can in turn bring these communities closer to mainstream development processes.

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⁵ For more on this, see M. Dower, and M. Marczis, 'Rural Development in Europe, LEADER+ Handbook'; Ministry of Agriculture and Rural Development in Hungary, 2005.

From apathy to hope: local development in Armenia



Like many developing and transition economies in Europe and Central Asia, Armenia experienced a decline in its national poverty rate from 51 percent in 2001 to 23.5 percent in 2008; extreme poverty fell even faster (from 16 percent in 2001 to 3 percent in 2008). 2008 household survey data also revealed declines in income inequality: the Gini coefficient in 2008 had fallen to 0.389, from 0.535 in 2001.

However, in the 10 years prior to the onset of the global economic crisis in 2009, regional disparities within Armenia increased along with the country's economic growth, which was largely driven by the rapid development of the capital. Yerevan's share in Armenia's GDP grew from 42 percent in 1999 to almost 60 percent in 2009, while even as the share of the population living in Yerevan remained essentially unchanged at 35 percent.

These growing disparities reflect the concentration of construction and trade activities in the capital, combined with the decline of the agricultural sector—which is the main income source for households in many other regions. They also reflect the absence of a comprehensive regional development policy; while elements of such a policy have been introduced by various state agencies, a comprehensive, consistent approach has yet to be adopted. Local governance reform is part of this challenge: despite some important successes with decentralization, *de facto* autonomy and capacity in many municipali-

*Will this boy seek economic opportunities elsewhere?
Or will he stay to develop the potential of his home
community?*

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Activities implemented in the community of Luszador included support for cattle breeding.

© UNDP Armenia

ties remains far from adequate. Public interest in participating in local governance and development is also limited; many citizens believe that local governments can do little to improve their lives.

As a result, many local communities are trapped in vicious circles of poverty, unemployment, poor access to basic services, apathy, and hopelessness. This was the case even before the 14 percent decline in Armenia's GDP that was recorded in 2009. Low rural living standards in turn serve as a 'push' factor responsible for rural outmigration (both to Yerevan and abroad), particularly for young men. Armenia's rural development challenges are increasingly acquiring gender dimensions: men are more likely to migrate in search of work, while women are increasingly likely to be heads of single-parent households. The complexities and linkages of these regional development challenges require an integrated regional/local development response.

UNDP and integrated local development in Armenia

Since 2001, through its community development, results-based budgeting, vocational education and training, and support to small and medium-sized enterprises projects,

UNDP has supported local economic development in over 300 Armenian communities. These projects directly benefitted more than 250,000 people living in remote communities. Some \$17 million have been programmed through these initiatives, thanks to support from the Italian, Norwegian, Japanese, Danish, US and UK governments, as well as from the Armenian diaspora (and from UNDP's own funds). This approach to local development, which focuses on the design and implementation of local development programmes, integrates a number of factors, including:

- Broad public participation, to foster a sense of local ownership and the belief that things can improve;
- The use of results-based local budgeting methodologies (in 13 communities), to increase the transparency of local public finance;
- Support for local economic development in communities located in border regions;
- An emphasis on supporting the most vulnerable households in a given community; and
- Providing this support in an integrated manner, along with microfinance support.

The outcomes of these projects include:

- Improved access to energy, water, and sanitation services;
- The creation of new employment and income generation opportunities—especially in agro- and food processing (95 projects) and construction;
- Support for business start-ups (more than 600 start-up entrepreneurs have been trained, 140 of whom received \$450,000 in micro credits; some 290 new workplaces were created), including better access to finance;
- Improvements in local infrastructure (in 120 locations); and
- Better management of natural resources and local ecological resources.

Case study: Lusadzor

Lusadzor, a rural community in the Tavush region, is located on the border with Azerbaijan, some 145 kilometres from Yerevan. Border communities in this region are among Armenia's most disadvantaged, due to the Armenian-Azeri armed conflict and socio-economic hardships of 1990s. Almost two thirds of the 270 households residing in the village are engaged in farming, cultivating potatoes, grains, tobacco, fruit and walnuts, as well as producing honey, wool, milk, meat and eggs. They work small plots of land (on average 0.7 hectares in size), due in part to inadequate access to irrigation water and fertilizer. Large tracts of arable land in Lusadzor have therefore reverted to meadows and pasture. Most of these products are consumed by the producing households; due to limited transport and marketing options, farm output that is not consumed locally, is typically sold at a discount to wholesalers, or is transported to the nearest market at self-expense.

Work in Lusadzor started in May 2007, within the framework of the government's rural poverty eradication programme then in force. With \$800,000 in financial support from the Government of Italy during 2007-2009, UNDP was able to implement all of the infrastructure, agricultural and agro-processing projects that had been prioritized under

Lusadzor's 2007-2008 community development plan. Examples of this infrastructure development include:

- **Water supply:** Lusadzor's water system had been based on Soviet-era infrastructure, the main pipeline for which had a 75 percent loss rate. In the absence of reliable water supplies, Lusadzor residents used spring water. In 2009, a new water mainline, with a 6.2 kilometer piping feeder system and a pumping station, was constructed with UNDP assistance, and reservoirs were renovated. As a result, all Lusadzor residents today have access to clean, potable water.
- **Farm infrastructure:** 2.5 kilometres of irrigation network (metal piping, canals, pumping stations) were constructed, significantly reducing water losses and making possible the irrigation of 45 hectares of privately owned orchards. The construction of 28 greenhouses led to year-round vegetable production, increasing annual farm incomes by about 15 percent (\$700 per household). UNDP also helped set up a cooperative kitchen for food processing, and conducted several vocational/ agronomical trainings, with a focus on packaging and branding and sales. Following the construction of this infrastructure, UNDP helped local households to boost agricultural production, agro-processing, and market sales. Some 52 hectares of arable lands were put back into cultivation thanks to UNDP provision of seed, fertilizers, and agronomical expertise. As a

result, 136 rural households produced an additional 100 tons of grain per year, boosting their incomes by some 7 percent.

- **Gas supply:** With UNDP assistance, 4.8 kilometers of gas pipeline infrastructure was installed in Lusadzor, thanks to which natural gas is now supplied to over 180 households.
- **Forestry and animal husbandry:** Aged and low-yield privately-owned fruit gardens (pears and apples) in the community were replaced with newly planted orchards; over 11,000 seedlings were distributed to households. Lusadzor's overall fruit crop is expected to reach 1,000 tons per annum in the coming years, a 20 percent increase. Support for cattle breeding (via training for local technicians, distribution of artificial insemination equipment) was also included in the programme, benefitting some 120 rural households.
- **Social infrastructure:** Lusadzor's decrepit community centre, which had been built in 1962, was completely renovated with UNDP support. New additions included a library con-

taining 3,000 books, an IT centre, and a games room. As well as meeting the cultural needs of Lusadzor's youth, the centre has helped revitalize the community's cultural life.

- **Business development:** Training courses for start-up businesses were provided to interested community residents, giving them basic knowledge of business planning, tax legislation, marketing, and other management tools needed to start (or formalize) small businesses.
- **Integrated climate risk management:** Lusadzor was selected under a UNDP regional climate change adaptation programme as a pilot for integrated climate risk management. Based on official data and interviews with local community members, improving early warning of weather risks, identification of appropriate farmers' coping strategies, and ensuring that infrastructure projects reflect consideration of climatic hazards were pursued. As a result of this exercise, local seasonal forecasting improved (e.g., flood early warning, weather forecasting, etc.); and farmers' coping and adaptation strategies were elaborated through community meetings and farmer trainings.

As a result of these measures, UNDP and independent experts estimate that the income of Lusadzor households increased on average by 35 percent. According to the same estimates, the income increase will be sustained at least for the coming 5-7 years. Perhaps more importantly, these projects helped Lusadzor to overcome years of neglect and hopelessness, which had been drivers of out-migration from this (and neighbouring) community(s). These projects helped the community to escape the vicious circle of poverty and low expectations. They raised not only incomes, but also hopes of a better future.

Box 1

Voices of programme beneficiaries

"The Lusadzor programme totally changed the image of the community, making it a more attractive place to live and work. Our community is one of the few in Armenia whose wish-list was implemented in a short period of time. Now I am relieved that my community members will stay home and will not seek their bread abroad," said Suren Kocharyan, Mayor of Lusadzor.

Sirun Sargsyan, resident of the bordering Meghri community, says that not only did UNDP projects change the community's physical environment, they also "revived the desire for dignified life in our hearts and spread hope for a better future for us and for our children."

Beyond Lusadzor: Replication in other vulnerable communities

UNDP programming is becoming something of a local development benchmark in Armenia. This is apparent in the government's 2010 request that UNDP draft a policy document on balanced regional development, to reduce disparities between the capital and the regions through integrated local development. Prior to this, UNDP's work on the ground fed into national policy formulation via contributions to Armenia's sustainable development programme, its agricultural development strategy, and the anti-crisis programme (to mitigate the impact of the global financial crisis). These developments have also encouraged state agencies, and other local and international organizations, to adopt or support this integrated local development approach. For example, community development projects implemented by the quasi-governmental 'Hayastan-All Armenian Fund' in surrounding villages are based on the Lusadzor example.

UNDP is also replicating the Lusadzor approach (albeit on a smaller scale) in order to revive communities along the border with Georgia (in the northern Ashotsk sub-district of Shirak region), as well as galvanizing cross-border cooperation between the two countries. The Bavra, Saragyugh, Sizavet, and Tavshut communities—which suffered greatly from the devastating earthquake of 1988, as well as from socio-economic hardships of the 1990s—have been the focus of UNDP's integrated local development work in Armenia since 2008. With support from the Government of Norway, UNDP's community development project supported the establishment of a \$300,000 agricultural machinery pool (tractors, bailers, seeders, ploughs), managed by a community-based organization established especially for this purpose. Some 1,500 farm households now benefit from this machinery, which has helped to improve local cultivation of grain, potatoes, and other crops.

Results from Lusadzor and Bavra have led the UN system to scale up its support for integrated local development programming in the Geghamasar and Pambak communities (with large numbers of refugees and internally displaced persons) in the Gegharkunik region. This two-year \$2 million project, which was initiated in April 2009 thanks to financial support from the UN Human Security Trust Fund, supports improvements in strategic planning and operational management in these communities. It also finances human capital acquisition for 565 vulnerable households, to promote income generation and increase opportunities for start-up businesses. About 400 families have been selected for vocational/agronomical trainings. These efforts in Geghamasar were supported by UNDP procurement of 100 tons of wheat seed and 62 tons of fertilizers, as well as a tractor and a plough. Residents of Pambak and its environs have received 125 cows, a tractor, a plough, a grain seeder, a bailer, a cultivator, a combine harvester, as well as artificial insemination equipment and high-quality semen. During the first year of project implementation, household incomes increased by an average of \$170 or 17 percent. The subsequent availability of high quality locally produced seeds could more than double these incomes.

Conclusions

Deprivation in Armenia's rural communities reflects a dearth of economic opportunity, as well as inadequate access to quality health, social and educational services. If urgent measures to address these challenges and prevent further rural outmigration are not undertaken, the fabric of rural society could be further undermined, and the numbers of vulnerability households could grow. While not a panacea, integrated local development programming—such as the kind implemented by UNDP in Lusadzor and other vulnerable communities—can certainly be part of the answer.

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How to avoid a housing collapse in Ukraine

Oksana Remiga



Ukraine's housing sector consists of 1.1 billion square meters of residential space, divided into 19.3 million apartments.

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The quality of residential housing is a particular concern for many Ukrainians. Housing services—which have a direct impact on the quality of life—are used by virtually everyone on a daily basis. A growing body of evidence suggests that the housing sector is in an advanced state of collapse. Preventing this poses major challenges for Ukraine's local governments, which are responsible for the management of the country's housing stock.

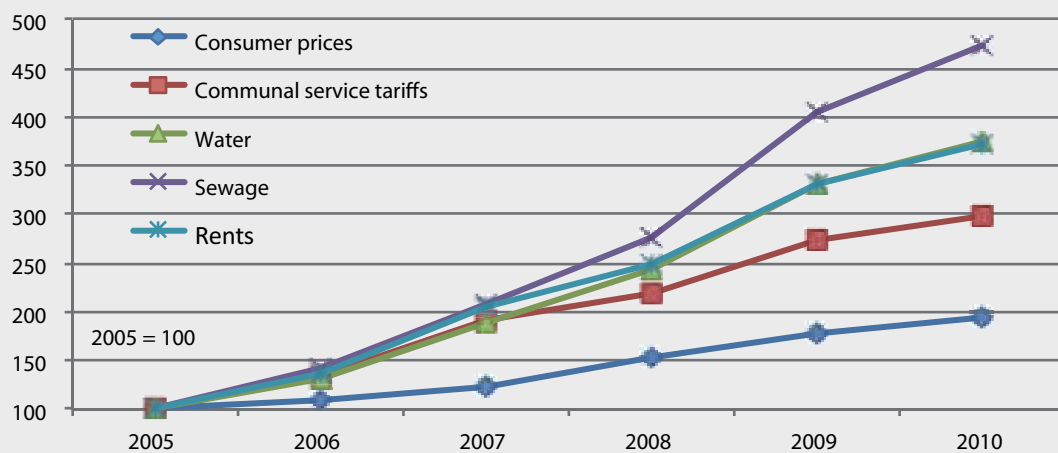
What do the numbers say?

Ukraine's housing sector consists of 1.1 billion square metres of residential space, divided into 19.3 million apartments.¹ Around 70 percent of Ukraine's apartments are located in multi-dwelling buildings, housing approximately 34 million people (more than 80 percent of the population). Some 90 percent of Ukraine's households own the dwelling in which they live. Five percent live in state or company-provided housing; 2 percent rent from private individuals; while 3 percent live in hostels. Most of these buildings were constructed between the 1950s and 1990s; roughly every third residential building needs renovation.

Many of Ukraine's residential housing concerns are linked to the quality of communal services—particularly for energy, water, and sanitation. More than 20 percent of the boilers at communal heating facilities have been in use for more than 20 years; 38 percent are classified as extremely inefficient or obsolete. About a third of the pipes in heating networks are likewise in urgent need of replacement. Residential buildings in many communities therefore do not have stable heating supplies; room temperatures during the winter often fall below norms.

¹ Source: State Statistics Committee of Ukraine, <http://www.ukrstat.gov.ua/>.

Chart 1 Trends in housing costs, inflation (2005-2010)



Source: State Statistical Office data, UNDP calculations.

This situation results in average levels of energy consumption per unit of service that are well above European averages. Since energy now constitutes more than half of all residential service costs, higher energy prices can mean significant increases in housing costs. As the data in Chart 1 show, the costs of household and communal services since 2005 have been growing much faster than consumer prices overall. While expenditures on these services may not absorb a large share of the average household's budget, for low-income households, this share could be significant—and growing.

On the other hand, many households (not just poor ones) are not paying their bills. Household arrears to housing service providers, which contract with communal service providers for deliveries of gas, heat, and water, currently stand at 8.7 billion hryvnias (\$1.1 billion). Likewise, debts of residential service enterprises are now 8.6 billion hryvnias; including 2.2 billion hryvnias for unpaid gas bills and 2.1 billion hryvnias for unpaid electricity bills.

More than half of Ukraine's cities with populations over 100,000 have running water only at certain times of the day; some only have hot running water during the winter months (when central heating is provided by municipalities). Much of Ukraine's water and sanitation equipment is obsolete, having been installed during the Soviet era without regard for efficiency. About 25 percent of the filtering units and 20 percent of the pumps working in water and sewage systems are now beyond their useful operating life. Some 28,000 kilometers (30 percent) of the country's water pipes and 9,000 kilometers (27 percent) of Ukraine's sewage systems are now in an emergency state. Moreover, the number of water supply pipes in this condition is growing by about 3,500 kilometers every year. As a result, water supply losses in some cities are as high as 60 percent, while the energy used to provide a given amount of water and sanitation services can be 3-7 times higher than

in Europe. The poor condition of water pipes results in contaminated water supplies and increased risk of infectious disease. The situation is even worse in rural areas, due to inferior access to running water and gas supplies, and longer distances in service provision that boost delivery costs.

While more than 80 percent of individual apartments have been privatized, the establishment of associations to represent the common interests of apartment owners in a given building is moving at a slow pace. At present, such associations have been formed for 15 percent of Ukraine's multi-unit dwellings. The maintenance of the 85 percent of the privately owned multi-apartment buildings, which do not have established associations of apartment owners, is still with the largely unreformed housing/communal service administrator offices (known as ZhEKs). Moreover, many of the associations that have been formed do not have the institutional capacity needed to effectively discharge their duties. As a result, many apartment buildings remain without an 'owner' to protect the interests of their residents.

- 2 These include the 2010-2014 presidential economic reform programme, the government's 2010-2014 economic reform programme, and the government's programme for energy savings in the housing and communal services sectors.
- 3 Based on text provided by Jaysingh Sah and Ganna Yatsiuk.
- 4 For more on this, see <http://www.undp.crimea.ua>; see Sascha Graumann, 'Crimea: From Conflict Prevention to Development', Development and Transition, 23 March 2007 (<http://www.developmentandtransition.net/Single-Article-Issue.118+M595c3ee4d9f.0.html>).
- 5 <http://www.undp.org.ua/en/local-development-and-human-security>.
- 6 <http://www.msdp.undp.org.ua>.
- 7 <http://www.cba.org.ua>.

Housing reform—next steps

Government reform programmes² envision a number of initiatives in the housing sector. These include:

- Raising housing and communal service tariffs to cost-recovery levels;
- The mandatory introduction of apartment owner associations, and household installation of energy and water meters;
- Creating a fund for financing capital repairs of privatized apartment buildings, to be co-financed by the state and apartment owner associations;
- Establishing a national support center for these associations, and to train apartment building managers;
- Significant reductions in household and company debts in the sector; and
- The modernization of the local housing/communal service administration (ZhEKs).

Box 1 Area- and community-based programming in Ukraine³

Area- and community-based local development programming can help resolve Ukraine's housing sector problems. These approaches, which emphasize community empowerment and increasing local government capacities, help communities respond to common development needs, together with the local authorities. They have proven to be effective in terms of improving local infrastructure, promoting self-employment and entrepreneurship, and improving education and health services.

Area- and community-based development programmes in Ukraine supported by UNDP include:

- *The Crimea Integration and Development Programme;*⁴
- *The Chernobyl Recovery and Development Programme;*⁵
- *The municipal Governance and Sustainable Development Programme;*⁶ and
- *Community Based Approach to Local Development.*⁷

UNDP-led area- and community-based programming is now being implemented in each of Ukraine's 25 regions, involving more than 200 districts, at least 1,200 village/city councils and 1,600 local communities, and more than 600,000 beneficiary households. The \$4.5 million in UNDP funds invested in these programmes during 2004-2010 leveraged some \$35 million in funding from other partners, including the European Union, and the governments of Canada, Sweden, Turkey, Norway, the Netherlands, and Japan, as well as from Ukrainian central and local government agencies.

Research on the impact of these programmes conducted by the Kyiv International Institute of Sociology in 2010 found that:

- *The numbers of survey respondents assessing their interactions with local governments as effective in communities included in these programmes were 34 percent higher than the average for Ukraine. Similarly, 91 percent of local experts indicated that citizens' opinions were more likely to be taken into account in local decision making in these communities, while 41 percent of respondents in these communities reported more trust in local governments.*
- *Nearly 90 percent of surveyed experts noted increases in public contacts with local officials in communities included in these programmes, as well as in these officials' openness to dialogue. Likewise, the share of overall respondents from communities included in these programmes noting improvements in access to local officials was 51 percent, compared to 23 percent from the control group.*
- *Some 32 percent of survey respondents in affected communities noted improvements in local economic conditions, as well as significant growth in local social cohesion, due to these programmes. By contrast, such changes were only noted by 22 percent of control group respondents.*

If successful, these changes would strengthen competition on markets for housing and communal services, and help attract investments in renovation and energy efficiency, in both the housing and communal services sector. However, substantial increases in tariffs, with possible undesirable side effects for low-income households, could also result.

UNDP's Municipal Governance and Sustainable Development Programme

The Municipal Governance and Sustainable Development Programme is one of UNDP's key community-based development programmes in Ukraine (see Box 1). It helps 29 municipalities in 12 of Ukraine's 25 regions to respond to these housing sector challenges. Some 50,000 people in the 29 cities have joined the 470 apartment owners' associations assisted by this programme. These associations are supported through trainings on housing law, management, and finance, as well as on the practical aspects of renovating multi-dwelling apartment building. The programme also encourages cooperation between the associations and local councils on housing renovation and energy saving investments, on the basis of community-led development and cost sharing.

Ensuring that lessons learned in housing reform from this programme feed into national reform processes is an important challenge. Together with the Ministry of Regional Development, Housing, and Construction, the programme is developing training courses for members and managers of apartment owners' associations, as well as for local officials in communities seeking to create them. This training and support is based on lessons learned from cities in which these changes have been successfully introduced, such as Zhitomir (see Box 2 below).

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Box 2 Municipal development in Zhitomir

Prior to the creation of the Municipal Development Department in 2007, only 12 apartment owners' associations had been established in Zhitomir. The Municipal Development Department was created to accelerate this process by supporting housing reform in general and apartment owners' associations in particular. The Department's employees, who were trained by UNDP, oversee the co-financing of renovations and retrofitting, and raise public awareness about housing investments and reform. Newly created apartment owners' associations can turn to the Department for guidance, protection, and trouble shooting, particularly in terms of starting the registration process. The department's instruments for supporting these associations include:

- *legal support and advice;*
- *registration information and documentation;*
- *support in setting up internal governance mechanisms (e.g., statutory meetings);*
- *networking and information exchange among associations; and*
- *media coverage of relevant issues, public awareness activities.*

Goodbye Regional Development Agencies

Nick Maddock



The emergence of city regions in transition countries is hindered by the economic dominance of their capitals.

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The recent decision by the government of the United Kingdom to close the country's regional development agencies (RDAs)¹ re-opens an old debate about the best ways to promote regional and local development. At issue is both the appropriate forms and extent of the decentralization of public authority for regional/local development, as well as ways in which the public and private sectors work together. This article briefly describes the British experience with RDAs, and explores the implications for the developing and transition economies of Europe and Central Asia—for whom these issues are quite relevant.²

Why regional development agencies?

Created in 1998, RDAs in the United Kingdom were designed to reduce economic disparities between regions. With output per person in the UK's poorest regions some 40 percent below that of London, there was an obvious case for seeking to boost the economic performance of the regions.³ The need to understand and respond to the causes of such disparities underpins economic and regional development policies in many countries.⁴

It is often argued that responses to regional disparities should be based on regional and local flexibility, to reinforce regional and local drivers of growth. Taking decisions at the lowest level feasible is also seen as important.⁵ This often involves transferring responsibility for selected economic tasks to bodies at levels below central government bodies. Such

1 <http://webarchive.nationalarchives.gov.uk/+/bis.gov.uk/policies/regional-economic-development/englands-regional-development-agencies>.

2 See for example <http://sitemaker.umich.edu/terrell/files/dp3176.pdf> and <http://sitemaker.umich.edu/terrell/files/dp3176.pdf>.

3 http://tpa.typepad.com/home/files/structure_of_government_3_the_case_for_abolishing_rdas_e.pdf.

4 http://www.hm-treasury.gov.uk/bud_bud04_addevolved2.htm.

5 This principle is often referred to as 'subsidiarity'. The rationale is that decisions about public expenditure that are taken by a level of government closer, and more responsive, to a local constituency are more likely to reflect the demand for local services than similar decisions taken by central government. A further argument is that people are more willing to pay for services which they find meet their needs, especially if they have been involved in the decision-making process leading to delivery of the services concerned. See <http://www.ciesin.org/decentralization/English/General/Rational.html>.

transfers can involve statutory responsibilities; although local authorities can also obtain the freedom to take on economic roles although without formal requirements to do so.

In so doing, governments face choices as to where tasks should be assigned. The alternatives are normally local authorities (which are usually elected and hence can claim democratic legitimacy) or regional authorities, which are sometimes, but not always, elected. Even countries without independent regional structures sometimes choose to devolve responsibilities to regional bodies, and create organizations especially for this purpose. These can be either at a regional level (if the country concerned has well defined regions) or a local level (typically defined as comprising two or more local authorities). In both cases, such organizations act as strategic leaders and ‘champions’ for economic development in the area concerned.

Such an approach can allow for a broader perspective than is possible in a single local authority. It can help identify and exploit synergies and economies of scale by examining needs and opportunities over a wider geographic area—and outside the constraints of the electoral cycle. And even when an RDA has obligations *vis-a-vis* regional or national governments, it typically has an ‘arm’s length’ relationship⁶ with government at whatever level, thereby affording greater operational freedom.

Of course, RDAs do not enjoy complete freedom of action; central governments’ regional and sectoral development policies have important bearing. There is thus a delicate balance between ‘leaving professionals to get on with the job’ (with their legitimacy stemming not from votes, but from the successful promotion of local development) on the one hand, and working within central and local government policy constraints on the other. If they fail to deliver regional or local development, RDAs can lose their legitimacy.⁷

Why not regional agencies?

Given the apparent advantages of development agencies, why then the British decision to close them? This seems to have been for two reasons. First, many of these agencies have simply been unsuccessful in reducing regional disparities—research shows that persistent differences between the north and the south have not been corrected.⁸ Moreover, to the extent that disparities have been reduced, RDAs face questions about whether this has been due to displacement (i.e., strengthening some regions at the expense of others) rather than additionality.

This begs questions as to why RDAs have failed in this core task. While the evidence is less clear, RDAs’ remit may have become so broad as to prevent focus on core objectives, thereby diluting the impact of the RDAs’ activities. In addition, the need to operate within arbitrary administrative boundaries may complicate the task of exploiting natural advantages of economic geography.

The rise of city regions—which, worldwide, are of growing importance in terms of their impact on surrounding regional economies—seems to have provoked a rethink about RDAs. City regions (also known as ‘core’ or ‘enterprise’ cities⁹) are economically strong urban hubs that can have significant impacts on surrounding areas that are outside the boundaries of the local authority in which the city region is based. In addition to

6 See <http://ubcm.ca/assets/Library/Policy~Topics/Community~Economic~Development/UBCM%20ED%20REPORT%204-14.pdf>.

7 http://books.google.com/books?id=ebB-BDSTRmIC&pg=PA324&lpg=PA324&dq=history+of+regional+development+agencies&source=bl&ots=Bh452ffGP&sig=YDiuKS0QawhrK7lvDXS9ZJlxFOl&hl=en&ei=fEBiTcbRCokv8gOjmdTxCA&sa=X&oi=book_result&ct=result&resnum=2&ved=0CBwQ6AEwATgK#v=onepage&q=history%20of%20regional%20development%20agencies&f=false.

8 The southeast of the UK persistently outperforms the rest of the country: gross value added in the southeast was GBP 25,697 per head in 2008, versus GBP 17,601 in the north, west and the Midlands.

9 See http://www.corecities.com/dev07/Summits/2009/CC_employreport09_LR.pdf.



In practice, rural enterprise development in urban hubs may be starting to gain popularity.

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dominating the local economy, city regions also account for significant parts of national output and employment.

City regions in Europe have been markedly successful in redressing economic imbalances *vis-a-vis* the capital,¹⁰ and are found within quite different systems of local governance. They have also become increasingly influential. In Germany, the principal city regions (Hamburg, Bremen, Berlin) seek consensus in taking economic decisions with the federal states in which they are geographically embedded.¹¹ By contrast, in Britain, where the statutory decentralization of economic responsibilities has to date been quite limited, there has instead been considerable discretion for local authorities to assume economic powers. While there is no formal requirement for local authorities (including the major cities) to take on an economic role, neither are they prevented from doing so, provided of course they work within the existing policy framework. This has allowed the strongest city regions (including, for example, Manchester¹²) to proactively carve out major economic roles. Given linkages through supply chains and employment, it is natural that these economic powerhouses should reach deep into surrounding areas, developing innovative innovative forms of regional economic development in the process.¹³

If the British experience proves representative, what might replace RDAs? One answer seems to be less governance of local economic development, coupled with a strength-

10 <http://www.communities.gov.uk/documents/citiesandregions/pdf/130992.pdf>.

11 www.nsl.ethz.ch/index.php/en/content/download/973/5939/file.

12 <http://www.thenorthernway.co.uk/page.asp?id=54>.

13 <http://www.manchester-review.org.uk/>.

ened role for the private sector in deciding what needs to be done locally to support growth. In the UK, RDAs could give way to 'local enterprise partnerships'—self-forming alliances of business and local authorities.¹⁴ These partnerships will be given strategic leadership for the geographic areas they cover (which will not be predetermined) and, it is expected, will have remits in planning, housing, local transport and infrastructure, employment, enterprise, and local action on a low-carbon economy. They will not be statutory bodies and will not have a budget; their work is to be financed from a discretionary regional growth fund,¹⁵ to which local enterprise partnerships will submit bids for funds. Significantly, the British government has said that it no longer believes in regional planning, so that bids will not need to derive from a regional plan.

The thinking behind this seems to be that not only should regional and local development be increasingly driven by the private sector, but also that it should reflect natural economic geography, as opposed to areas determined by administrative boundaries. It also challenges the (usually implicit) argument that regional development can be conflated with rural development, so that regional development activities should stop at the boundaries of metropolitan centres. City regions are instead based on links between town and country, and embrace development within an economic hinterland of the cities.

An obvious question is whether the same issues about RDAs will arise elsewhere, particularly in the transition countries, and hence whether there is writing on the wall about their general future as a vehicle for regional development. In fact, similar concerns have been voiced with, for example, questions in the Czech Republic about whether RDAs there have the capacity to meet their diverse tasks in regional development.¹⁶ It is certainly the case that the functions of many RDAs have diversified, with suggestions that the management of structural funds (a common requirement of the RDAs in the EU¹⁷) may have diverted them from their delivery of development programmes.¹⁸ They also have a growing role in promoting foreign direct investment,¹⁹ a function that perhaps significantly has not been given to local enterprise partnerships in the UK, apparently for fear of unduly broadening their role.

Despite this, it is not obvious that state and the private sector are ready to cooperate in the same way in transition countries, particularly with corruption and patronage rife and the state sometimes seen as a constraint on, rather than a facilitator of, the private sector. This is compounded by the tendency of many state-owned entities in the region to mix commercial, regulatory, and public service functions in non-transparent fashions. These lacunae reduce the feasibility of the sorts of partnerships described above and increase the risk of private-sector capture of the public agencies engaged in these partnerships.

It is also difficult to identify the emergence of city regions in transition countries, with national capitals remaining largely dominant in economic terms. In practice, however, the apparent oxymoron of rural enterprise development in urban hubs may in fact be starting to gain popularity. Thus, there is speculation, though as yet no policy statement, of linkages between urbanization and enterprise development in Uzbekistan. The redesignation²⁰ there of some rural settlements in 2009 as towns and cities has implications for rural infrastructure and, prospectively, for rural private sector development, with their redesignation bringing additional entitlements and funding.

The effects of such actions are likely to be derived from increased urban employment for the rural population, felt through their travelling to work on a daily, weekly, monthly or longer basis. Clearly, however, the extent of effects in Uzbekistan, as in other transition countries, will rest on populations located away from existing cities and the urban growth poles being willing and able to travel to an urban hub for employment. This is clearly some way from the notion of an enterprise city, but could nevertheless suggest a growing focus on urban development as the route to regional and rural development and, conversely, recognition of the higher costs of enterprise and job creation away from urban areas.

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14 <http://www.communities.gov.uk/localgovernment/local/localenterprisepartnerships/>.

15 <http://www.bis.gov.uk/RGF>.

16 <http://www.jstor.org/pss/20451202>

17 In most new EU member states, RDAs serve as the implementation bodies for regional development policy. They generally operate at the NUTS 2 level but can also be found at the NUTS 3 level (e.g., in Hungary). For more on this, see <http://aei.pitt.edu/3158/2/Bache.doc>.

18 <http://eep.sagepub.com/content/21/3/447.abstract>.

19 http://www.eurada.org/site/files/Regional%20Marketing/Foreign%20investment_E.pdf.

20 Decision of the Council of Ministers of Uzbekistan 'On additional means for improved administration and territorial division'. Decision number 68, March 13th 2009.



Publications



2010 REGIONAL HUMAN DEVELOPMENT REPORT: BEYOND TRANSITION, TOWARDS INCLUSIVE SOCIETIES

This report looks at the vicious cycle of poverty from the perspective of those who experience it firsthand. It presents findings from surveys in six countries in the Europe and Central Asia region, as well as provides an overview of social exclusion and recommended actions. The report also introduces a new multi-dimensional approach to measuring social exclusion.



2010/2011 NATIONAL HUMAN DEVELOPMENT REPORT - MOLDOVA: FROM SOCIAL EXCLUSION TOWARDS INCLUSIVE HUMAN DEVELOPMENT

The report addresses the roots of social exclusion, identifies the socially excluded and vulnerable groups, and provides specific recommendations on how to eliminate barriers to social inclusion for all. It was prepared in collaboration with the Moldovan Ministry of Labour, Social Protection and Family.



BELARUS: THE HUMAN DEVELOPMENT IMPLICATIONS OF TRADE POLICY

The report provides a macroeconomic overview of foreign trade and human development linkages and offers criteria for identifying the key economic areas that are important in terms of both trade policies and human development. The report was prepared by UNDP with financial support from the Foreign Ministry of Finland.

Upcoming Events

Sustainable development of energy, water and environmental systems

The sixth edition of the Dubrovnik conference on sustainable development of energy, water and environmental systems will be held in Dubrovnik, Croatia from 25 until 29 September 2011. The event is dedicated to the improvement and dissemination of knowledge on methods, policies and technologies for increasing the sustainability of development, by de-coupling growth from natural resources and focusing on a knowledge-based economy. For further more information, please visit <http://www.dubrovnik2011.sdewes.org/>.

Combating HIV/AIDS, Tuberculosis and Malaria in Eastern Europe and Central Asia

The International MDG-6 Forum Eastern Europe and Central Asia will take place in Moscow from 10 to 12 October 2011. Its key objective is to identify the main obstacles to meeting the MDG 6 – combating HIV/AIDS, Tuberculosis, Malaria and other diseases in Eastern Europe and Central Asia. The Forum will propose a follow-up plan and actions for achieving this goal. For further details, please visit: <http://www.mdg6forum.org>.

The Global Economic Shift: New Players, New Game, New Rules?

This high level conference, organized by Chatham House (UK), will take place on 18 October 2011. It will focus on the implications of the shift in economic power towards emerging economies. Policymakers, key business figures and leading thinkers will discuss the impact of this shift on the governance and conduct of finance and business. To find out more, please visit <https://www.chathamhouse.org.uk/ges/>. http://www.ebrd.com/pages/news/events/am_astana.shtml.

The next issue of Development and Transition (18) will focus on:

Equity and sustainability (November 2011)

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