

**Development Partners Working Group on  
Local Governance and Decentralisation**

**International Development Partner Harmonisation  
for Enhanced Aid Effectiveness**

**ALIGNMENT STRATEGIES IN THE FIELD OF  
DECENTRALISATION AND LOCAL GOVERNANCE**

**A REVIEW OF COUNTRY PRACTICES AND EXPERIENCES**

**Final Main Report  
October 2007**

## Table of Content

I.	Introduction	1
II.	Conceptual Framework	2
III.	Findings of the Country Studies	7
III.1	Benin	7
III.2	Nepal	12
III.3	Nicaragua	17
III.4	Tanzania	22
IV.	Consolidation of the Country Study Findings	27
IV.1	Consolidated Findings	27
IV.2	Patterns for Coordination and Alignment	36
V.	Lessons Learned and Perspectives	40
V.1	Management of the Decentralisation Process	40
V.2	DP coordination mechanism	41
V.3	DP Alignment to country strategies	43
V.4	Modalities of DP support	44

**Abbreviations**

ABP	Area Based Programme
AECI	Spanish International Cooperation Agency
AMUNIC	Nicaragua Association of Municipalities
BF	Basket Funds
BMZ	Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung
BTC	Belgian Technical Cooperation
CBFSC	Common Basket Fund Steering Committee
CDD	Community Driven Development
CG	Central Government
CSO	Civil Society Organisation
DAC	Development Assistance Committee
Danida	Danish International Development Assistance
D-by-D	Decentralisation by Devolution
DDC	District Development Committee
DDF	District Development Fund
DFDP	Decentralised Financing and Development Programme
DFID	Department for International Development
DGAT	Direction Générale de l'Administration Territoriale
DIMC	Decentralisation Implementation Monitoring Committee
DIP	Decentralisation Implementation Plan
DLGSP	Decentralisation and Local Governance Support Programme
DP	Development Partner
DPG	Development Partners' Group
ENDDL	National Decentralisation Strategy for Local Development
EU	European Union
FADEC	Fond d'Appui au Développement des Communes
FISE	Social Emergency Investment Fund
FONIM	Fund in support of transfer mechanism financed with external funds
FY	Fiscal Year
GBS	General Budget Support
GoN	Government of Nepal
GOT	Government of Tanzania
GTZ	Gesellschaft für Technische Zusammenarbeit
H&A	Harmonisation and Alignment
IDB	Inter-American Development Bank
IMF	International Monetary Fund
INIFOM	Nicaraguan Institute for Municipal Strengthening
JAS	Joint Assistance Strategy
JCF	Joint Consultative Forum
JCFD	Joint Coordination Forum for Decentralisation
KfW	Kreditanstalt für Wiederaufbau

---

LBFC	Local Bodies Fiscal Commission
LG	Local Government
LGA	Local Government Authority
LGCDG	Local Government Capital Development Grant System
LGR	Local Government Reform
LGRP	Local Government Reform Programme
LGRT	Local Government Reform Team
LGSP	Local Government Support Programme
LSGA	Local Self Governance Act
MD	Mission de la Décentralisation
MDGLAAT	Ministère de la Décentralisation, de la Gouvernance Locale, de l'Administration et de l'Aménagement du Territoire
MISPCL	Ministère de l'Intérieur, de la Sécurité Publique et des Collectivités Locales
MLD	Ministry of Local Development
MoU	Memorandum of Understanding
NGO	Non Governmental Organisation
NSGRP	National Strategy for Growth and the Reduction of Poverty
OAP	Public Administration Office
OAP-SETEC	Public Administration Office at the Technical Secretariat of the Presidency
OECD	Organisation for Economic Cooperation and Development
PEFAR	Public Expenditure and Financial Accountability Review
PMO-RALG	Prime Minister's Office – Regional Administration and Local Government
PO-RALG	President's Office – Regional Administration and Local Government
PRBS	Poverty Reduction Budget Support
PRSP	Poverty Reduction Strategy Paper
PSM	Public Service Management
SDC	Swiss Development Cooperation
SWAps	Sector Wide Approaches
TA	Technical Assistance
TAS	Tanzania Assistance Strategy
ToR	Terms of Reference
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VDC	Village Development Committee

## I. INTRODUCTION

Decentralisation and local governance have increasingly been recognized as core elements of the poverty reduction efforts undertaken by the majority of developing countries. Decentralisation reforms and local governance policies figure prominently in public sector reforms and Poverty Reduction Strategies. At the same time, multilateral and bilateral Development Partners (DP) attach more and more importance to the subject of decentralisation and local governance. In recognition of this, a Donor Working Group on Local Governance and Decentralisation was launched in April 2006 at a meeting the KfW headquarter in Frankfurt, Germany, with the objective to share experiences and explore avenues for increased harmonisation of DP support to decentralisation and local governance in partner countries.

As a first step, the group commissioned a desk study to generate a basic overview of DP support to decentralisation and local governance which was carried out in 2006<sup>1</sup>. The survey covered 7 organisations' and countries' assistance and presented basic information of each organisation's mandate, internal organisation structure and approaches to decentralisation support including their individual strategy papers. The study clearly revealed the fact that the dominating approach is the classical aid modality of project approach which implies that partner countries are often confronted with a confusing number of responsible spoke persons, multiple administrative procedures and a multitude of differing decentralisation approaches. Thus providing evidence of the need of enhanced aid harmonisation, the survey proposed strong ownership of the partner countries as a key factor in order to harmonise DP efforts and render their aid more effective.

As a second step, the DP group decided at their meeting in Brussels in November 2006 to initiate a review of country practices and experiences with alignment strategies in the field of decentralisation and local governance (see ToR in Annex 1). Building upon the five pre-conditions for successful decentralisation proposed in the first study, the review focuses on four key thematic issues in view of proposing common good practices / guidelines for DP support to decentralisation and local governance that will enhance aid effectiveness. Field studies were carried out in four selected countries (Benin, Nepal, Nicaragua, and Tanzania) in order to analyse DP practices of aid harmonisation and effectiveness in the context of national decentralisation programmes more thoroughly.

With funding provided from BMZ and Danida, the assignment was carried out by a team of consultants (Susanne Hesselbarth, Finn Hansen, Hans Olsen). The inception report submitted in March 2007 presented a reflection on the terms of reference in view of gaining a common understanding of the overall objective of the assignment and the focus of the specific tasks (Inception report in Annex 2). The four field studies were carried out between April and July 2007 by the respective team member (Benin and Nepal: Susanne Hesselbarth; Nicaragua: Finn Hansen; Tanzania: Hans Olsen) using the analytical framework proposed in the inception report. The draft country reports as well as the draft main report were circulated for the Informal Donor Working Group's meeting in Berlin in September 2007 and selected findings were presented for discussion. Comments provided during the workshop as well as in writing have been taken into account for finalizing the reports.

This draft main report presents the conceptual framework introduced in the inception report and used for the four country studies (chapter II), summarises the findings of the four country studies (chapter III), consolidates these findings in view of the four thematic issues related to aid harmonisation and effectiveness (chapter IV) and puts forward the lessons learned and perspectives (chapter V). The four country reports are provided as annexes to the main report (Country reports in separate volume as Annexes 3 – 6)

---

<sup>1</sup> Survey on Support to Local Governance and Decentralisation, December 2006

## II. CONCEPTUAL FRAMEWORK

Decentralisation and local governance have increasingly been recognized as core elements of the poverty reduction efforts undertaken by the majority of developing countries. Decentralisation reforms and local governance policies figure prominently in public sector reforms and Poverty Reduction Strategies. At the same time, international and bilateral Development Partners (DP) attach more and more importance to the subject of decentralisation and local governance. However, the conceptual design of the policies as well as the modalities of the DP support varies greatly between the different countries and over time. Financial aid support is channelled either via budget support for decentralisation reforms as part of wider public sector reform programs or good governance programs, or as part of other sector programs. As a consequence, in many countries there exist substantial numbers of individual projects supported by different DPs with the corresponding problems of overlap, lack of coordination or even conflicting program design.

### Support to Local Governance and Decentralisation

A comprehensive review of evaluation studies (OECD 2004)<sup>2</sup> identified key lessons learned and good practice cases on donor support to decentralisation and local governance and provided guidance for donors and partner countries towards improving programmes supporting decentralisation and local governance. The study put forward the following recommendations:

- **Improve co-ordination between donors and partner governments:** Integrate support programmes more effectively with partner governments' own policies and plans; support partner governments in preparing implementation plans that outline prioritised areas needing donor support; and establish joint government-donor forums for reviewing and implementing reforms in order to make donor support more effective and sustainable.
- **Enhance co-ordination between donors:** Establish forums for co-ordination and dissemination of information as well as systems for basket funding when appropriate in order to ensure that donor programmes are better coordinated
- **Ensure sustainability of donor support:** Donors are recommended to formulate exit strategies and plans for up-scaling or institutionalisation of programme activities in the early stages of a programme, to provide effective feedback from programme activities to national policy –makers, to ensure that support to other areas in not undermining support to decentralisation and to design programmes in a holistic way taking into consideration local governments (LGs) relations with central government (CG) as well as civil society.
- **Strengthen poverty focus:** In providing support to civil society organisation, donors need to ensure that service delivery support targets underprivileged groups, including the poor, stimulate bottom-up and enhance LG-civil society interaction at the lowest echelon of the LG system.
- **Financial development and sustainability of local governments:** Donor programmes need to strengthen local government capacity, exercise economic autonomy and to ensure that incentives for improved local government performance are not restrained by intergovernmental fiscal transfer systems. At the same time, they need to be designed in a holistic way taking into account reforms of LG tax systems, assignments, types of taxes and tax sharing agreements.

The 'Survey on Support to Local Governance and Decentralisation' commissioned by the Donor Working Group in 2006 showed clearly that these recommendations are still valid and that there is still considerable need for further improvements in programme design, aid modalities and cooperation and coordination to make donor support more efficient and sustainable. The study pointed out that the dominating approach is still the classical aid modality of project approach which implies that partner countries are often confronted with a confusing number of responsible spoke persons, multiple administrative procedures and a

---

<sup>2</sup> Lessons Learned on Donor Support to Decentralisation and Local Governance, OECD (2004)

multitude of differing decentralisation approaches. The common issues and tentative lessons have been summarised as<sup>3</sup>:

- Decentralisation is considered as integral part of poverty reduction strategies and thus part of sector support programmes in key sectors such as education, health, agriculture, water, roads etc where local governments often are given substantive functions for service delivery in many partner countries. At the same time, it is recognised that some sector programmes are not implemented fully in compliance with national stated decentralisation reform objectives.
- The programmes that provide comprehensive support to all key aspects of decentralisation reforms (policy, legal, political, fiscal and human resource management aspects) are few, but those identified are most often supported jointly by several donors through basket funding or similar arrangements and are anchored around some form of national country owned decentralisation strategy.
- Even when joint programmes are supported it is often found that donors continue with separate discrete area based programmes. The rationale from aid harmonisation perspectives is not clear, but in part explained by donors desire to have “local presence” which partly will feed into donor agencies knowledge of practical local development experiences and partly feed into its accountability to its citizens where tax payers would like some explicit demonstration of how their aid contributions are utilised and impact on select areas.
- Decentralisation and local governance is in part considered integral part of wider democratisation and good governance strategies. All donors realize this and some are increasingly seeking to integrate decentralisation into wider Good Governance programmes.
- Problems of aid harmonisation within donor support to decentralisation and local governance is hampered by the fact that decentralisation and local governance are very broad concepts and interpreted differently within different departments of the same donor organisation.
- Efforts by International Organisations to generate lessons and good practices for support to decentralisation and local governance are not well-disseminated or internalised in donor organisations.

#### **National Decentralisation Strategies: Pre-Conditions for successful decentralisation**

The ‘Survey on Support to Local Governance and Decentralisation’ also proposed strong ownership of the partner countries as a key factor in order to harmonise DP efforts and render their aid more effective. Whereas the overall national development strategies generally provide guidance to donors on key priorities, more comprehensive decentralisation and local governance strategies been only recently been taken into account. Moreover, these specific strategies do not always provide a sufficient for aligning and harmonising external assistance for support to decentralisation and local governance. The survey put forward five pre-conditions as minimum elements for a national decentralisation strategy in order for it to be conducive for successful decentralisation and coordinated and harmonised DP support to decentralisation and local governance:

- **A legal framework**, which clearly stipulates the division of roles and responsibilities between different layers of governments: Only if clear and significant responsibilities are assigned to local governments can they play a significant role in poverty alleviation. Assignments of responsibilities should be in accordance with local capacities – however, without accepting some interim gaps it will in most poor countries be impossible to transfer functions. It should also be acknowledged that LG capacity can be developed along the principle of “learning by doing” and that capacity can be enhanced when responsibilities are being transferred.

---

<sup>3</sup> See Survey on Support to Local Governance and Decentralisation, Chapter 4

- **Financial resources** adequate to undertake functions: Finances to be provided by local revenue sources, fiscal transfers (more or less conditional) and borrowing. A certain level of fiscal autonomy is required to ensure that potential benefits of decentralisation can materialise. Recently poverty effects of LG taxation have featured prominently in study literature and pointed to the importance of establishing highly skilled, competent and fair tax administrations and a sustainable system of LG tax assignments. It is generally accepted that LGs need some significant high yielding own source revenue assignments to create a strong sense of local ownership, accountability and links between the benefits and costs and ultimately to ensure a long-term sustainability.
- **Human resources** (staff numbers, qualifications, motivation etc) adequate to undertake functions: Some degree of local control of staff is required to ensure local level autonomy and thus benefit from decentralisation.
- Effective mechanisms for **local level accountability** – election of local government councillors is the most basic precondition: However, in several countries even this element is only partially fulfilled. Effective local accountability will also require citizens and politicians' access to information, institutional arrangements for politicians' oversight of planning, finances, staff; and be influenced by political structures, civil society organisations among others and conducive procedures and systems for active involvement of the citizens. Systems should be put in place to ensure a simultaneously strengthening of the up-up-wards (central government monitoring and supervision, reporting etc.) and down-wards accountability (vis a vis the citizens).
- Finally, all of the above needs to be supported by relevant central **institutional arrangements** – for instance a reform secretariat, a strong Ministry of Local Government, an Association of Local Authorities and a type of Local Government Finance Commission. An effective decentralisation of the public service will require significant coordination across sectors and a substantial overhaul of most line ministries and other central institutions – this part of reform is often the most challenging – especially when compared to required changes at the local level.

### Key Thematic Issues for Harmonisation and Alignment

This review of country practices and experiences with alignment strategies in the field of decentralisation and local governance builds upon the results of the existing surveys and analytical work referred to above. The context for the review is set by the Paris Declaration (2005) and the five main principles for enhancing aid effectiveness which bear strong reference to the core issues identified above for the specific field of support to decentralisation and local governance:

- **Ownership:** Partner countries exercising effective leadership over the development policies, and strategies and coordinating development actions;
- **Alignment:** Donors basing their overall support on partner countries national development strategies, institutions and procedures;
- **Harmonisation:** Donors' actions are more harmonized, transparent and collectively effective;
- **Results:** managing resources and improving decision-making for results;
- **Mutual Accountability:** Donors and partners are accountable for development results

The emerging issues identified in the preceding studies as well as the general framework for future development aid as put forward by the Paris Declaration provide the basis from which the four key thematic issues for the analysis have been derived.

- **Management of the decentralisation process:** The underlying policy and strategy documents for the decentralisation process as well as the overall orientation of the government as expressed in broader reform programmes, poverty reduction strategies and national development initiatives set the context for the implementation of decentralisation and local governance reforms. The five pre-conditions proposed as minimum elements for a national decentralisation strategy in order for it to be conducive

for successful decentralisation and coordinated and harmonised DP support to decentralisation and local governance are analysed for the four selected countries to provide a better understanding of the state of decentralisation and the context for alignment and harmonisation. Furthermore, the country studies analyse the institutional arrangements for the management of the decentralisation reform process, in particular with regard to the leadership role within government for the process, the implication of core stakeholders and the interrelation of the management structures for the decentralisation process with the arrangements for the management of a broader public administration reform. The first thematic issue is closely related to the principle of partner government leadership over development policies and strategies as well as to the enhanced result-orientation of development aid.

- **DP coordination mechanism:** Donor coordination mechanisms have been established in most developing countries and have evolved with regard to their relevance and their formal mandate over the last years. Existing mechanisms range from informal groups meeting irregularly and focussing on exchange of information to highly formalized set-ups with clearly defined roles, rules and responsibilities both on the DPs as well as on the partner countries side. The country studies analyse the DP coordination mechanisms in the four countries with regard to their degree of formalisation, their mandate and the actors involved. The studies furthermore assess the effectiveness and performance of DP coordination mechanisms in the field of decentralisation in view of harmonising aid modalities and aligning DP support to partner country strategies. Reference is again made to the Paris Declaration Principles, in particular to effective coordination of development actions by the partner governments.
- **Alignment of DPs support to country strategies:** The survey on support to decentralisation and local governance highlighted the problems related to the multitude of individual projects supported by different DPs, leading to overlap, lack of coordination or even conflicting program design. Furthermore, these DP supported programmes are quite often not in line with the relevant country strategies for decentralisation and local governance. This can be partly due to the fact that a number of countries have only recently elaborated specific decentralisation policies and reform programmes to which the DP support should be aligned. The field studies assess how DPs support interrelates with the country strategies and decentralisation reforms and how different country strategies facilitate or restrain DP harmonisation and alignment. The respective principles agreed upon in the Paris Declaration refer to donors basing their overall support on partner countries national development strategies, institutions and procedures;
- **Modalities of DP support:** Even while being aligned to overall country strategies for decentralisation and local governance, DP support often shows large variances with regard to the modalities and points of entry in their approach. This can refer to the funding modality (budget support, basket funding and programme/project support), to the entry level (national or local) as well as to the different partners (central or local government, civil society, others) involved in programme management and implementation. The country studies analysed how the use of various entry points by DP in their support to decentralisation and local governance reinforce or weaken country decentralisation reforms. Strengthened harmonisation, increased transparency and greater collective effectiveness fall under the principle of harmonisation of the Paris Declaration.

Focusing on these four key thematic issues, the four country studies provide insight in view of proposing common good practices / guidelines for DP support to decentralisation and local governance that will enhance aid effectiveness

### **Key Issues analysed in the country studies**

#### **Management of the decentralisation process:**

- Do the relevant country strategies provide a clear framework and programme of activities to which DP support could be aligned to? Or do they rather outline the overall strategy and vision of the government for the sector? Are there any national principles for supporting decentralisation and local governance?
- Is the responsibility for managing the decentralisation process and the local government reforms clearly assigned to one ministry or are several structures involved? Are the mandates of the different government institutions involved in management the decentralisation reforms defined in a comprehensive and complementary way?
- Which structures within government are spearheading the decentralisation reforms and how do they liaise with the other government structures responsible for related issues? Is compliance of sector initiatives and or central government initiatives (public service management) with the decentralisation process being ensured?
- Is the decentralisation and local government reform part of a broader public sector reform? How the decentralisation reforms are integrated into national initiatives such as the poverty reduction strategies?
- Do the context conditions (integration into a public sector reform or the poverty reduction strategies) have implications for the management of the decentralisation reforms, in particular with regard to funding mechanisms, monitoring systems and dialogue structures?
- Which other stakeholders are involved in the management of the decentralisation process? To what degree do civil society organisation, development partners and local government associations participate in the management as members of advisory boards, steering committees or consultative groups?

#### **DP coordination mechanism**

- Who initiated the establishment of DPs coordination mechanisms (partner government, DPs) and who is leading the coordination process?
- What degree of formalization has been adopted for DP coordination? Is the formalized mechanism conducive for harmonising DP support for decentralisation and local governance?
- Is the DP coordination mechanism for decentralisation and local governance part of a broader framework for DP coordination? How are the linkages between the different levels of DP coordination ensured?
- How is the DP coordination mechanism for decentralisation and local governance linked to sectoral coordination mechanisms where decentralisation of service delivery is concerned (ex. education, health)?

#### **Alignment of DPs support to country strategies**

- To what extent have the DPs engaged in the field of decentralisation and local governance have aligned their support to country policies and reform programmes?
- Do the relevant country strategies provide a clear framework and comprehensive programme of activities to which the DP supports is to be aligned to? Are the decentralisation reforms oriented towards a harmonised national framework for strengthening local governments to which all DP are supposed to subscribe (national funding mechanism, TA-pool, others)?
- Is the alignment to the country strategies limited to a few DPs and how does this group of DPs differ from the others? Is the degree of alignment related to their involvement in the elaboration of the country strategies, the overall approach of the DP organisation to the support for decentralisation and local governance, the commitment cycle and/or other factors?
- What are the reasons given by DPs for not aligning to country strategies and how are these issues being dealt with?

#### **Modalities of DP support**

- What are the main entry points / modalities currently used by the DPs in their support to decentralisation and local governance?
- Do the relevant country strategies (decentralisation reform, joint assistance strategy) indicate a preferred, harmonised entry point or do they provide for multiple, complementary entry points?
- Do the different modalities complement each other in a comprehensive support package?
- What is the situation for use of technical assistance (TA)? How widespread is the use of TA? And where and how many TAs are there in the field of LG and Decentralisation?

### III. FINDINGS OF THE COUNTRY STUDIES

#### III.1 Benin

##### III.1.1 Country Background

Decentralisation is still a relatively recent development in Benin. The 1990 constitution clearly provides for local self-government; however a lengthy process for the elaboration of the legal and political framework and several postponements of the first local elections resulted in the decentralised local governments only being established in early 2003.

The government of Benin has engaged in the process of elaborating various policies and strategies for national development that including reference to decentralisation and local governance. The second generation PRSP (*Stratégie de Croissance pour la Réduction de la Pauvreté*) elaborated in 2007 clearly recognises the role of local governments in poverty reduction. Two of the five interrelated pillars of the poverty reduction strategy put forward the implementation of decentralisation reform as a core element, namely the pillars 'Promotion of good governance' and 'Balanced and sustainable development of the national territory'. The programme for support decentralisation and deconcentration and the national programme for the territorial development are explicitly included in the PRSP as means of implementation.

The vision of the government of Benin with regard to local government is spelled out in the draft strategy document which is based on the reform of the administration of the territory with its two dimensions of i) decentralisation targeting the establishment of local self-governments and ii) deconcentration targeting the creation of a capable administration in the regions. The decentralisation has divided the country into 77 local government (communes and municipalities) which have the responsibility for primary education, the peripheral health centres, rural water supply, rural roads and natural resource management.

Whereas in the early years of decentralisation, government accorded high priority to advancing the reforms on different levels, the later years in power of the last government saw a decreasing commitment and ownership of the process. No progress could be achieved regarding the approval of the decentralisation strategy and the effective transfer of resources and competences.

Major constraints for effective local government and local governance that will need to be addressed over the next years are the lack of a political leadership for the reforms and decentralisation and the lack of a comprehensive strategy for the implementation of the reforms. Currently, the elaboration of a decentralisation policy has already been initiated; however the elaboration not only of the policy but of a comprehensive action plan will take time.

Although support for decentralisation and local governance has focused on the elected local government structures, lack of capacity with regard to technical, organisation and human resource issues are still widespread. The second element of the national strategy focusing on the strengthening of the deconcentrated structured has received considerably less support over the last years and the situation is even more precarious. Due to the lack of a clear vision from government on deconcentration and particular related to the mandate of the deconcentrated technical structures, most sector ministries have not advanced the creation and strengthening of their respective sub-structures. Generally the deconcentrated structures are not in a position to assume the advisory role for elected local governments assigned to them by the overall legal and political framework. The negative consequences of the lack of capacity at the local government level are thus made even increased.

The progress with regard to fiscal decentralisation has not been strong; however a recent initiative for creating a uniform national transfer mechanism for local governments (FADEC) provides an opportunity to increase the transfer of both central government and external funding to the local level. However, in order to build up a functioning intergovernmental fiscal system, issues such as local revenue raising and recurrent transfers will also need to be addressed.

### III.1.2 Findings

#### Management of the Decentralisation Process

The responsibility for managing the decentralisation process was for the last years situated at the Ministry for the Interior, Public Security and Local Authorities (MISPCL - *Ministère de l'Intérieur de la Sécurité Publique et des Collectivités Locales*). Several institutions from within the Ministry or linked to the MISPCL were involved in promoting decentralisation and local government reforms, however the roles were not sufficiently clearly spelt out provoking overlap and conflicting interests. The situation was made even more difficult because none of the core institutions disposed of sufficient human and financial capacities to effectively assume the responsibilities assigned to them.

However, the reorganisation of the government in early 2007, which led to the creation, among others - of the new Ministry for Decentralisation (*Ministère de la Décentralisation, de la Gouvernance Locale, de l'Administration et de l'Aménagement Territoriale* - MDGLAAT), changed the institutional set-up for successfully implementing the decentralisation reforms. Not only the appointment of a minister with broad experience of the matter and the internal restructuring of the Ministry with the objective of clearly defining the roles of the different sub-structures and bringing capacities in line with the mandate have already changed the political climate and increased the ownership for advancing the decentralisation reforms. Initiatives have already been undertaken to elaborate a decentralisation policy to spell out governments' vision and provide a clear framework for the implementation of the reforms.

The new president clearly put the reforms high on the political agenda which will also facilitate the recognition of decentralisation as a transversal issue across government and into sector ministries. However, continuous high-level political support will be essential to ensure that the difficult reform issues linked to decentralisation are not sidelined by reluctant sector and line ministries. The Ministry for Administrative and Institutional Reforms as well as the steering committee for the implementation of the poverty reduction strategy may have a role in ensuring coherence between the different public sector reforms, but will also need clear orientation from the highest level.

#### DP Coordination Mechanism

The coordination mechanism between the government and development partners was set up in 1998 in the context of the first support programmes for decentralisation. The main objective of the technical group for decentralisation was to improve the exchange of information between government and DPs on support projects and programmes as well as to facilitate the political dialogue on decentralisation and local governance.

Since the creation of the group, the leadership has been ensured by the EU delegation. Despite numerous initiatives from the DPs for promoting government leadership of the technical group, the respective changes in the set-up have not yet been achieved. However, the participation of government representatives in the group has changed considerably over the years. In the early years, the Ministry in charge of decentralisation (formerly the MISPCL) was actively participating in the technical group on decentralisation, namely through the representatives from the *Mission de la Décentralisation*.

With the progressive shift of the leadership role for decentralisation within the Ministry from the *Mission de la Décentralisation* (MD) to the *Direction General de l'Administration Territoriale* (DGAT), the participation of government representatives and their engagements in the discussions with the DPs declined. The political dialogue between the DPs and the representatives of government as well as the discussion of specific issues related to the decentralisation process was well established in the early years of the technical group, but suffered a set-back in the last years due to the lack of government commitment to the process. Recently however, with the changes in government after the 2006 elections, decentralisation has been put back as a priority on the political agenda and the new Ministry (MDGLAAT) shows a clear commitment to reviving the coordination mechanism. Since mid 2007, the DGAT has effectively assumed leadership over the group.

The meetings schedule of the technical group consists of regular bi-monthly meetings as well as additional ad-hoc meetings contingent upon the need to discuss specific issues (project or programme preparation and evaluation missions, specific issues, etc.). With the recent assumption of the leadership of the coordination mechanisms by the Government, core issues for the decentralisation process have been discussed, including the FADEC, the evaluation of the first generation of local development plans as well as the terms for the formulation of a national decentralisation policy.

The technical group on decentralisation is considered to be very active and it has a strong record with regard to exchange of information between the different DPs engaged in supporting decentralisation. The political dialogue with the government as well as the discussion of specific issues related to the decentralisation process were important function in the early years, however, for the reasons explained above, are at the moment no longer dealt with in the group. The DPs furthermore engaged in a process of presenting their new project and programme concepts to the group in view of strengthened complementarities of the interventions and harmonisation of modalities. However, this process proves to be lengthy and difficult due to the institutional constraints of the different DPs and the diverging intervention modalities and objectives.

For the last years, the lack of commitment from government was considered to be the most important shortcoming with regard to functioning of the group. A strong leadership by the government is expected to facilitate the harmonisation and coordination process by providing a clear orientation in case of diverging DPs positions and by strengthening the argument for decentralisation in the discussions with sector representatives.

In addition to the exchange of information and the cooperation in the context of the formal coordination mechanism of the technical group on decentralisation, different DPs pursue a close cooperation among smaller groups, i.e. the German and French cooperation jointly support the DGAT of the Ministry for Decentralisation.

The setting up of a coordination mechanism bringing together government and DPs for dialogue on specific thematic and sectoral issues was an objective of the first PRSP in Benin. Following an initiative of several DPs, several thematic and sectoral groups were created and one group of the Head of Missions established. However, due to insufficient commitment from government's side, the terms of reference, their mode of operation and the linkages were never really formalized. Therefore, in early 2007, an initiative was launched to review the current set-up and to elaborate a new structure for coordination mechanism based on the proposals put forth by government in the context of the elaboration of the second PRSP and in line with the principles of the Paris Declaration. This initiative covers both the structure and mandate for the thematic and sectoral groups as well as their mode of operation and interaction with the high-level head of missions group. The draft proposal for the set-up of the coordination mechanism stipulates co-leadership of the groups by a government representative from the lead ministry for the issue under consideration together with a DP representative thus addressing one of the major constraints experienced by the technical group on decentralisation over the last years.

#### **Alignment of DP support to country strategies**

Although the overall legal and political framework for decentralisation is in place, the lack of an approved decentralisation strategy has had important implications for the degree of alignment of DP support to country strategies. On an overall level, DP support is aligned to the national development objectives as defined by the poverty reduction strategy (PRSP). However, the lack of a detailed programme for implementation the decentralisation reforms provoked the development of different support project / programmes following more the individual DP support logic and procedures than being built on the new or not sufficiently developed country strategies and procedures.

However, with the first generation of project / programmes coming to an end, the commitment of the DPs to the principles of the Paris Declaration and the renewed dynamic for the decentralisation reforms brought about by the change in government, the

perspectives for alignment of P support to country strategies and procedures have improved. The elaboration of a decentralisation policy with a detailed programme of action, but also the development of a uniform national funding mechanisms and the evaluation of best practices regarding the elaboration of local development plans will provide a framework conducive for alignment. A number of DPs have engaged in the process of preparing new support initiatives for decentralisation and local governance and these second generation programmes are clearly more aligned to country strategies and procedures than their predecessors.

### **Modalities of DP support**

The first generation of projects and programmes supporting decentralisation and local governance in Benin is characterized by a large variety of modalities, regarding funding mechanisms, governance structures, approaches to capacity building, training, etc. The focus of the different DP-support programmes on one or two regions of the country (regionalisation of DP support) led to the development and implementation of programme specific approaches in the different regions. This variety can be considered as a rich pool of experiences, however there is urgent need for harmonising the modalities since overlap and conflicting interventions could not be prevented. The co-existence of diverse supply-driven capacity building and training programmes for local governments calls for rationalisation and consolidation to break with the current practice of local governments accepting to participate in numerous training not necessarily related to their key capacity deficits in order to enjoy the training benefits. A second example are the different set-ups of the capacity building through local advisers being support by the different programmes, ranging from specialised integrated advisors to teams of consultants providing advise on demand.

However, the recognition of the specific challenges related to the diversity of aid modalities being implemented in the same regions has brought about local coordination mechanisms. The regional forum bringing together both DPs as well as local government representatives and deconcentrated sector institutions has provided a platform for identifying the interventions proposed and supported by the different programmes and for better coordinating the activities. The positive experience of this local level coordination has been replicated in other regions and up-scaled to the national level.

With regard to the funding modalities, the large variety in mechanisms currently being applied by the different projects and programmes have been analysed in the preparation of a uniform national funding mechanisms, the FADEC. The concept for the FADEC is still under preparation, however, once the system will have been set, it provides as a building block for harmonising the currently diverging modalities.

### **III.1.3 Lessons learned and perspectives**

The following lessons learned and perspectives have been derived from the analysis of the situation in Benin with regard to harmonisation and alignment of DP support in the field of decentralisation and local governance:

- **Recognition of decentralisation as a cross-cutting issue essential for success of reforms:** Despite the fact that decentralisation has been recognized as a transversal element for poverty reduction in the current PRSP, there is urgent need to integrate the principles of local self government into specific strategies and policies, in particular the sector policies, and to strengthen coherence between the different national strategies and policies, but also between the programmes for implementing the PRSP. The establishment of spearheads for decentralisation in the different ministries can be considered as a promising approach in this respect.
- **High-level political support essential for coherence between decentralisation and other public sector reforms:** Even if decentralisation has been recognized in the overall national strategies as across-cutting issue, the transfer of responsibilities and resources from the central to the local level is often only hesitantly promoted by the sector ministries, but also by the ministries responsible for public finance and public service administration. High-level political support is essential for ensuring that decentralisation is

recognized as a priority on the political agenda not only by the respective ministry, but across government. The establishment of a high-level political steering committee for the reforms (decentralisation and deconcentration) could facilitate the process.

- **Elaboration of decentralisation policy as a precondition for strengthened alignment:** The elaboration of a comprehensive decentralisation policy will provide the necessary foundation for the DPs to base their support on. However, the policy will have to be translated into a detailed action plan / reform programme with clear orientations regarding the specific activities, responsibilities and time frames. By providing a framework into which the different DP support project / programmes initiatives can be integrated, the development of an action plan will facilitate harmonisation and alignment and provide the starting point for developing a comprehensive support programme for decentralisation integrating the 'national uniform building blocks' such as funding mechanism FADEC but also national procedures and systems for capacity building.
- **Review of current DP coordination mechanism as an opportunity for increasing government ownership and strengthen vertical and horizontal linkages:** In order to make DP coordination more effective, the proposal for restructuring the dialogue mechanism between government and DPs stresses the need for government leadership (together with DP representatives). Likewise is the link between specific thematic and sector issues and the macro-level reforms reflected in the proposal (vertical linkages with the high level head of mission group). However, more attention needs to be paid to the strengthening of the horizontal linkages, i.e. the dialogue between the technical group on decentralisation and the sector groups in order to address the challenges for the decentralisation process in a comprehensive way.
- **Evaluation of best practices as input for development and/or improvement of uniform national systems:** The variety of different project and programme concepts and interventions logics supported during the first years of decentralisation in Benin provides a rich experiences from which best practices for future interventions and the development of uniform systems and procedures can be derived. The recent initiative to evaluate the current practices with regard to the elaboration of the local development plans and to draw conclusions from the findings to improve the respective national manual can be cited as a good example; another being the up-scaling of the experiences with the regional coordination fora.
- **Harmonisation of funding flows within uniform national transfer mechanism:** The development of the national mechanism FADEC which will provide funding for infrastructure investments to the local governments as well as the commitment of the government and several DPs to channel their funding through the FADEC will be a key step forward in the process of harmonisation. A core challenge over the next years will be to achieve a broad integration of national and external funding for local governments into the FADEC in view of the risk that the persistence of parallel mechanism (either for specific poverty targeting or sectoral funding mechanisms) can undermine the effective functioning of the FADEC.
- **Flexibility in project / programme design to integrate new national systems and procedures during implementation:** The divergence in commitment and programme cycles makes it difficult to provide full support to new national systems from their start and to integrate new national procedures if funding provided by DPs is committed to programme / project approaches with specific procedures. In view of the upcoming establishment of the FADEC, some new programme and projects have already incorporated the channelling of funds through the FADEC as soon as it becomes operational thus minimizing the risk of undermining the FADEC by the persistence of parallel funding streams.

## III.2 Nepal

### III.2.1 Country Background

The concept of decentralisation and participatory development has a long history in Nepal. A significant process of decentralisation was initiated with the enactment of the Decentralisation Act in 1982 and the adoption of relevant regulations in 1984. These legal frameworks forwarded the process of de-concentration of functional responsibilities to the district level of governance. Formally, decentralisation was inscribed in the Constitution of the Kingdom of Nepal-1990 as a fundamental element of democracy. Three separate Acts — The District Development Committee (DDC) Act, the Village Development Committee (VDC) Act, and the Municipality Act — were enacted in 1992.

Based on the recommendation of a High Level Decentralization Coordination Committee formed under the Chairpersonship of the Prime Minister in 1996, the Local Self-Governance Act (LSGA) was enacted in 1999 to consolidate the three separate acts of 1992. The Act laid the foundation for a local self-governance system in the country. It has statutorily recognized the role of local self-governance and devolution to make Local bodies more responsive and accountable to their populace.

Nepal has a two-tier local governance structure with district development committees (DDC) (75) on the top tier and municipalities (58) and village development committees-VDC (3913) in the grass-roots tier. The DDC has become the focal institution of decentralized planning and coordination at the district level. These local self-government bodies have become prominent in implementation aspect of local development efforts where the people's representatives are involved in policy making planning and prioritization of development needs. At the grassroots level the Municipality and Village Development Committees are formed on the basis of popular voting. The elected local representatives practiced the local governance for two full terms after 1990 until their terms expired in July 2002. Furthermore, government dissolved elected local bodies in 2002 following the assumption of increasing powers by the monarch.

Decentralisation has been recognized in the overall national development plans (PRSP) as essential for poverty reduction. The Ninth Plan emphasized decentralized governance focusing on poverty reduction and rural development and the current Tenth Plan has considered decentralization as a cross-cutting sector reassuring commitment for fiscal, administrative and functional devolution along with capacity building initiatives focusing entirely on achieving the goal of poverty reduction.

Major milestones regarding the implementation of the decentralisation reforms have been could be achieved before both government and development partners focused their attention on the conflict situation and the momentum for the reform process was lost. The milestones include the approval of the Local Self-Governance Regulation and Financial Administration Regulations in 2000, the creation of a high-level Decentralization Implementation Monitoring Committee (DIMC) according to the provision made in the LSGA, the establishment of a common platform called Joint Coordination Forum for Decentralization (JCFD) involving government agencies, civil society, the private sector and donor representatives, the preparation of the Decentralization Implementation Plan (DIP) approved by the DIMC as well as the establishment of the Local Bodies Fiscal Commission (LBFC) and the setting up of the District Development Fund (DDF) as uniform funding window for local governments.

However, conflict and political crisis over the last decade have severely affected the progress in implementing the decentralisation reforms and a larger number of challenges remain to be addressed to make decentralisation effective. The interim constitution agreed upon by the interim government including the former government as well as the Communist Party of Nepal (Maoists) recognizes the role of local government for development and it is generally assumed that the decentralisation process will be resumed. However, the new constitution to be elaborated by the Constituent Assembly will be decisive for deciding upon the future of for local government. Recent policy debates tend to point to the maintenance of some kind of

local governance system under the new constitution, perhaps framed by 'federalist parameters'. The next years will be a critical period for Nepal with the challenge of overcoming the decade of armed conflict and consolidating the peace process which is far from complete as demonstrated by the repeated outbreaks of violence in different parts of the country.

### **III.2.2 Findings**

#### **Management of the decentralisation process**

The responsibility for managing the decentralisation process lies with the Ministry for Local Development (MLD). The MLD took an active role in promoting the decentralisation reforms in the late 1990s and the early 2000s and developed core elements of the overall legal and political framework for decentralisation and local governance with the support from different DPs. While decentralisation and local governance was still high on the overall political agenda of the government, important progress could be achieved. However, with the increasing attention of the government being drawn towards addressing the situation of conflict and political crisis, the decentralisation reforms were marginalized on the political agenda. The MLD continued work on the technical level, however whenever initiatives needed cabinet approval, it became apparent that the political clout of the MLD was not sufficient to put local government and decentralisation issues as a priority back on the political agenda. The high level coordination forums created to conduct dialogue on decentralisation and local governance engaging government, civil society and development partners lost their relevance shortly after their creation. Also activities of the Decentralisation Implementation Management Committee (DCIM) and the related working committee and the proceedings related to decentralisation coming out of the National Development Forums were not taken forward due to the shift in political priorities.

With the formation of the interim government bringing together the former 7-party government with the Communist Party of Nepal (Maoist) after a decade of armed conflict, a new policy environment has established itself. The local government system in Nepal has been severely affected by the conflict with the narrowing of the development space within which local government could operate. Many people have lost their confidence in national and local government and their capabilities to deliver good services in an effective and efficient manner. The interim constitution recognises the role of local government for development and it is expected that the new constitution will also provide for maintaining a local government system in Nepal. However, the political process for resuming the implementation of the reforms is not only dependant on the overall policy orientation to be provided by the new constitution, but also affected by the dynamics arising from the conflicting priorities and the rivalry for political attention and external funding between the Ministry of Local Development headed by a minister from the Maoist faction and focusing on decentralisation and local governance and the Ministry for Peace and Reconstruction focusing on implementing programmes targeting peace dividends. Currently the government of Nepal is in a transition phase and both the priority given to the decentralisation process on the political agenda as well as the support within government for the reforms still have to be clarified.

#### **Development Partner coordination mechanisms**

The government established a Joint Coordination Forum (JCF) for local governance in July 2001, involving various ministries, local government associations, development partners, civil society and the private sector, to begin reviewing the situation for policy improvement. The JCF identified five thematic areas — sectoral devolution, organization and structure of LGs, fiscal decentralization, institutional development and capacity building, monitoring and policy feedback. Based on the thematic areas identified, Thematic Groups were organized and contributed to the elaboration of the Decentralisation Implementation Plan (DIP). At the time, the DIP provided a clear framework for implementation the decentralisation reforms addressing the core challenges and constraints but also provided a platform on which DP support programmes could be coordinated. However, government leadership for the

coordination process weakened due to the situation of conflict and political crisis described above and the Joint Coordination Forum is no longer functional as a coordination mechanism between government and DPs. Currently the limited role of government with regard to coordination DP support is shared between the MLD for thematic coordination of intervention based on the existing strategy documents and the Ministry of Finance for overall territorial coordination.

The sub-group on decentralisation currently provides the platform for the exchange of information between those DPs considering themselves to be supporting the decentralisation process. The group has a good tradition of exchanging information and promoting coordination. A first initiative for setting up a comprehensive support programme for decentralisation and local governance in 2003 was undermined by the assumption of increasing powers by the monarch and the subsequent withdrawal of core DPs from the reforms. Coordination however has taken place in the context of several DPs combining their resources in one combined programme. A new initiative for setting up a broad support programme that will prepare the ground for a comprehensive national programme is the Decentralised Financing and Development Programme II under preparation by UNDP, UNCDF and DFID.

Within the sub-group on decentralisation, the DPs jointly undertook studies on the existing development space in the conflict situation. These initiatives as well as the elaboration of the basic operating guidelines undertaken jointly the DPs provide a valuable platform for strengthening coordination and harmonisation in the future.

However, DPs supporting either macro-reforms highly relevant for decentralisation, such as the public financial management reforms, targeted programmes (poverty reduction, in future: peace dividends) or the sectoral support programmes do not systematically participate in the sub-group on decentralisation. In order to promote coherence between the different support programmes intervening at local level and / or reforming the national legal and regulatory framework, the coordination mechanisms needs to be more inclusive and horizontal (to sector and thematic groups) and vertical (to macro reforms and national development programmes) linkages strengthened.

### **Alignment of DP support to country strategies**

Alignment of DP support to country strategies has only partly been achieved in Nepal. One reasons for the variety in DP support is the lack of a clear strategic framework provided by government which DPs could align their support to. The Decentralisation Implementation Plan was a promising initiative providing a detailed outline of reform activities, responsibilities and time frame; however the political situation undermined the development of the DIP into a comprehensive framework for alignment.

A second relevant issue is the co-existence of several development strategies in Nepal that are not necessarily fully coherent with the provisions of the Local Self-Governance Act. This is both valid for the national 10th Plan (PRSP) which is not explicit enough with regard to the key role of local governments for poverty reduction and thus allows for targeted poverty reduction programmes to align themselves to the PRSP but sidelining local government in the implementation und thus undermining the decentralisation reforms to a certain extent. Given that local elected governments were abolished in 2002, the potential conflict arising from these diverging implementation policies have so far not had major negative implications for the decentralisation reforms, with the institution of interim local bodies the need for improving coherence would arise. The same is valid for sector strategies and support programmes that are also not fully compliant with the local self-government act.

However, alignment has been improved over the last years with different 'building blocks' of the national framework being put into place. The establishment of the DDF as a decentralised one window funding framework has provided important incentives to the DPs for channelling external funding through this mechanism instead of maintaining diverging parallel system. The DDF is one of the building blocks for strengthening harmonisation and alignment of DP support to local governments.

### Modalities of DP support

Decentralisation and local governance has been supported by DPs through various programmes and projects over the last years. Donor support to decentralization has been directed at policy initiatives, legal reform, equity promotion, fiscal decentralization, LG capacity building, participatory planning and poverty reduction. These programmes are characterised by specific aid modalities regarding governance structure, funding flows, approaches to capacity building etc. However, the regional and thematic focus of most programmes as well as the increasing level of cooperation of several DPs in the context of one programme (co-financing, joint programmes, etc.) has helped to avoid conflicting modalities.

However, not only the project and programmes directly targeting decentralisation have a bearing on local governments, but also targeted and sector programmes. Harmonisation of support modalities with these programmes has received less attention so far, both from government as well as from DP organisation.

Currently, several new support initiatives for decentralisation and local governance are under preparation, including the DFDP II to be supported by UNCDF, UNDP and DFID, the DLGSP to be supported by UNDP and NORAD. The current initiatives clearly integrate efforts for harmonising support modalities between the different programmes.

Whereas the perspective for harmonising support modalities among those DPs support decentralisation and local governance are positive, the communication with other sectoral or macro initiatives has yet to be initiated to provide a the basis for improving the coordination of the different approaches and to advance the harmonisation of support modalities. However, the commitment of several DPs to supporting post-conflict reconstruction and recovery programmes with their specific objectives and interventions logics is a challenge for harmonisation as these programmes tend to work with parallel structures without reference to local governments.

### III.2.3 Lessons learned and perspectives

The assessment of alignment and harmonisation in the field of decentralisation and local governance in Nepal has to take into account the conflict situation which has had a major impact on all dimensions of development in the last years. The following lessons learned and perspectives have been derived from the analysis:

- **High-level political commitment for decentralisation essential, in particular in difficult political set-up:** After important progress in implementing the decentralisation reforms in the late 1990s and early 2000s, the reform process lost momentum and was marginalized on the political agenda due to the primacy of the conflict situation. In order for the decentralisation process to gain momentum again, high-level political commitment from government is essential. However, the rivalry for political clout and external funding between decentralisation (Ministry of Local Development) and peace building (Ministry for Peace and Reconstruction) on the other together with the discussion regarding the future form of government and the governance structure of the state put the advancement of the decentralisation reforms at risk.
- **As the revising and updating of the legal and political framework for decentralisation and local governments will be a lengthy process, an interim vision is required to maintain government and DP commitment to supporting local governments:** The risk of marginalization of the decentralisation reforms both by government and DPs due to the political priority given to the peace building initiatives in the post-conflict situation is increased by the ongoing reflexion on the governance structure of the state and the subsequent need for a revision of the legal and political framework for decentralisation and local governments. In order to keep local governments on the political agenda, it seems essential for the Ministry of Local Development to develop an interim vision and a clear road map for the decentralisation reforms.

- **Lack of government commitment rendered initiative for high-level coordination forum non-functional:** The lack of government commitment due to shift in political priorities (conflict) rendered the high level joint coordination forum ineffective shortly after its creation. The coordination of DP support by government was therefore focusing on territorial coordination as most DPs are targeting specific regions with their support as well as – up to a certain extent - thematical coordination based on the Decentralisation Implementation Plan.
- **Coordination needs to be enhanced vertically and horizontally to address the challenge of decentralisation more comprehensively:** The sub-group on decentralisation currently provides the platform for the exchange of information between those DPs considering themselves to be supporting the decentralisation process. This, however does not include DPs supporting either macro-reforms highly relevant for decentralisation, such as the public financial management reforms, nor the targeted programmes (poverty reduction, in future: peace dividends) or the sectoral support programmes. In order to promote coherence between the different support programmes intervening at local level and / or reforming the national legal and regulatory framework, the coordination mechanisms needs to be more inclusive and horizontal (to sector and thematic groups) and vertical (to macro reforms and national development programmes) linkages strengthened.
- **Joint studies of the DPs are conducive to strengthening coordination and harmonisation:** The DPs engaged in the sub-group on decentralisation jointly undertook studies on the existing development space in the conflict situation. These initiatives as well as the elaboration of the basic operating guidelines undertaken jointly the DPs provide a valuable platform for strengthening coordination and harmonisation.
- **The establishment of the District Development Fund (DDF) as a treasury of the district has provided the basis to regularising fund flows and enhancing financial transparency at local level:** Setting up the DDF as a decentralised one window funding framework has provided important incentives for channelling external funding through this mechanisms instead of maintaining diverging parallel system. The DDF is one of the building blocks for strengthening harmonisation and alignment of DP support to local governments.
- **DFDP II as a framework for harmonising DP support for decentralisation and local governance:** Based on the policy and legal framework of local government and local governance the comprehensive DFDP II provides the framework for harmonising the current project based support to financing the delivery of local infrastructure and services and the initiatives for local capacity building. The DFDP II builds upon the existing DDF for providing block grants to the districts and contributes to the development of uniform national systems and harmonised DP procedures by establishing common reporting, control and auditing requirements and systems.
- **Step-by-step harmonisation of local capacity building:** By subscribing to a common strategy for local capacity building and – insofar as these already have been developed – also applying a common set of procedures (e.g. use of same local planning and procurement procedures, training materials, etc.) government together with DPs can take a first step towards harmonising the different support initiatives. The current practice of targeting specific districts or regions could be maintained for some time provided that mechanisms for coordination at local and national level are established and/or strengthened. The second step would be based on an approved strategy for local capacity-building and consists of providing pooled funding to a capacity-building basket for local government and local governance. This basket should be managed by government according to an agreed strategy and plan, where donors have a monitoring and oversight role.

### III.3 Nicaragua

#### III.3.1 Country Background

During the past decade the decentralisation process in Nicaragua has achieved considerable progress, though not in linear fashion, and in the context of a complex political and economic framework. In practice, party politics have prevailed over national policies, making it a challenge to obtain political and institutional support to the decentralisation process from the top levels. The former Government of President Bolaños (2002-2006) did not have a majority in the National Assembly (parliament), making for slow decision-making on which policies to pursue. Notwithstanding, one significant step forward is that for the first time a National Decentralisation Strategy for Local Development (ENDDL, acronym in Spanish) has been prepared. The Strategy was published in December 2006 and includes a proposal for the design of a National Programme to address the challenges at hand regarding definition of competences at municipal and national level, institutional framework and fiscal decentralisation among others.

The incoming Government, headed by Daniel Ortega, took office in January 2007. It has pointed out that previous policies must be reviewed. In September 2007, the Government decided to carry out a re-organisation of the institutional setup concerning decentralisation, local development and municipal development matters. However, until date (October 2007) no document has officially been presented neither to the public nor to the donor community.

According to the Constitution, Nicaragua is a unitary and decentralised state with three levels of government and public administration: (i) central government agencies deconcentrated to the departmental level; (ii) the decentralised autonomous regions of the Caribbean Coast; and (iii) the municipalities. Two autonomous regional governments on the Caribbean Coast were established, because of the presence of different indigenous peoples, and as to adhere to the constitutional principle of Nicaragua as a multicultural and multiethnic nation.

The country is divided into 15 departments, two autonomous regions on the Caribbean Coast (with elected regional councils), and 153 municipalities, also with elected local governments (a mayor and councillors). The size of the municipalities varies widely: some 70% of the municipalities have less than 30,000 inhabitants; approximately 25% have a population ranging from 30,000 to 100,000; and about 5% have over 100,000 inhabitants.

The role of municipalities in Nicaragua has recently been defined. Reforms made in 1995 to the Constitution confirm the political, administrative and financial autonomy of local governments. It confers upon local governments the responsibility for promoting development and the well-being of citizens in the respective municipalities. The Constitution makes it mandatory to transfer a “sufficient” percentage (without defining what that may be) from the national budget to the municipalities. However, it also maintains that the National Assembly has the authority to create taxes and approve the annual revenue of local governments. Further, the 1988 Municipalities Law and its 1997 reform in particular, defines such responsibilities. In 2003, the Municipal Transfers Law for the first time defined the percentage of the budget to be transferred to the municipalities (4% of state’s tax revenue in 2004; increasing gradually to at least 10% in 2010).

Municipal competencies focus on: i) service delivery in a variety of areas (water, garbage, slaughterhouses, markets, urban planning, and the like); ii) delivery of other services “in coordination” with the competent government agencies, such as primary health care, rural and community roads and bridges, environmental protection, and so forth. The two regional governments enjoy a scope of “general competency” similar to that of the municipalities. However, they have no exclusive competency of their own. Despite the existence of instruments and opportunities for improving citizen control, a more efficient financial accountability system is needed both vis-à-vis the government and the Office of the Comptroller General, as well as the population at large, in order to ensure transparent local governance.

### III.3.2 Findings

#### Management of the decentralisation process

Since 2004 the Public Administration Office at the Technical Secretariat of the Presidency (OAP-SETEC) is the entity in charge of conducting the decentralisation process. However, the re-organisation carried out in September 2007 includes the transfer of responsibilities regarding decentralisation matters from the OAP-SETEC to the Nicaraguan Institute for Municipal Strengthening (INIFOM); a process that still needs to be put in place. In addition, a new institution, the Citizens Councils has been created to "help" decentralised entities in the decision-making process and in observance of government policies. Nicaragua has no ministry with a specific decentralisation mandate. Thus, the institutions involved (OAP-SETEC and INIFOM) have no ministerial rank. Due to historical weaknesses in INIFOM and other entities, a proper system for municipal strengthening and oversight needs to be created.

SETEC and the Ministry of Finance jointly established a strategic coordination space known as **Interinstitutional Executive Committee**. This has been responsible for the overall management of the process to formulate a decentralisation strategy. Furthermore, an **Interinstitutional Technical Committee** was set up in February 2005 to coordinate with sector ministries and entities (health, transport, education, infrastructure, water/sanitation, and the environment). Moreover, an **Expanded Interinstitutional Technical Committee** had been established as a space for consultation in which to discuss issues related to the decentralisation process. The Committee included representatives of regional and municipal governments, the Parliament's Commission of Population, Development and Municipalities, as well as municipal associations and civil society. The new administration has not confirmed whether this structure will continue to exist. SETEC is also in charge of conducting structural reforms that ensure consistency between sectors, as well as public sector reforms, including decentralisation in each sector ministry. In 2004, the Government assigned the Technical Secretariat of the Presidency, through its Public Administration Office (OAP), the leading role in the decentralisation process, for the specific purpose of promoting the issue at the highest level of government and linking the process with public sector reform and modernisation.

Nicaragua now has a second PRSP which is under review by the new Government. Decentralisation is one of the strategic areas ("governance and state reform"). Nonetheless, there is need to define the role of municipalities in poverty reduction. For the moment, central government agencies play a more specific role in this regard. Because the decentralisation process has been affected by party politics, there is a lack of financing mechanisms and monitoring systems with clearly defined roles that contribute to and measure the progress made in poverty reduction.

There is a strong municipal movement in Nicaragua that includes such actors as the Nicaragua Association of Municipalities, civil society organisations, among those the Nicaraguan Network for Democracy and Local Development and Fundemos. In 2006 these entities participated actively in the process of consultation and formulation of a strategy, as well as in public debate. According to several actors, their presence, opinions and advocacy have contributed to promote approval of the ENDDL and its publication as an official document.

#### Development Partner coordination mechanisms

DPs in this field have achieved a good level of coordination, exchange of information and analysis. However, there are few examples of joint financing arrangements or a formalised overall labour division between them. At present, some DPs are assessing the option of supporting wider governance programmes that could include the issue of decentralisation.

In 2003 the Government of Nicaragua established and has since guided the dialogue with DPs through seven roundtables: global issues, governance, health, education, infrastructure, production and social protection. As regards local development and decentralisation, the Government has set up a **Government – donor sub-roundtable** within the framework of the governance roundtable. The sub-roundtable's terms of reference indicate, as one of its

objectives, “to promote coordination and alignment of DPs with national priorities.” The sub-roundtable has been coordinated by the OAP at the Technical Secretariat of the Presidency (SETEC) with Denmark and Germany (GTZ) acting as the liaison between the approximately twelve DPs participating in this sub-roundtable with the Government. Additionally, the DPs meet as a “**donor sub-roundtable**” to promote coordination. Despite periods in which the sub-roundtable has been less active (i.e. during the first months of 2007 when the new Government took office), its performance is considered to have been good. This was particularly true in 2006 when decentralisation strategy work was conducted as a space for exchange and joint analysis. Some of the actors in civil society have stated that these events have been too formal to have any influence and promote a proper exchange of ideas.

As far as the donor roundtable is concerned, its existence and operation is regarded with satisfaction. Nonetheless, some DPs are of the opinion that this space could be made better use of and the liaison report underscores the challenge of advancing toward harmonisation and alignment, as well as increasing the involvement of international financial organisations. Common approaches and modalities could even be harmonised with respect to: i) institutional strengthening of municipal governments and national key institutions; ii) technical assistance; iii) financial assistance, including investment and pre-investment; iv) promotion of citizen participation, although this area is quite harmonised through a multi-donor basket fund v) geographic rather than national approaches; and vi) relationships with other sector programmes.

The roundtable structure includes coordination between DPs and the Government, as well as among DPs active in the various sectors such as education, health and the environment, where municipalities have less competency. The challenge of ensuring a similar decentralisation approach is recognised for both municipal development and sector decentralisation support. Contact is still scarce between the decentralisation sub-roundtable and other relevant roundtables, i.e. education and health, among others. The reforms carried out in September 2007 contribute to current uncertainty as regards coordination mechanisms with the donor community, and whether there will still be a sub-roundtable for decentralisation.

### **Alignment of DP support to country strategies**

Overall, alignment in the field of decentralisation has been slow. Persons interviewed highlighted four reasons, among others: i) Progress has been made as shown by the current policy and strategy, but the Government has yet to express interest in alignment by formulating a more operational national programme, including all relevant key institutions with results, joint modalities and budgets. DPs must allow the new Government sufficient time and an opportunity to formulate such a programme. ii) DPs have already pledged funds under well-defined modalities that cannot be easily changed. Many agencies are preparing a new programme cycle in coming years; a fact which may facilitate joint financial arrangements. iii) Since this is a crosscutting area, there are a very large number of institutions involved in the issue of local governance and decentralisation. This means that H&A is complex and needs more time to develop. iv) With rare exceptions, there have been few clear signs from the head offices of some DPs as to how to harmonise and align cooperation in practice in this area. Results are required at local level from head offices, though not necessarily harmonisation and alignment.

Some of the few examples of alignment available include support from “groups of DPs”: i) joint funding to the municipal transfers mechanism in 2005 and 2006 (mechanism in support of transfers financed with external funds – FONIM with support of four agencies). However, development of this mechanism should be improved, including follow-up and more accountability need to be applied to municipal transfers; ii) co-financing to key institutions in decentralisation, such as OAP-SETEC and the Office of the Comptroller General; iii) alignment in support to INIFOM (for instance, development of planning instruments); and iv) joint support to FISE by three DPs. In other words, there exist only a few examples of joint

financial arrangement, though significant progress has been made, particularly in 2006, in terms of a common platform.

### **Modalities of DP support**

Lack of guidelines for a more uniform design of cooperation programmes has led DPs who support local governance and decentralisation to opt for several approaches. DPs whose support programmes were strong at the start of the new millennium have decided to decrease their support or withdraw entirely (World Bank /USAID), while others (DfID, Danida, UNCDF/UNDP, World Bank, Finland) have chosen to provide policy support. Moreover, a tendency to return to or maintain a geographic approach has been noted (EU, SDC-Switzerland, AECI-Spain, Finland), and in the future will have to be adjusted to the implementation of a programmatic approach to decentralisation and municipal development support. As regards fiscal decentralisation, two distinct approaches have been presented. On the one hand, the IMF, World Bank and the Inter-American Development Bank have pointed out that municipalities have been transferred funds as a result of the Municipal Transfers Law, but no new competencies. This leads to increased expenses and contributes to the Government's fiscal imbalance. They have expressed concern in this regard. On the other hand, such DPs as UNCDF, DfID, Danida and Finland have actively supported the new law. Some have underscored the low level of municipal funds, the need for municipalities to comply with already defined duties, the interest in promoting local financial decisions, and the legal requirement to transfer a percentage of the budget to municipalities as stipulated by the Constitution.

Complementariness and contradiction exist in DP support programme approaches. For instance, the WB, IDB and KfW have promoted a Programme for Fostering of Local and Good Governance through the Social Emergency Investment Fund (FISE), thus supporting municipal capacity building. The municipalities must compete for the funds before FISE and jointly co-finance activities that FISE finances in the municipalities, and thereby make sure that part of the municipal transfers be used for certain, specific investments. Other DPs have also supported capacity building programmes for the municipalities, but through INIFOM and funds provided through the government system of transfers to the municipalities to be used for local priorities without other criteria outside those that are based on their competencies.

Almost all DPs provide technical assistance, mostly short-term, national consultants. The few DPs that have long-term international technical advisors have considerably decreased their numbers in the area of decentralisation. However, in some cases DPs finance national advisors and consultants, i.e. to work with the decentralisation strategy. Financial sustainability of these advisors is an important issue to pay attention to.

### **III.3.3 Lessons learned and perspectives**

Nicaragua is in a transition period. The Government has decided to carry out a re-organisation of the institutional setup concerning decentralisation. This will affect the H&A process. The present Government has yet to express to what extent it will accept the former government's decentralisation strategy. Meanwhile, the following lessons learnt have been noted:

- **Support to local governance and decentralisation must be (1) multi-institutional and (2) encompass key areas for decentralisation, all of which are significant to the process.** As regards Nicaragua, actors include the Presidency, the Parliament, INIFOM, the Office of the Comptroller General, AMUNIC, civil society organisations and the municipalities. Interventions must be complemented in the following key areas relevant to the decentralisation process: (i) the legal framework, (ii) financial resources for investment and improved services, (iii) local institutional strengthening including human resources, (iv) accountability and monitoring of results and (v) national policies and key institutions.
- **DP's continued support to (1) policy and (2) strategy development and its link to state reform is a key issue for harmonisation and alignment given the lack of a**

**clear national framework:** The absence of a government policy and strategy (ENDDL) has encouraged several DPs to facilitate and support the Government in drawing up of such a framework, though leaving it up to the Government to decide the pace and speed at which to proceed. There is at present an improved framework for alignment, though it has involved a long-term process that has lasted for years. The implementation of the ENDDL as well as linking municipal support policies with sector decentralisation policies remain challenges. Some DPs are considering the possibility of linking their support to decentralisation with a broader framework for support to governance consistent with state reform. On the other hand, the change of government means that the framework will have to be revised again.

- **Promotion of a (3) National Programme for Decentralisation and Local Development to achieve concrete alignment** seems to be a logical way to render the ENDDL more operational, with well-defined results, indicators and an allocated budget. The complexity of such a programme is acknowledged, as it would involve several institutions, in addition to sector-wide and crosscutting coordination mechanisms.
- **Transfer Law important tool for alignment, but continuously fine-tuning is needed:** The Municipal Transfers Law of 2003 and the support mechanism used by a handful of DPs represent the most advanced example of a public policy for the alignment of cooperation. Nonetheless, implementation of mechanisms for contributions and monitoring of use of funds has been slow, thus leading to limited contributions on the part of DPs. Monitoring systems must be put in place in order for government and DPs to jointly assess the mechanism and to promote efficient management and poverty reduction efforts.
- **A shift from International technical assistance to use of national human resources:** Long-term international advisors are currently few in the field of local governance and decentralisation. Some DPs have even reduced their use. The role of international advisors is valued and justified where they contribute with particular knowledge. Instead, national short and long-term advisors have been financed as part of supported institutional plans. While the practice of an increased use of national human resources seems well-justified, the issue of sustainability of national advisors also needs to be tackled.
- **If detailed alignment is not possible, then harmonisation could be achieved.** The Government has decided to review previous policies during the first months of 2007. DPs have decided, as a joint proposal, to present a matrix with information about ongoing decentralisation programmes, and indicate interest in alignment. If alignment is not possible, DPs can, as a “second best option”, continue to harmonise their programmes or promote “micro-alignment”, i.e. alignment based on support to key institutions or specific issues.
- **The coordination mechanism is useful for dialogue, though it must be deepened:** the sub-roundtable coordination mechanisms have been useful for exchange, joint analysis, consensus building as regards joint financing and to ensure government leadership. There is interest in and potential to use these mechanisms for promoting alignment and harmonisation by discussing common approaches to assistance to municipalities.
- **Growing ownership by the Government is seen as positive.** There is a need to clarify how to involve Government more in formulation. In interviews with government representatives the demand for increased government participation in programme formulation, implementation, approval, and monitoring was noted. Missions scheduled by DPs with little lead time to define a programme are not appropriate.
- **Broad participation by civil society:** Civil society and the Association of Municipalities have played an important role in maintaining and insisting to the preparation of a decentralisation policy. Agency support through a basket fund to civil society has been complemented by international NGOs.

### **III.4 Tanzania**

#### **III.4.1 Country Background**

From the late 1970s Tanzania experienced a period of difficult relations with Development Partners (DPs) which ended in the mid 1990s. A commission of independent advisors, led by Professor G. Helleiner was asked to develop recommendations on how to improve the aid relationship in Tanzania. The recommendations of the “Helleiner Report” which were jointly adopted by the Government of Tanzania (GOT) and DPs in 1997, promoted GOT ownership and leadership of the development process, along with harmonization of aid by donors. In response to the Helleiner Report the GOT initiated a series of discussions with DPs.

With this new enhanced relationship between Government and donors a process evolved around the Tanzania Assistance Strategy (TAS 2002). The Government advanced the TAS to serve as the medium-term framework for development co-operation, aiming to strengthen aid coordination, harmonisation and alignment as well as national ownership and Government leadership of the development process. Through the TAS, progress in the following four priority areas was made between 2002 and 2005:

- Increasing the predictability of aid flows;
- Integrating external resources into the Government budget and Exchequer system;
- Harmonising and rationalising processes, and
- Improving national capacities for aid coordination and external resource management. In addition, some overlapping and duplicative processes were re-organised and streamlined around the national budget and poverty reduction strategy processes. DP missions were also reduced and so called silent periods introduced.

In the early 1990s GOT in collaboration with a group of likeminded donors (Nordic Countries, UK, the Netherlands) and the World Bank started working on sector reforms as a mechanism for addressing poverty through improved service delivery. Elements of such sector programmes (SWAs), notably for health, education and roads are the formulation of a policy, a common basket fund implementation arrangement for the policy and a mechanism for discussion and dialogue between GOT and the basket donors on issues of both policy relevance and utilisation of the funds.

Aid to Tanzania is currently at an unprecedented level, more than double its real value in the early 1990s. Considering Tanzania receives aid from over 40 countries, this translates into a multitude of projects, sets of procedures and different conditionalities. The following figures indicate the level of crowdedness experienced by certain sectors and thematic areas in Tanzania. For example, 23 DPs are engaged directly in the health sector, 20 in education, 18 in water, 17 in governance, and 16 in HIV/AIDS. The burden on the GOT of coordinating these activities is high, particularly where different funding modalities are used simultaneously by each DP. The large number and diversity of partners can at times inhibit constructive dialogue, and has prompted GOT and DPs to rationalize both the number of donors per sector, and the number of sectors per donor in view of achieving enhanced development effectiveness.

The Government of Tanzania is committed to more effective division of labour among and between central and line ministries and local government authorities. It intends to define each Government agency's role and responsibilities, in particular with regards to implementing the National Strategy for Growth and Poverty Reduction (NSGRP), and assign lead Government agencies in each sector or cross-cutting/thematic area to supervise and coordinate the activities of other involved agencies.

#### **III.4.2 Findings**

##### **Management of the decentralisation process**

The wider policy intensions for reform of the public sector were outlined in the “Policy Paper on Local Government Reform (LGR)” of October 1998, which in rather great detail outlined

the vision of a future reformed public service. The paper spelled out how decentralisation of government would include four main policy areas:

- Political devolution: devolution of powers and the setting of the rules for councils and committees, the chairpersons etc.
- Financial decentralisation: based on the definition of principles of financial discretionary powers of local councils, i.e. powers to levy taxes and the obligation of central government to supply local governments with adequate unconditional grants and other forms of grants.
- Administrative decentralisation: involving the de-linking of local authority staff from their respective ministries and procedures for establishment of a local payroll.
- Changed central-local relations: the role of central government vis-à-vis local councils changed into a system of inter-governmental relations with central government having the over-riding powers, but clearly within the framework of the Constitution.

Concurrently with the above, the Local Government Reform Programme (LGRP) was established under the President's Office - Regional Administration and Local Government (PO-RALG – the MRALG was elevated into the President's Office to enhance the coordination of the LGR) with a secretariat based in Dar es Salaam and 5 Zonal Reform Teams located in the regions. The LGRP was charged with coordinating the reform process and providing both advisory and technical support to PO-RALG and the LGAs, especially the Council Reform Teams staffed by LGA elected representatives and appointed officials that have been given the task of carrying forward the reforms.

The LGRP has five components: 1) Governance, 2) Restructuring, 3) Finance, 4) Human resources and 5) Legal.

#### **DP coordination mechanism**

Some donors have and will experience some difficulties in moving from a project-oriented assistance situation to a programmatic approach. This entails finding the right niche among the different types of partnerships which are rapidly evolving on the ground. Lead partnerships are the most commonly cited type of partnership in the Joint Assistance Strategy (JAS – followed the TAS) documents. Lead partner arrangements already exist in Tanzania in health and education sector-wide approaches (SWAp), the LGRP "SWAp" (basket fund) and in the Elections Basket and other lead partner arrangements are being developed too. This is also the case with the LGRP where a lead and a co-chair partner has been the practise for many years.

Sector working groups have been established in all priority sectors to address the need for harmonisation of processes at the sector level. Draft terms of reference for these sector working groups include:

- Developing common reporting formats.
- Maintaining a calendar of donor missions.
- Identifying areas for reducing transactions costs at the sector level.

Whereas the sector programmes at times ignore local government processes and procedures, the Area Based Programmes (ABPs) are equally subject to increased questions on their relevance considering the changing policy context in Tanzania. For Tanzania, the discussion was triggered by a series of reports from the work leading up to the start of the Local Government Support Programme (LGSP) which highlighted the problems with a multitude of DP supported ABPs with different funding, reporting and accountability modalities.

Following these reports the GOT issued the - Letter of Agreement between PO-RALG (now PMO-RALG) and development partners regarding harmonisation of ABP support and convergence towards a unified discretionary capital development grant system for Local Governments. The agreement was, that by no later than June 2008, the DPs together with GoT, would harmonise their sector activities directly relating to the introduction and

operationalisation of the incentivised and performance based Local Government Capital Development Grant (LGCDG) system.

A strategy for embedding the Decentralisation by Devolution (D-by-D) policy across government has been in place since 2006. Early in 2007 the 4<sup>th</sup> Phase Government took a decision to 'fast-track' D-by-D (the 'Ngurdoto Meeting' of Ministers, Permanent Secretaries and Deputy Permanent Secretaries, Chaired by the President).

The Office of the Chief Secretary is also going to be the apex for reform coordination. The new support will differ from LGRP thus far in that it will not have a LGRT, but will be under PMO-RALG Divisions and with TA integrated on demand into PMORALG. The other major difference will be the inclusion of interventions linked to other Ministries and reform programmes, essential for systemic and operational aspects of devolution.

### **Alignment of DP support to country strategies**

In June 2001, a joint Government/Donor Mid Term Review acknowledged the considerable progress made with regard to support for decentralisation, considering the relative 'youth' of the policy. With regards to the LG policy paper, the Review's final conclusion however, was that the policy was not being implemented consistently. The Review identified three 'essential pre-requisites' for effective LGR, which critically categorized major systemic reforms outside the control of the LGRT, being (1) fiscal decentralisation, (2) human resource management autonomy for LGAs and (3) legal harmonisation.

Taking into account the recommendations of the Review, a Medium Term Plan & Budget for the period of July 2002 to June 2005 was prepared. Implementation was envisaged for 9 years from 2002 to 2011, in three phases as follows:

- 2002-2005: LGRP as set out in the Medium Term Plan & Budget;
- 2005-2008: LGR mainstreamed into PO-RALG supported by GOT; and
- 2008-2011: Strengthened LGAs proceed with reforms supported by GOT.

The Government developed a more firm policy statement on the issue of alignment in the form of a Letter of Sector Policy, where donors were encouraged to integrate into the agreed common modality for "Capital development Funding" as designed under LGSP (see Annex 2 for the full text) which was issued in 2005. This letter expands on the Government of Tanzania's policy positions on decentralisation with emphases on fiscal decentralisation and approaches to LGA capacity building, and how the LGSP will contribute to the implementation of those policies.

### **Modalities of DPs support**

GOT receives external resources under three modalities, namely General Budget Support (GBS), Basket Funds (BF), and Direct Project Funds. GBS is the preferred form of GoT aid modality and the Ministry of Finance is planning for GBS to reach 55% of total aid in FY07/08. GBS to Tanzania is currently channelled through the Poverty Reduction Budget Support (PRBS) programme. This programme is financed by 11 bilateral DPs in addition to the E.C., World Bank and African Development Bank. The PRBS disbursed approx. USD 370 million ODA during FY 2003/2004.

Several governing bodies have been created to oversee and guide the LGRP and LGRT. These bodies carry out various functions including policy formulation and guidance, interagency coordination, and fundraising. These include the Inter-ministerial Coordination Committee which provides overall policy guidance from Government to LGRP, the Inter-ministerial Working Group which coordinates reform activities across sectors; the Donor Consultative Forum, which consults with and informs donor agencies on LGRP progress; and the Common Basket Fund Steering Committee which enables fundraising and provides financial management oversight.

As mentioned above, the World Bank worked on the preparation of the LGSP i 2003/2004 to enhance the fiscal decentralisation part of the LGR. LGSP is assisting the Government of Tanzania to reform the modalities for development funding at local government level – an

aspect of decentralisation not included in the LGRP. The LGSP is supported by a multitude of donors and is the main vehicle for consolidating the efforts of creating a unified system of capital investment grants in the local governments.

### **III.4.3 Lessons learned and perspectives**

The analysis of the situation in Tanzania provided the following lessons learned and perspectives related to the process of alignment and harmonisation:

#### **Management of the decentralisation process**

The decentralisation process in Tanzania has been characterised by a high level of Government control over the policy setting process and a clear strategic framework for decentralisation by adoption of the Decentralisation by Devolution (D-by-D) policy. The donors moved early on to support this D-by-D policy and established in cooperation with the GOT the LGRP/LGRT as the vehicle to support this process. The policy has evolved from 'local government reform' to 'decentralisation-by-devolution'. This fundamental change in central-local relations has gained increased acceptance and support at the highest levels of Government and administration, as indicated by the personal engagement of the President, the involvement of the Chief Secretary in driving the process forward and the designation of PMO-RALG as a central ministry (like other central ministries like Finance and Public Service Management).

There is broad agreement on the need for a continuing support programme in some form after June 2008 to ensure that D-by-D is taken forward and embedded. If the LGRP is to be fully integrated into PMO-RALG, then some basic conditions would have to be met (according to the DPs supporting LGRP now):

- a focused programme with defined outcomes, activities and costing;
- a core team with specialist expertise to supplement the staff of PMO-RALG and to be placed in other Ministries (e.g. Finance) if required;
- flexibility in operations to allow for the drawing in of expertise, e.g. through Task Forces and consultancies; and
- ring-fenced financing through a basket fund, with appropriate management and oversight structures.

#### **DPs Coordination Mechanism**

Tanzania is seen as having a good DP coordination setting in general. This process is also supported by Government. The formulation of the LGRP was seen as an attempt by various donors to support a national programme versus individual area based programmes which was the feature of the 80's and 90's (supported by the development agencies of the Dutch, Irish, Swedish, Germans, etc). DPs that participate in the LGRP basket have the coordination mechanism but donors outside say they are informed of developments in the reform process but information is hampered by the enormous task of coordinating such a huge reform area. Many donors expressed the need for better coordination between the large on-going reforms within the public sector (PSM, LGRP, Legal etc) and the for the Government to move from the rhetoric of the JAS statements to action on better coordination from their side in relation to these on-going reforms.

#### **Alignment of DPs to Country Strategies**

Donors supporting the LGRP see themselves as aligned to the country strategy on decentralisation by devolution (D-by-D) but the question is if others are also promoting the same line, and if some donors are not pursuing other agendas by supporting sectors and still relying on targeted TA outside the LGRP set-up to PMO-RALG. However, PMO-RALG does not internally coordinate sufficiently the many donor initiatives in sectors and continues to approve individual projects/initiatives under different departments of PMO-RALG.

Alignment is seen as improving and will be more the focus of the coming support to the decentralisation reform after 2008 (post-LGRP). The concern of some donors outside of the

LGRP today is how this will be done and the need for better coordination with sector reforms and the influence of D-by-D on sectors.

### **Modalities of DP Support**

Many DPs are using a mix of aid modalities when supporting decentralisation and local governance in Tanzania. Basically all donors expressed the need for a mix of aid modalities for support to decentralisation and especially local governance. This mix ensures that overall national budget concerns are supported through GBS, the LGR (both generic and fiscal) is supported by BFs (or sector budget support), and that the issues of poor service delivery and local governance are addressed through direct project funding of LGAs, NGOs and CSOs at local levels.

Many DPs want to remain with this mix of aid modalities but also increasingly express concern with the GBS support modality in relation to reforms such as LGR as issues such as: i) lack of accountability of disbursement of funds, ii) problems with inter-governmental fiscal transfer (not sufficient, not timely), iii) still no control of human resources by the districts as this is still centrally driven. This puts the onus on the LGR and D-by-D policy to deliver the goods in terms of increased service delivery at local levels and increasing local governance as well as accountability performance. The DPs currently supporting the LGRP/LGSP see the need for a basket fund arrangement with PMO-RALG after the termination of the LGRP in June 2008 because the support to the reform is needed also in future within PMO-RALG and since the latest PEFAR review showed that problems in inter-governmental fiscal transfers persist.

## IV. CONSOLIDATION OF THE COUNTRY STUDY FINDINGS

The country studies were carried out using the analytical framework with the four thematic issues presented in chapter II. The four countries were, among other, selected to represent countries in different stages of the decentralisation process. The analysis revealed some similarities and general findings regarding the process of moving towards alignment and harmonisation have been derived from the case studies. Guided by the conceptual framework, the current practices and experiences related to the four thematic issues are assessed in light of aid alignment and effectiveness in the section below. The four matrices provide the country specific information in synthesised form for ease of reference.

Although the sample of four countries did not allow for deriving specific principles for each category of countries, the analysis revealed some general patterns for coordination and alignment relating to the specific stage of the decentralisation process. These are briefly presented below.

### IV.1 Consolidated Findings

#### Management of the Decentralisation Process

The analysis of the institutional arrangements for the management of the decentralisation reform process, in particular with regard to the leadership role within government for the process, the implication of core stakeholders and the interrelation of the management structures for the decentralisation process with the arrangements for the management of a broader public administration reform in the four case studies has revealed a number of challenges and constraints for successful decentralisation and coordinated and harmonised DP support to decentralisation and local governance. Over the last years, decentralisation and local governance have increasingly become integral elements of the overall national development strategies, in particular the PRSP, and local government reforms and decentralisation strategies have been launched along side core public sector reforms. However, decentralisation is in most countries still treated as a separate sector and the effective recognition of decentralisation as a cross-cutting issue relevant to all areas of development is yet to come. The most important findings from the country studies can be summarised as follows:

- **Government commitment to decentralisation as cross-cutting issue is essential:** Decentralisation reforms are often initiated as one reform among other public sector reforms, targeting for example public financial management, civil service, or specific sectors. The lack of coordination and coherence between the different reforms can provoke diverging and sometimes contradictory developments that are difficult and lengthy to deal with. The setting up of sector policies and programmes not fully consistent with the principles of local self-government undermines the strengthening of the capacities and competences of the local level.
- **Successful decentralisation reforms require high-level political advocacy:** The transfer of resources and responsibilities from central to local level across most areas of government make decentralisation a highly political and difficult reform process. Reluctance is in most cases encountered from sector ministries, but also from other line ministries, not being prepared to devolve part of their functions to other tiers of government and assume a new role. Without high-level political advocacy, decentralisation reforms risk to be marginalised on the political agenda and implementation of the different reforms obstructed by diverging interest.
- **Political character of the decentralisation process make it vulnerable to changes in government:** Differing from classical sectors with regard to the political nature of the reforms, the decentralisation process is highly vulnerable to changes in government. In three of the four countries selected for the study, recent changes in government had far-reaching implications for the advancement of the reform process. In Benin, the new government has taken up decentralisation as one of their priorities giving new momentum to the reform process, however, the perspectives in Nicaragua and Nepal are less clear:

In Nicaragua, the approval of the newly elaborated decentralisation strategy by the current government is still not achieved and the post-conflict government in Nepal is discussing fundamental issues such as the form of government and the structure of the state with far-reaching implications on the decentralisation process. Among the four selected countries, Tanzania is the exception with consecutive governments supporting one legal and political framework for decentralisation and local governance.

### **DP coordination Mechanisms**

Improving coordination between donors and partner governments on the one side and enhancing coordination between donors on the other side have been put forward for some years now as essential elements for improving aid effectiveness and also figure prominently in the principles of the Paris Declaration. However, the four country studies clearly demonstrate that the current practices are still very heterogeneous and that the coordination mechanisms are far from fully developed. Existing mechanisms range from informal groups meeting irregularly and focussing on exchange of information to highly formalised set-ups with clearly defined roles, rules and responsibilities both on the DPs as well as on the partner countries side. The country studies analysed the DP coordination mechanisms in the four countries with regard to their degree of formalisation, their mandate and the actors involved. The studies furthermore assessed the effectiveness and performance of DP coordination mechanisms in the field of decentralisation in view of harmonising aid modalities and aligning DP support to partner country strategies. The findings from the country studies can be summarised as follows:

- **Similarity in overall set-up of coordination mechanisms, but considerable differences with regard to degree of formalisation and mode of operation:** The overall set-up of the DP coordination mechanisms is relatively similar across countries, with the coordination group for decentralisation and local governance often being part of a broader dialog and coordination mechanism between the partner governments and the DPs. In general, the DPs have established their own dialog and coordination forum in addition to the coordination forum between DPs and the government. Large differences can be observed with regard to the degree of formalisation of the two types of coordination mechanisms, i.e. the existence of ToR of the group (defined and agreed upon objectives and code of conduct), the involvement and the commitment of government representatives, the mechanisms for determining the lead of the group and their role, the frequency of the meetings as well as the specific mandate of the group.
- **Government leaderships essential for effective coordination:** An important constraint for effective coordination mechanisms is quite often the lack of government leadership. Without a clear vision and orientation from government, the coordination mechanism will provide room for exchange of information, but lacks the mandate and the demand for aligning support modalities and harmonising approaches. However, the participation of government representatives in the group and the leadership can only be built on a overall commitment to harmonisation and alignment.
- **Efficiency of coordination mechanisms between partner governments and DPs related to scope and substance of dialogue:** The intensity of the dialogue and exchange between the different participants in the coordination depends strongly on the issues at stake. Momentum is often gained in the core stages of a decentralisation reform, i.e. when a new decentralisation strategy is being elaborated or a new support programme being designed. Likewise do the coordination mechanisms tend to lose ground when the focus of government's as well as DP's attention is shifted to other priorities, such as elections, conflict or emergency situations.
- **Commitment of DPs to coordination mechanism strongly dependant on headquarters policy regarding harmonisation and alignment:** The challenges for effective coordination between DPs is partly due to great variation in the commitment of DP organisations to harmonisation and alignment and the respective directives given to the country representatives. If harmonisation and alignment do not figure prominently on the priority list of DP organisation, the in-country representatives lack the motivation to

engage in tedious and complicated harmonisation and alignment processes and will be more concerned with promoting project and programme implementation.

- **Weak vertical and horizontal integration of coordination mechanisms focusing on decentralisation and local governance with other coordination mechanisms:** The linkage of the DP coordination group on decentralisation and local government to other sectoral groups (horizontal linkage) and to the high-level government DP-coordination group (Head of mission / macro groups, etc. vertical linkage) is generally weak and not formalised. The lack of communication has also been observed within DP organisation; being the reason why DPs engaged in support to decentralisation and local governance at the same time provide support to sectoral programmes that are not in line with decentralisation. This contributes to the widespread lack of harmonisation of sector support strategies and decentralisation strategies.

### **DP Alignment to country strategies**

With regard to the alignment of DP support to the partner country strategies, institutions and procedures, the four country studies have corroborated the general assessment that there are still a multitude of individual projects supported by different DPs that are not necessarily aligned to one national framework. This is partly due to the fact that some countries have only recently elaborated specific decentralisation strategies or are in the process of the elaboration (Benin, Nepal) and approval (Nicaragua) of the strategies and policies. Secondly, even if general strategies are in place and have been widely recognized as the relevant framework for alignment, the lack of comprehensive national reform programmes and national systems and procedures to which the DP support can directly relate to hamper the alignment. The five pre-conditions for decentralisation strategies in order to be conducive for successful decentralisation and coordinated and harmonised DP support discussed above are essential in providing a comprehensive framework for alignment. Thirdly, the country studies have clearly shown that coherence between the different national strategies with regard to decentralisation and local governance is a precondition for comprehensive alignment. The findings of the field studies can be summarized as follows:

- **PRSP recognized as overall framework for alignment:** The partner countries' poverty reduction strategies (PRSP) generally provide the overall framework to which DPs align their support. However, with regard to the specific projects and programmes targeting decentralisation and local government, the objectives, indicators and strategies laid out in the PRSP documents are generally not specific enough to ensure that the support for decentralisation is sufficiently aligned and harmonised.
- **Lack of specific decentralisation strategy provides space for non-alignment:** In the early phases of a decentralisation process, the lack of an approved government strategy and policy can lead to very fragmented approaches. Government institutions together with DPs tend to elaborate diverse support programmes and projects targeting decentralisation and local government, however without being set within one overall strategic framework. The lack of a clear and detailed vision from government leaves room for individual approaches. In the early stages of a decentralisation process, this can be seen as a richness of experiences, however in the longer run the need for a consolidating strategic framework becomes evident.
- **Variety of entry points linked to variety of strategies to align to:** Given that the projects and programmes supporting decentralisation and local governments have been derived from different starting points, the orientation towards partner country strategies can be manifold. Programmes targeting the strengthening of local government can be conceived as urban development programmes, rural development programmes, initiatives to strengthen both the decentralisation as well as the deconcentrated structures, etc. Different country strategies that are not necessarily harmonised among themselves are being addressed with this broad scope of programmes.
- **Poverty-Oriented vs. Decentralisation:** The co-existence of different development strategies targeting overall development issues (growth, poverty reduction) with more specific sectoral strategies (water, health) and cross-cutting strategies (decentralisation,

etc.) can bring forth a situation in which support programmes are well aligned to the respective country strategies, but at the same time follow different logics in their approaches. This is in particular valid for targeted poverty reduction programmes that very often bypass the local government level and directly intervene at the community level. In many cases, the PRSP exacerbate this situation as they do not spell out the role of the local level for poverty reduction clearly enough. Similarly, sector programmes tend to disregard or even blank out the role of local government in service delivery and focus on the centralised technical structures.

- **Weak incentives for alignment in reform context:** Whereas alignment to overall strategies is generally quite strong, alignment in the sense of adopting country procedures into programme approaches is much more difficult. Ongoing reforms for specific modules and procedures provide incentives (good excuses) for DPs to maintain their specific procedures and wait until the reform of procurement regulations, public financial management, accountability and transparency at local level, intergovernmental financial transfers, support facilities for local governments etc result in an effective new framework to align to. The fact that these reforms are often lengthy processes implies that local government have to deal with parallel systems and be faced with the complexity of ongoing reforms and capacity building for improved national procedures and systems alongside the application of DP specific programmes.

### **Modalities of DP support**

All four country studies have demonstrated that the DP support to decentralisation and local governance still follows different modalities and points of entry in its approach. This refers to the funding modality (budget support, basket funding and programme/project support), to the entry level (national or local) as well as to the different partners (central or local government, civil society, others) involved in programme management and implementation. The case studies, however, also illustrate the different processes for the harmonisation of aid modalities. The phasing in of heterogeneous approaches over time into one comprehensive national programme is one typical pattern (Tanzania, Nepal and Nicaragua (although only proposed by the former government)). The step-by-step integration of 'building blocks' such as national funding mechanisms or planning and procurement procedures into coordinated programme approaches is an alternative approach (Benin). The country studies analysed how the use of various entry points by DP in their support to decentralisation and local governance reinforce or weaken country decentralisation reforms.

- **Large variety of aid modalities:** As a general observation, it can be said that still a large variety of different support modalities is being applied for supporting decentralisation and local government. The heterogeneity is mainly related to different procurement regulations, different funding modalities, different governance and implementation structures as well as the regionalisation / territorialisation of support.
- **DP specific procedures and regulations:** The variety of aid modalities is not only caused by the different approaches of the DPs in their support for decentralisation and local governments, but also by the differences in overall DP aid procedures. This is particularly evident with regard to the role of the DP organisation in the project and programme implementation (governance structure), the extent to which programme details are defined in the programme documents (financing agreement, implementation agreement, credit agreement etc.) and the extent to which non-objections are required from the DP for programme implementation (control / having a say). Also the level of decision making (in country representative or headquarters) has an impact not only the mode of operation of the coordination forum, but also on the implementation modalities of the support to decentralisation and local governance and the opportunities for harmonisation and alignment.
- **Partner countries' demand for harmonisation of aid modalities is essential:** In order for DPs to consequently harmonise their support modalities despite numerous constraints and hesitations on their side, a clear change in attitude is required from the partner country governments. Without a strong commitment of the partner governments to

reduce the variety of aid modalities, the fundamental / overall restrictions on the DP side described above risk to outweigh the 'good intentions' of individual DPs or DP representatives in the countries for a stronger harmonisation.

- **Gradual phasing into one comprehensive national programme:** Distinctive patterns can be observed regarding the harmonisation process of aid modalities. One typical pattern is the elaboration of one comprehensive national programme and the gradual phasing in of individual projects and programmes into the framework provided by the comprehensive approach. This comprehensive national programme is often derived from the national decentralisation strategy to implement the reforms and roll out decentralisation in all its dimensions. In some cases, the initiative for setting up a comprehensive national programme does not stem from government and government policies directly, but must be considered as a DP initiative. These approaches are often characterized by the intention to up-scale programme approaches to a national level and by integrating national procedures as much as possible / to a large extent. These initiatives can provide the framework for reforming existing national procedures and elaborate modules that later will be translated into the national framework.
- **Building Blocks for step-by-step harmonisation:** The second typical pattern can be described as a step-by-step approach whereby specific buildings blocks for harmonisation and alignment are elaborated and gradually adopted by and integrated into project and programmes approaches. Unified national transfer / financing mechanisms are a typical building block for the harmonisation process, but also national procurement procedures, planning methodologies and support facilities for local governments.
- **Need for flexibility in project / programme design to allow for gradual harmonisation of aid modalities:** The diversity of commitment cycles and therefore project cycles hamper initiatives for stronger harmonisation since implementation details and aid modalities to be applied are usually determined in the inception phase of a support programme. Building the flexibility to adjust the modalities during the implementation into the contract documents, i.e. to switch from a programme-specific funding mechanism to a future national funding mechanism or to adopt revised national procurement rules after their approval, facilitate the harmonisation of aid modalities.

<b>Benin</b>	<b>Synthesis of Country Case Study</b>
Decentralisation policy and reform processes	Decentralisation is still a recent development in Benin, the first local governments took office in 2003 and the capacities for assuming the full responsibilities at local level are only slowly being built up. The overall legal framework is in place and decentralisation has been inscribed in the new constitution in 1990. However, the lack of an approved decentralisation strategy and policy for implementing the reforms has slowed down the transfer of resources and competences to the local level. Capacity building in the last years has mainly focused the decentralised structures and the lack of capacity of the deconcentrated structures is a serious constraint to effective reforms.
Management of the decentralisation process	The ministry for decentralisation was created only in 2007 and a restructuring of the ministry and the sub-structures related to decentralisation will improve the coordination with government and provide for a clear leadership for the reform process. Before the decentralisation and deconcentration process was steered by several structures of the Ministry for the Interior, Public Security and Decentralisation as well as by the delegation spatial planning and development under the president's office.
DP cooperation mechanisms	Technical Group on Decentralisation was established in 1998 in the context of one of the first support programmes for decentralisation and has been engaged in exchange of information and policy dialogue. However, the decreasing commitment of government to participate in the coordination meetings has seriously affected the functionality of the group and constrained its activities to DP related discussion on projects and programmes. Chances for a positive reaction to the DPs' request for government leadership of the group have improved with the recent changes in government and the overall review of the coordination mechanisms in Benin.
Alignment of DP support with country strategies	As a consequence of the lack of a comprehensive decentralisation strategy and policy and of the fact that decentralisation is still a recent experience Benin, the first generation of support project and programmes was only aligned to overall country objectives, not to a specific framework for decentralisation. Therefore, national procedures have not been systematically integrated into project / programme designs.
Modalities of DP support / harmonisation	Large variety of modalities and approaches in the first generation of support programmes which were designed before decentralisation became a reality in Benin and which now slowly come to an end. Clear commitment of most DPs to engage in a process of harmonisation of aid modalities organised around building blocks such as the uniform funding mechanisms.
Examples of best practices	<p>Best practices include:</p> <ul style="list-style-type: none"> <li>▪ the evaluation of different practices in order to found development of uniform national procedures on best practices (planning methodology)</li> <li>▪ scaling-up of local best practices (coordination forum at regional level) onto a national scale</li> <li>▪ flexibility in new programme designs to integrate national systems and procedures as soon as they adopted and operational</li> <li>▪ initiative to develop a 'building block' for strengthened harmonisation and alignment with the setting up of a national funding system for local service delivery</li> </ul>
Perspectives for aid harmonisation and alignment	<ul style="list-style-type: none"> <li>▪ Elaboration of decentralisation policy has been initiated and will provide the framework for enhanced DP alignment</li> <li>▪ Detailed action plan for implementation of reforms will facilitate integration of DP support into comprehensive programme</li> <li>▪ Government leadership for DP coordination and strengthened vertical and horizontal linkages for improved coherence.</li> </ul>

Nepal	Synthesis of Country Case Study
Decentralisation policy and reform processes	Decentralisation was introduced in Nepal by the 1990 constitution and local elections were held for the first time in 1992. The legal framework was created in 1999 with the approval of the Local Self Government Act (LSGA). The current 10th Plan (PRSP) recognizes decentralisation as a core element for poverty reduction. The momentum for the reform process was lost in the early 2000s as both the GoN and the DPs focus shifted from decentralisation and other public sector reform issues to dealing with the conflict situation. Therefore, the decentralisation reforms have not been implemented as planned and no local elections have been carried out after the end of term of the first generation of local governments.
Management of the decentralisation process	The mandate for leading the decentralisation lies clearly with the Ministry for Local Development. The political power of the ministry however has not been strong enough in the past to keep decentralisation high on the political agenda. The perspective for the future remains unclear with the difficult political situation within government (new government integrating the Maoist, new MLD minister being Maoist) and the power play between the Minister for Reconstruction and Conflict Management and the MLD.
DP cooperation mechanisms	Government coordination of DP support is so far limited to territorial coordination and to a certain extent thematic coordination based on the Decentralisation Implementation Plan (DIP). GoN is not giving strong guidance on harmonisation or coordination of DP support (GoN leadership of the DP sub-group only being introduced) and within government, harmonisation is also recognized as a problematic issue. The Sub-Group on Decentralisation has undertaken several initiatives for coordination, however due to the conflict situation the focus of the group has shifted. Coordination was reinforced in certain aspects (joint studies on development space, basic operating guidelines), but there is room for improvement with regards to comprehensiveness of coordination (vertical and horizontal).
Alignment of DP support with country strategies	10 <sup>th</sup> Plan / PRSP still valid as core framework for DP support and the LSGA and the DIP were (at the time) the basis for alignment. However, with the shift in focus from decentralisation to conflict (both DP and GoN), the reference framework changed: currently, there is a lack of coherence of the national framework, the reforms and the support programmes, leaving a broad choice of strategies to align to.
Modalities of DP support-harmonisation	Variety of projects and programmes supporting MLD, local bodies, communities and civil society using a variety of support modalities. The District Development Fund is a building block for stronger harmonisation. Currently there is a new initiative (UNDP, DFID) for moving towards a joint funding mechanism and harmonising procedures DFDP II.
Examples of best practices	<p>Best practices include:</p> <ul style="list-style-type: none"> <li>▪ the commitment of the DPs to move towards a harmonized approach (2003 joint programme, 2007 new initiative with DFDP II) and the continued joint initiatives during the conflict situation</li> <li>▪ the use of the DDF as joint funding mechanism</li> </ul>
Perspectives for aid harmonisation and alignment	<ul style="list-style-type: none"> <li>▪ Development of fully-fledged national strategy will take time as core issues (state restructuring, recognition of devolution as a cross cutting issue) are still under discussion (challenge) -&gt; need to prepare road map for reforms and for harmonising support</li> <li>▪ Promote GoN leadership over DP coordination process</li> <li>▪ Make coordination more comprehensive both on DP as well as on GoN side: horizontal and vertical coordination with sector and macro initiatives as well as community-based governance programmes needs yet to be strengthened.</li> </ul>

Nicaragua	Synthesis of Country Case Study
Decentralisation policy and reform processes	Milestones in the decentralisation process are: the reformed Constitution of 1995, the revised municipal law of 1997 and the Fiscal Transfers Law of 2003. Decentralisation is part of the strategic area “governance and state reform” of the PRSP II. A decentralisation strategy (ENDDL) was presented in December 2006. Two main constraints for its implementation are: the need to define its results and budget in detail. In addition, given that a new government has taken office in 2007, the ENDDL is currently being validated. If it is not approved, there is a risk that the decentralisation process will suffer a set-back.
Management of the decentralisation process	A re-organisation carried out in September 2007 includes the transfer of responsibilities regarding decentralisation matters from the Presidency (in charge since 2004) to the Nicaraguan Institute for Municipal Strengthening (INIFOM). However, the division of labour between the Presidency, INIFOM, central agencies (investment funds) and various ministries must be further defined.
DP cooperation mechanisms	In 2003, the former government established six roundtables for coordination with DPs. The roundtable for Governance includes a sub-roundtable for decentralisation. The sub-roundtable serves as a mechanism for meetings between DPs and the government, and in turn contains a donor roundtable for coordination among DPs. It is directed by the government and two liaison DPs have been assigned. The donor sub-table has fulfilled important functions as regards information, joint analyses and co-financing. Analysis of support to key institutions are being carried out, but no jointly financed arrangements are managed within this forum. <u>The reforms carried out in Sept. 2007 contribute to uncertainty as regards coordination and whether there will still be a sub-roundtable for decentralisation.</u>
Alignment of DP support with country strategies	Overall, DPs are aligned to PRSP and ENDDL principles. However, there is no specific and operational linkage between DP programme/projects and the strategy.
Modalities of DP support / harmonisation	There is a large variety of DP programmes / projects. Most DPs have separate support programmes/projects. There are a group of DPs involved in joint financed arrangements and a handful of DPs which are part of basket fund arrangements or support to the general transfer system. In addition, nine DPs give General Budget Support to Nicaragua.
Examples of best practices	<ul style="list-style-type: none"> <li>▪ Insistence on and joint support for a strategic decentralisation framework at the Secretariat of the Presidency; and</li> <li>▪ Joint support to the FONIM mechanism within the framework of municipal transfers.</li> <li>▪ Joint support to citizens' participation as part of the assistance to a joint basket fund for support to civil society.</li> <li>▪ Joint support to the Ministry of Finance, Auditor General, INIFOM, and the Association of Municipalities to a coordinated Programme for Improving Government Control and Transparency</li> </ul>
Perspectives for aid harmonisation and alignment (H&A)	<ul style="list-style-type: none"> <li>▪ Harmonise approaches for support to national policy, municipal strengthening, sectors through workshops linked to the sub-table.</li> <li>▪ Joint support for the implementation of the ENDDL, once it has been revised by the new government.</li> <li>▪ Support government efforts to turn the ENDDL into a National Programme for Decentralisation and Local Development, and indicate areas for donor support. Progress may depend on the outcome of the re-organisation of the institutional setup for decentralisation carried out in September 2007. Once the re-organisation has concluded: Draw up a Process Action Plan for H&amp;A.</li> </ul>

<b>Tanzania</b>	<b>Synthesis of Country Case Study</b>
Decentralisation policy and reform processes	Decentralisation was introduced already in 1982 after the failed attempt of President Nyerere to introduce Ujamaa (concentration of all development at village level). The 1982 reform was mostly a purely administrative reform without proper fiscal reforms. Therefore, the decentralisation policy didn't materialise before late 1990s when the Government decided in principle to introduce the Local Government Reform (Decentralisation-by-Devolution Policy). The LGR and the LGRP were formulated and initiated in 1998-99 and have been the basis for considerable reform of regional and district levels in terms of human, financial and administrative reforms.
Management of the decentralisation process	Previously the Ministry of Local Government was responsible. In 1999 the Ministry was included under the President's Office. In 2005 PO-RALG was integrated into the Prime Minister's Office and became PMO-RALG.
DP cooperation mechanisms	There are two basket funds for support to the LGR. One for the LGRP and one for the LGSP (World Bank support programme for development funding for districts).
Alignment of DP support with country strategies	<p>High degree of alignment through the LGR process and the development of the LGRP. Further alignment has taken place through the fiscal decentralisation process supported under the LGSP focusing on discretionary performance based capital development grants to LGAs.</p> <p>JAS process leading to increased focus on lead partnerships and silent partnerships</p> <p>Letter of Sector Policy on fiscal devolution of the budget and local government capacity building</p> <p>Letter of Agreement between PMO-RALG and development partners regarding harmonisation of ABP support and convergence towards a unified discretionary capital development grant system for Local Governments</p>
Modalities of DP support / harmonisation	<p>Increased use of GBS</p> <p>Widespread use of basket funding for sectors and decentralisation</p> <p>Still considerable project support for service delivery in sectors in districts</p>
Examples of best practices	<p>Basket funding for LGR with comprehensive reform programme</p> <p>Support for a unified recurrent and development budget funding modality to LGAs.</p> <p>Attempts to strengthen the capacity building support to LGAs.</p>
Perspectives for aid harmonisation and alignment	The future seems relatively bright. GOT has taken the lead on the harmonisation and alignment discussion and many donors are participating in the JAS process and considerable progress has been made in terms of lead donors, reduced number of focus sectors per donor, silent partnerships among donors, rotating leadership of SWAps/Baskets.

## IV.2 Patterns for Coordination and Alignment

The four countries have been selected to provide insight into different categories of countries regarding the state of the decentralisation process. Three broad categories were defined as:

- Countries with significant powers and functions devolved to local governments
- Countries with a policy framework for reform but lack of coherent operational strategies for fiscal and human resources aspect of decentralisation
- Countries with broad intentions of reform but no clear policy on devolution

The analysis of the context for DP support of decentralisation and local governance in the four countries selected for the study clearly revealed the differences as well as the similarities regarding the challenges and potentials for strengthening coordination and alignment. However, as already highlighted in the inception report, the sample of countries was not sufficiently large nor diverse to define clear-cut country categories for deriving representative and meaningful specific principles for each category. The case study countries broadly represent two different scenarios:

- Tanzania clearly is most advanced in its decentralisation process and significant powers and functions have been devolved to local government. The relevant political and legal framework are in place and the process for elaborating the Joint Assistance Strategy has provided clear orientation for coordination and alignment of DP support.
- The other three countries are characterised by a less advanced decentralisation process as well as a less well defined legal and political framework. Furthermore, all of them are currently going through a transition period as a result of recent elections and changes in government. The consequences of the changes in the political environment on the decentralisation process and local governance are far-reaching in the case of Nepal, where the future governance structure of the state will be determined in the context of the new constitution to be elaborated. In Nicaragua, the present Government has yet to express to what extent it will accept the former government's decentralisation strategy and carry out a re-organisation of the institutional setup concerning decentralisation. In Benin, the recent change in government has clearly improved the overall commitment to implementing the decentralisation reforms and strengthening local governance, however, key documents such as the decentralisation policy are yet to be defined.

Whereas no specific recommendations for a particular country category could be derived from the consolidated findings of the country studies, a few issues relevant for the pattern and the sequencing of alignment and harmonisation have become evident.

### **Fiscal decentralisation as a key driver for alignment and coordination**

Adequate financial resources to undertake the functions devolved to the local governments have been recognized as one of the key elements for successful decentralisation. A certain level of fiscal autonomy is required to ensure that potential benefits of decentralisation can materialise. It is generally accepted that local governments need some significant high yielding own source revenue assignments to create a strong sense of local ownership, accountability and links between the benefits and costs and ultimately to ensure a long-term sustainability.

Fiscal decentralisation is a core driver of decentralisation processes and the lack of adequate financial resources will seriously hamper initiatives targeting capacity building at local level and strengthening local level accountability. However, the case studies also reconfirmed the fact that fiscal decentralisation is an area that requires careful studies, particularly of the need for funding at local level for complying with specific competencies. Political processes leading to decisions on exactly what is being devolved / delegated / deconcentrated to local governments and the assignment of funds to carry out these activities are complex since they challenge the existing power structures.

In most cases, fiscal decentralisation is lengthy process and the political character of the transfer of resources from the central to the local level often leads to delays in the

implementation. In Tanzania, fiscal decentralisation has already been promoted from the beginning of the local government reforms in the late 1990s. However, the intergovernmental fiscal transfer system is yet to be brought fully in line with the principles and demands of local self-governance. Some elements, such as the recurrent and capital development grant systems have been set up already, however the two other core elements of own source revenues and local government borrowing still need to be implemented. Overall, despite the considerable resources provided over the last 10 years for preparing the conceptual ground and implementing fiscal decentralisation in Tanzania, the process is still ongoing and key elements have yet to be decided and implemented. The other three countries are still in the early phases of fiscal decentralisation and major issues such as the initial setting up a uniform national transfer mechanism (Benin) and the fine-tuning of performance-based allocation systems (Nepal) still need to be addressed.

Setting up uniform national transfer systems provides a strong incentive for harmonisation and alignment of DP support, as the Tanzania case clearly showed. Also in the three other countries, a tendency for stronger alignment and harmonisation could be observed once such a system or core elements of it had been set up.

The question of what is required for successful fiscal decentralisation is beyond the scope of this review and has already been addressed in numerous other studies. However, the experience from the four country cases clearly underlines the role of fiscal decentralisation as a driver not only for successful decentralisation but also for strengthening alignment and harmonisation around national transfer mechanisms and related components such as performance assessment systems, local capacity building and service delivery.

#### **Evolution of DP coordination in different stages**

The overall objective for DP coordination mechanisms is generally recognized both by the partner government as well as by the DP organisations. However, the process for moving towards a fully-fledged coordination mechanism can vary considerably between countries depending on the sequencing of the decentralisation and local governance reforms and the priorities of both sides.

The efficiency of the coordination mechanism between partner governments and DPs as well as between DPs will depend primarily on the respective commitment to coordination and the framework conditions (clear government vision on coordination, existence of JAS, joint financing agreements, etc.). From the four countries analysed, the coordination mechanisms in Tanzania is clearly most advanced and comprises core elements of an efficient set-up.

The process of formulating a Joint Assistance Strategy (JAS) for Tanzania undertaken jointly government and DPs provided clear orientation on different type of partnerships between DPs and government, preferred aid modalities as well as on government leadership for the coordination mechanisms. "Lead" and "silent" partner arrangements proposed by the JAS have already been initiated in most sectors. Over time, GoT and Development Partners have agreed to continue jointly reassessing the adequacy of existing division of labour arrangements, taking into account and adjusting to possible changes in DPs' comparative/competitive advantages or changing Government needs.

The formulation of the LGRP was seen as an attempt by various donors to support a national programme versus individual area based programmes which was the feature of the 80's and 90's (Dutch, Irish, Swedish, Germans etc). Several governing bodies have been created to oversee and guide the LGRP and LGRT. These bodies carry out various functions including policy formulation and guidance, interagency coordination, and fundraising. These include the Inter-ministerial Coordination Committee which provides overall policy guidance from Government to LGRP, the Inter-ministerial Working Group which coordinates reform activities across sectors; the Joint Consultative Forum (JCF), which consults with and informs donor agencies and civil society on LGRP progress; and the Common Basket Fund Steering Committee (CBFSC) which enables fundraising and provides financial management oversight. The JCF and the CBFSC are the main coordination mechanisms between DPs and government on issues related to decentralisation and local government reform.

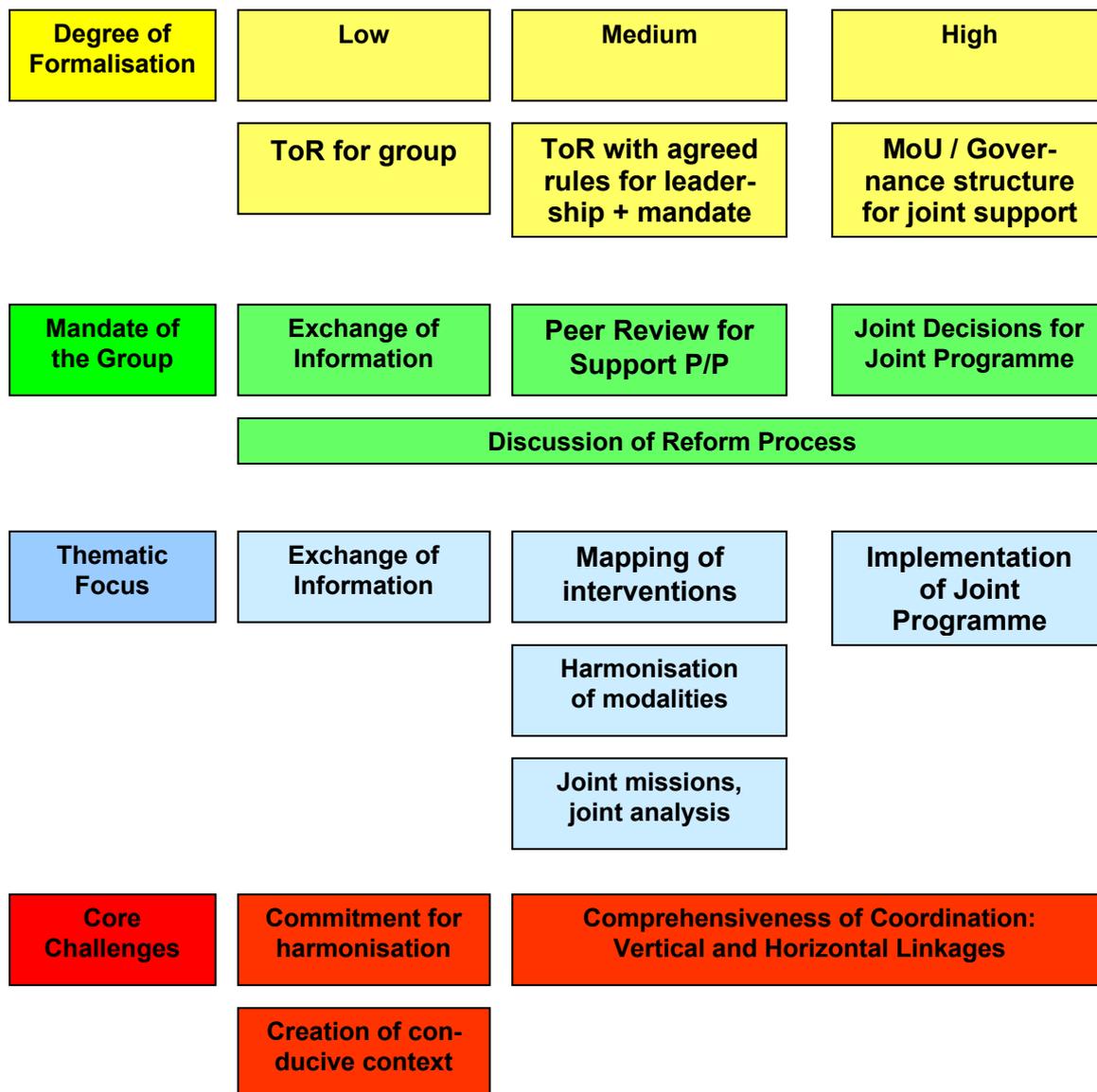
The JAS also provides for mechanisms improving coordination between donors and Development Partners' Groups have been set up in nearly all sectors. The DPs involved in supporting the local government reforms meet on a monthly basis to exchange information and discuss issues relevant for the implementation of the LGRP and the LGCDG. Two co-chairs elected from the participating DPs representatives take up the issues arising from the group's discussion with respective government representatives and facilitate consensus-building within the group.

Tanzania's coordination mechanisms are highly formalized: ToR for the monthly DPG group, elected co-chairs, MoU between the GoT and the DPs on the modalities for DP support to decentralisation and local governance (LGRP, LGCDG), JAS as overall framework for development partnerships. The respective mandates of the different governing bodies and coordination groups are clear and the overall mechanism provides a platform for addressing all relevant issues.

In the other three countries, selected elements of a fully-fledged coordination mechanism as in Tanzania have already been put in place – in line with the needs for coordination and the commitment for harmonisation and alignment. The different degrees of formalization of the coordination mechanisms and the different thematic focus of the groups illustrate the process of establishing an efficient mechanism over time:

- In the initial phase, exchange of information is the major objective of the coordination meetings, in particular those of the DP group. In view of the highly fragmented support to decentralisation and local governance in most countries, the sharing of the activities undertaken in the various project and programmes and the presentation of the different approaches will contribute greatly to improved coordination of DP support and help to avoid overlap and conflicting interventions. The willingness of DP representatives to engage in such a coordination group has increased over the last years in line with the Paris Declaration. However, a major challenge for these mechanisms in their initial stages are to create a conducive environment for the coordination and to motivate all relevant DPs to participating in the meetings and committing to harmonisation despite the numerous constraints.
- The presentation and discussion of new projects or specific activities undertaken by individual DPs in field of decentralisation and local governance is generally a second step, however considerable differences can be observed with regard to the willingness to take up the comments and recommendations from the group: in some cases the presentation to the DP coordination forum is merely considered to be an inevitable, but irrelevant step in programme preparation, in other cases the coordination mechanisms have established themselves as a relevant peer review mechanism. Clear ToR for the coordination mechanism including agreed objectives, mandates and procedures for determining the leadership are a step towards formalizing the group. Initiatives such as joint missions or joint studies further contribute to enhancing coordination.
- The most advanced type of coordination mechanisms are set in an overall framework for development cooperation (such as the JAS in Tanzania) and are clearly linked to a joint support programme for decentralisation and local governance. These mechanisms are based on a jointly agreed mode of operation (MoU) and a transparent set-up for decision making related to the implementation of the joint programme both on DPs as well as on the partner governments side. Characteristics of these advanced types of coordination mechanisms are also the representation agreements between DPs where joint positions are communicated to Government through elected chairs.
- The evolution of the coordination mechanisms is not uniform and depends strongly on the partner governments commitment to coordination as well as its leadership for the process. The elaboration of a clear roadmap for strengthening the coordination mechanisms and for gradually integrating the different elements described above will be essential for H&A.

### Development of Coordination Mechanisms



## V. LESSONS LEARNED AND PERSPECTIVES

In additions to the general findings from the four country case studies certain conclusions can be drawn for improving DP aid harmonisation in support of decentralisation and local governance. They generally confirm the principles and pre-requisites of successful decentralisation identified by earlier studies, however the findings have only partly been translated into actionable recommendations with direct operational relevance. The four country studies have clearly demonstrated that most of the general principles for alignment and harmonisation (as agreed upon in the Paris Declaration) apply to the specific situation for support to decentralisation and local governance. At the same time, operational recommendations and actions points identified during the field studies turned out to be very context specific and generally not transferable to a different country context.

Based on the consolidated findings from the four country studies and the initial reflexions undertaken for developing the conceptual framework, the lessons learned point out the challenges for strengthening harmonisation and alignment as well as some best practices. The perspectives show ways on how to promote the process of harmonisation and alignment in the field of decentralisation and local governance. A list with the core preconditions and points of action for improving DP alignment and harmonisation synthesises the four sections below.

### V.1 Management of the Decentralisation Process

Government ownership and the institutional set-up in the partner country for managing the decentralisation reform are decisive for successful decentralisation and coordinated and harmonised DP support. In addition to the five preconditions presented in the conceptual framework and considered essential for successful decentralisation, the lessons learned from the four country studies highlight the challenges and limitations for managing the process as well as the success factors:

- **Recognition of decentralisation as a cross-cutting issue essential for success of reforms:** Despite the fact that decentralisation is generally recognized as a transversal element for poverty reduction in the national development strategies (PRSP), the integration of the principles of local self government into specific strategies, in particular the sector policies, is yet to be effected in most countries. If decentralisation is not adequately embedded in either law or practice and if the implications of changed central-local relations are not fully accepted by sector ministries, the reform process risks to be frustrated if not reversed.
- **Coherence between decentralisation reforms and the ongoing core public sector reforms which are significant to the process need to be strengthened:** Coherence between core public sector reforms needs to be strengthened to ensure that all dimensions relevant for effective local self-governance are taken into account. Without a conducive and appropriate framework for fiscal decentralisation, public financial management, public administration etc. the transfer of resources and responsibilities from the central to the local level cannot be effective. Lack of coherence between public sector reforms resulted in slow progress regarding local hum resource autonomy in Tanzania.
- **High-level political leadership for decentralisation and local governance is essential for bringing potentially reserved sector ministries on board:** Even if decentralisation has been recognized in the overall national strategies as a cross-cutting issue, the transfer of responsibilities and resources from the central to the local level is often only hesitantly promoted by the sector ministries, but also by the ministries responsible for public finance and public service administration. High-level political support is essential for ensuring that decentralisation is recognized as a priority on the political agenda not only by the respective ministry, which typically does not have strong political clout, but across government. Embedding champions for decentralisation in sector ministries is generally not sufficient due to the inherent reluctance to devolving resources and responsibilities and the widespread 'rivalry' between sector and line

ministries. The persisting difficulties in translating D-by-D policy into sector laws and strategies despite numerous initiatives illustrate the challenges in this respect.

- **The elaboration and approval of a national legal and political framework and of comprehensive support programmes for decentralisation and local governments take time.** A clear vision and road map for the transition phase are necessary to facilitate convergence of initiatives towards a coherent programme, to avoid the surge of excessively diverse approaches and modalities as well as the undermining of the decentralisation process by a shift in focus towards other reform areas. The considerable time needed for elaborating and approving the national legal and political framework entails the risk of marginalising the decentralisation reforms both by government and the shift of focus towards more visible or urgent (conflict situation, emergencies, etc.) issues. In order to keep local governments on the political agenda and prevent the ‘uncontrolled emergence’ of heterogeneous support programmes, it is essential for the respective ministry to adopt a step by step approach with a clear vision for decentralisation and a road map integrating milestones and interim results (such as the development and approval of national system relevant as building blocks for decentralisation and local governance).
- **Broad participation by civil society as a success factor:** Participation of civil society and non-state actors, such as the association of local governments, in the elaboration and implementation of the decentralisation reforms are important success factor for successful decentralisation. In Nicaragua, participation of civil society and the association of municipalities have been important factors to maintain and insist on a priority policy for decentralisation. However, support from DPs to civil society through a basket fund complemented by support from international NGOs was necessary to facilitate the participation.

## V.2 DP coordination mechanism

DP coordination mechanisms play an important role in fostering and enabling the alignment of DP support country strategies as well as the harmonisation of aid modalities. Government leadership for the coordination and dialogue structures is essential, in particular with regard to providing the necessary incentives for DPs to engage in the harmonisation process. The following lessons learned and perspectives can be derived from the country studies:

- **Joint processes for defining coordination mechanisms, type of partnerships and support principles are highly conducive for alignment and harmonisation and can provided clear incentives and orientations for the DPs:** Engaging jointly in a broad process defining the modalities of development assistance (Joint Assistance Strategy (JAS) in Tanzania) or more specifically defining the architecture of the coordination mechanism (review of coordination groups in Benin) provides opportunities to strengthen country ownership and government leadership for coordination. The development of the JAS and the clear commitment of the Government of Tanzania for implementing the JAS has certainly been a success factor for coordination and alignment of DP support. However, the definition of specific types of partnerships as well as the mode of operation for the coordination mechanisms is also highly demanding of both government and DP capacity. It often requires substantial changes in the way things are done including improvements in individual, organisational and institutional capacity and the incentive structure that motivates people and organisations.
- **Coordination of support programmes and political dialogue between partner government and DPs require strong government commitment:** The lack of government commitment due to shift in political priorities (conflict) in Nepal rendered the high level joint coordination forum ineffective shortly after its creation and the withdrawal of government representatives from the technical group on decentralisation weakened not only the political dialogue on core decentralisation issues in Benin but also the political clout of the group for bringing decentralisation to sector and macro-discussions.

- **Exchange of information between DPs as a first step:** The exchange of information on the activities supported by the different project and programmes provides a good platform for establishing a regular coordination mechanism. Already the basic sharing of relevant information can help to ensure that the interventions are coordinated to a certain extent, i.e. that the same studies are not being carried out twice, etc. A good practice (Nicaragua) is the regular (yearly) mapping of DP support programmes in matrix format (including TA, investment, institutions, commitment cycle and amount) to provide both the DPs as well as partner governments with an overview of the relevant activities and to point out areas for potential cooperation and synergies as well as potential overlap.
- **Need for clear ToR for the group:** However, the sharing of information will in the long run not provide sufficient incentives for all DPs supporting decentralisation and local government to attend the meetings as the objectives and value added of the meetings might not be clear enough. It is important (sometimes as a second step depending on the overall commitment of DPs and government to coordination) to reach a common understanding of the role of the coordination group, the objectives as well a code of conduct. Joint activities (such as the studies in Nepal) as well as joint missions can strengthen the commitment of the DPs to coordinate their activities.
- **Road map for moving towards more effective coordination mechanisms:** The establishment of a DP coordination mechanisms will be relatively straightforward in the case of comprehensive basket funding arrangement and joint programmes, as the design of the governance structure (steering committees etc.) is part of the preparatory process. However, without the motivation of a joint programme, DP coordination mechanisms are more difficult to set up and the recognition of the group as a peer review mechanism and a decision forum needs to be built up over time as some DPs will be reluctant to open up their programming to the other DPs engaged in the field. A clear road map for developing the DP coordination mechanism from a mere forum for the exchange of information to a mechanism promoting harmonisation and alignment (by way of the different initiatives mentioned above such as the regular mapping exercise, joint missions, joint studies, the agreement on ToR and – in the end the elaboration of an MoU), facilitates the process and helps to define the roles of the different actors.
- **Rotating and/or elected leadership for DP group:** It is recommended to determine leadership of the DP group in a participatory way. Different set-ups are possible; however their appropriateness for a country-specific context depends largely on the number of DPs present in the country and their respective capacities for participating actively in the group and providing support services. Rotating and / or elected leaderships are an option to strengthen identification of the DP representatives with the group.
- **Understanding of the existing diversity of aid modalities:** In the process of harmonisation the different support programmes for decentralisation and local government, the role and mandate of the coordination groups are generally reviewed and adjusted to take over greater decision making power or at least a role of an advisory body for new programmes and projects being designed. In this process, it is important to recognise the fact that the support procedures and modalities vary strongly between DPs. Initiatives such as creating joint programmes steering committees therefore need to be well prepared and accepted as rather complex, time-consuming efforts.
- **Coordination needs to be enhanced vertically and horizontally to address the challenge of decentralisation more comprehensively:** In order to promote coherence between the different support programmes intervening at local level and / or reforming the national legal and regulatory framework, the coordination mechanisms needs to be more inclusive and horizontal (to sector and thematic groups) and vertical (to macro reforms and national development programmes) linkages strengthened. The interfaces between sectoral programmes, targeted community programmes as well as macro reform programmes on the one side and support for decentralisation and local government on the other side need to be discussed and core issues such as (technical) capacities, autonomy, efficiency of implementation to be addressed. Lack of coherence tends to

provoke the undermining of initiatives strengthening local government capacities and improving local service delivery.

### V.3 DP Alignment to country strategies

The extent to which DP support is aligned to national strategies and policies and based on existing country institutions and procedures differs greatly from country to country. The general observation is that the stronger the commitment and ownership from the partner government for decentralisation and local governance in general and harmonisation and alignment in particular, the more DPs align themselves to the existing framework. The following lessons learned and perspectives can be derived from the country studies:

- **DPs generally align to approved national strategies, however alignment to specific country systems and procedures is less advanced:** As soon as the partner country governments provide a clear strategic framework for supporting decentralisation and local government, DPs are prepared to follow suit and align their project and programmes to the strategy. However, alignment to country strategies and procedures, in particular where DPs considered them as not sufficiently advanced, is much less pronounced.
- **Decentralisation and Local Governance need to be reflected prominently in the PRSP to avoid conflicting frameworks for alignment:** Since most DPs recognize the national poverty reduction strategies as overall framework for alignment, decentralisation and local governance should figure prominently in the PRSPs and specific objectives and indicators related to decentralisation and local governance should be taken into account. Likewise, the key role of local governments for poverty reduction and implementing the PRSP needs to be spelled out clearly to avoid the sidelining of local governments in targeted poverty reduction programmes.
- **Comprehensive and detailed strategies are a precondition for alignment:** A strong government commitment to a well defined decentralisation strategy and a detailed and comprehensive reform programme facilitate an extensive alignment of the different support projects and programmes to country strategies. However, the policy will have to be translated into a detailed action plan / reform programme with clear orientations regarding the specific activities, responsibilities and time frames. The decentralisation process in Tanzania has been characterised by a high level of Government control over the policy setting process and a clear strategic framework for decentralisation by adoption of the D-by-D policy. The donors moved early on to support this D-by-D policy and established in cooperation with the GOT the LGRP basket funding mechanism.
- **In addition to providing the legal and policy framework for decentralisation, partner governments can facilitate alignment and harmonisation by engaging in the elaboration of an overall strategy for development assistance:** The JAS process in Tanzania provides a clear vision from government regarding the preferred modalities of DP support, including the definition of different types of partnerships, a clear indication with regard to the aid modality (project / programme support, basket funding, budget support) and the objectives of limiting the number of DPs providing support to a specific sector as well as the expectation that DPs base their support on national strategies and programmes. This process has provided strong incentives for DPs to reconsider their aid modalities and has been highly conducive to DP alignment in Tanzania.
- **In case of a lack of a clear national framework, DP's continued support to policy and strategy development and its link to state reform is a key issue for harmonisation and alignment:** Partner governments' are generally supported by DPs in the process of drawing up government policy, though DPs also commit to leaving it up to the government to decide the pace and speed at which to proceed.
- **Promotion of a National Programme for Decentralisation and Local Development:** Establishing a comprehensive national programme for supporting decentralisation and local governance can be a highly effective way to achieve concrete alignment of DP support. However, the complexity of such a programme has to be acknowledged, as it will have to involve several institutions, in addition to sector-wide and crosscutting

coordination mechanisms. However, even if a comprehensive programme has been set up to which most DPs provide their support, some DPs might wish to continue their individual projects and initiatives, calling for clear indications from government regarding alignment.

- **Gradual alignment to key elements of national framework:** Without an approved strategy for decentralisation and local governance, DPs lack the framework to fully align their support to national systems and procedures. Considerable time and patience will have to be invested, particular in transition periods (as conflict in Nepal; transition from one government to a very different government as in Nicaragua). However, the gradual alignment to those elements of the national framework that are already in place is a common and positive approach. In this respect, the establishment of national uniform transfers systems are important tools for alignment: The setting up of the DDF in Nepal as a decentralised one window funding framework has provided important incentives for channelling external funding through this mechanisms instead of maintaining diverging parallel system. The Municipal Transfers Law of 2003 and the support mechanism used by a handful of DPs in Nicaragua represent another example of a public policy for the alignment of cooperation. The participation of some DPs initially set on establishing regional programmes for decentralisation in the newly created basket funding for the Local Government Reform Programme in Tanzania is another example. Other building blocks for strengthening harmonisation and alignment of DP support to local governments are typically national strategies .

#### V.4 Modalities of DP support

Support to decentralisation and local governance is still characterized by a large variety of aid modalities. Most DPs have committed to harmonising procedures and modalities, however changing the traditional way of doing has proved to a difficult and lengthy process that needs to be facilitated both by DP organisation and partner governments. The most important aspects for harmonising the modalities of DP support derived from the four country studies are summarised below:

- **Challenge to develop comprehensive support programme for decentralisation and local governance to ensure that as many as possible donor supported interventions that have a bearing on the D by D process can be integrated:** The development of a comprehensive support programme for decentralisation and local governance provides a framework for harmonising DP support. The experiences with the joint support to the LGRP in Tanzania as well as the upcoming DFDP II in Nepal highlight the facilitating role these programmes can play in harmonising procedures and aid modalities by providing a set of commonly agreed national systems and procedures for the implementation of the programme. These programmes will typically built upon existing efficient systems, but also contribute to the development of uniform national systems and harmonised DP procedures by establishing – among others - common reporting, control and auditing requirements and systems. However, the integration of as many as possible donor supported interventions into these programmes requires extensive dialogue and negotiation.
- **Step-by-step harmonisation based on national strategies and procedures:** Without the framework of a comprehensive support programme for decentralisation, harmonisation of support modalities can be achieved in a gradual process. Building upon national procedures and systems as soon as they have been developed and supporting the evaluation of existing practices in view of developing uniform national procedures and systems will facilitate the alignment of DP support and the adoption of harmonised approaches. Subscribing to a common strategy and – insofar as these already have been developed – also applying a common set of procedures government together with DPs can take a first step towards harmonising the different support initiatives. Regional targeting preferred by some DPs can be maintained under this approach. The second step is normally based on an approved strategy and consists of providing pooled funding to a basket managed by government according to the agreed strategy and plan, where

donors have a monitoring and oversight role. The pooling of funding flows within a uniform national transfer mechanisms is a widespread example (Nepal, Benin, Tanzania and to a lesser degree, Nicaragua) entailing the harmonisation procedural issues. The harmonisation of support for local capacity building proves to be more difficult, however, several initiatives in that regard are currently being undertaken (Nepal, Benin).

- **Evaluation of best practices as input for development and/or improvement of uniform national systems:** The variety of different project and programme concepts and interventions logics typically supported during the first years of decentralisation reforms provides a rich experiences from which best practices for future interventions and the development of uniform systems and procedures can be derived. The recent initiative undertaken in Benin to evaluate the current practices with regard to the elaboration of the local development plans and to draw conclusions from the findings to improve the respective national manual can be cited as a good example; another being the up-scaling of the experiences with the regional coordination fora.
- **Improve communication within DP organisation on decentralisation as cross-cutting issue to avoid contradictory / uncoordinated support programmes:** In the context of increased coordination between DP, information on support programmes and aid modalities is widely shared within the 'decentralisation community', however communication with other section within the same organisation (both at HQ and at local level) has not kept pace – decentralisation is often not yet understood as a cross-cutting issue and sectoral support programmes are often designed without taking the 'new realities' (new responsibilities of local governments) into account or in bypassing them for reasons of technical capacities.
- **Provide clear orientation and motivation from HQ to DP country representatives and/or responsible project managers for engaging in demanding harmonisation and alignment processes:** Moving from traditional programme / project approaches based on DP specific procedures and agreements to new joint support programmes with basket or budget funding mechanisms entail considerable transaction costs for the responsible project / programme manager. These transaction cost are important disincentives to harmonisation and alignment if not outweighed by clear motivation / orientation from the DP organisation management level.
- **Need to delegate more authority to country offices to empower decentralised decision making based on local priorities:** The new types of partnerships between DPs and government provided for in the joint support programmes as well as the commitment to improving alignment and harmonisation have considerable implications for the DP capacities required and approaches to their development operations. To engage actively in the sector dialogue and to effectively promote the implementation of the decentralisation reforms through the support provided by the DP, the country offices need to be in the position to make decision regarding their engagement based on local priorities in order not to hamper or slow down the process. In addition, it should be agreed between DP country offices and the central level, that advances on harmonisation and alignment require special attention. In other words, although specific measures can be delegated, harmonisation and alignment should be an overall priority issue for all DPs.
- **Flexibility in project / programme design to integrate new national systems and procedures during implementation:** The divergence in commitment and programme cycles makes it difficult to provide full support to new national systems from their start and to integrate new national procedures if funding provided by DPs is committed to programme / project approaches with specific procedures. The flexibility of the programme design with regard to incorporating new national systems and procedures (upcoming national funding mechanism) is a valuable approach followed by some DPs in Benin and minimizes the risk of undermining the national system by the persistence of parallel programme specific procedures.
- **A shift from International technical assistance to use of national human resources:** The role of international advisors for decentralisation and local governance is generally is

valued and justified where they contribute with particular knowledge. However, some DPs have reduced their funding for international advisors and instead have provided funding for national short and long-term advisors as part of supported institutional plans. While the practice of an increased use of national human resources seems well-justified, the issue of sustainability of national advisors also need to be attended.

## **PRECONDITIONS AND ACTION POINTS FOR IMPROVING DP ALIGNMENT AND HARMONISATION**

### **Management of the Decentralisation process:**

Various factors are necessary for ensuring that the decentralisation reforms will improve local level accountability and service delivery and contribute to the reduction of poverty. The core issues identified in the four countries are:

- Recognition of decentralisation as a cross-cutting issue and coherence with other core public sector reforms are essential
- High-level political leadership required for successful decentralisation and local governance reforms
- Broad participation of civil society as a success factor

### **DP Coordination Mechanisms:**

To improve coordination between government and DPs and between DPs in order to make support to decentralisation and local governance more efficient, it is essential to :

- Make coordination more comprehensive horizontally and vertically to be able to address all dimension relevant to the decentralisation process in a coherent manner
- Ensure government commitment for its leadership role for the DP coordination
- Set-up road map with specific milestones for enhancing coordination and harmonisation within the DP group, moving from exchange of information, mapping exercises and the development of ToRs for the group towards joint missions, common funding mechanisms and partnership and representation arrangements.

### **DP Alignment to country strategies:**

The alignment of DP support to country strategies depends strongly on the framework provided by partner governments, and the alignment process can take various forms:

- Alignment to non-coherent national strategies can lead to conflicting and contradictory support strategies, therefore integration of decentralisation into overall national strategies essential (PRSP).
- Gradual alignment to key elements of national framework can facilitate the development of a comprehensive overall support programme with joint funding mechanisms.
- Overall strategy for development cooperation and partnerships (Joint Assistance Strategy) will facilitate alignment and harmonisation

### **Modalities of DP support:**

To promote harmonisation of aid modalities required for successful support to decentralisation, it is essential to:

- Improve communication within DP organisation on decentralisation as cross-cutting issue to avoid contradictory / uncoordinated support programmes:
- Provide clear orientation and motivation from HQ to DP country representatives and / or responsible project managers for engaging in (difficult / new/ tedious) harmonisation and alignment processes and delegate more authority to country offices for improving decision making based on local priorities:
- Facilitate harmonisation of aid modalities by supporting evaluation of best practices in and development of uniform country systems

# **International Development Partner Harmonisation for Enhanced Aid Effectiveness:**

## **Alignment strategies in the field of Decentralisation and Local Governance**

### **A Review of Country Practices and Experiences**

#### **Terms of Reference**

##### **1. Background**

The majority of developing countries currently implements decentralisation reforms. However, the conceptual design of these policies varies greatly between the different countries and over time. The concept of decentralisation itself covers a wide range of different aspects including public sector reorganisation, relocation of political competences and financial resources. Local governance, too, covers many different approaches to describe the close relationship between decentralised local governments with civil society and the private sector.

International and bilateral Development Partners (DP) attaches more and more importance to the subject of decentralisation and local governance. Financial aid support is channelled either via budget support for decentralisation reforms as part of wider public sector reform programs or good governance programs, or as part of other sector programs.

As a consequence, in many countries there exist substantial numbers of individual projects supported by different DPs with the corresponding problems of overlap, lack of coordination or even conflicting program design. In recognition of this, a Donor Working Group on Local Governance and Decentralisation met on 26<sup>th</sup> of April 2006 at the KfW headquarter in Frankfurt, Germany, to share experiences and explore avenues for increased harmonisation of DP support to decentralisation and local governance in partner countries. As a first step the group commissioned a study to generate a basic overview of DP support to decentralisation and local governance.

The survey covered 7 organisations and countries assistance:

- 1) Belgium Technical Cooperation (BTC)
- 2) Danish International Development Assistance (Danida)
- 3) European Commission/ EuropeAid Co-operation Office
- 4) France / Direction Générale de la Coopération Internationale et du Développement (DGCID)/ AFD
- 5) Germany/ BMZ/GTZ/KfW
- 6) The Netherlands/DGIS
- 7) Switzerland/SDC

This desk study provided basic information of each organisations' mandate, internal organisation structure and approaches to decentralisation support including their individual strategy papers. Information on DPs' project portfolio was gathered using a survey questionnaire.

Information of 500 ongoing projects was provided and clearly revealed the fact that the dominating approach for delivering DP support to decentralisation and local governance is the classical aid modality of project approach: Each DP supports a project following its own procedures and institutional arrangements. This implies that partner countries are often confronted with a confusing number of responsible spoke persons, multiple administrative procedures and a multitude of differing decentralisation approaches. This makes the project realisation and monitoring for the partner countries really time intensive and laborious.

Nevertheless, the presented DPs' project portfolio did not entail a detailed analysis of the comprehensive support to decentralisation and local governance.<sup>4</sup>

Further, it should be noted that the survey only included such DP assistance that have decentralisation and local governance as primary objectives – yet all organisations included in the survey, provide most of their aid support in the form of specific sector programs such as education, health, agriculture, roads etc. where decentralisation of service delivery mechanisms frequently also is of significant importance.

After providing evidence to the need of enhanced aid harmonisation, the survey proposed strong ownership of the partner countries as a key factor in order to harmonise DP efforts and render their aid more effective.

Therefore, the study put forward to give priority to the support of the national decentralisation strategies of the partner countries. By this, DPs will be guided subsequently in their efforts to enhance decentralisation and local governance as well as in the conception of sector support programs.

Taking into account these findings, the DP group decided to initiate a field study in four selected countries in order to analyse DP practices of aid harmonisation and effectiveness in the context of national decentralisation programmes more thoroughly.

## 2. Study Objective

The **general objective** of this study is to propose common good practices / guidelines for DP support to decentralisation and local governance that will enhance aid effectiveness.

The specific objectives of the study are:

- 1 To analyse the institutional arrangements for the management of the decentralisation reform process and how they interrelate with the arrangements for the management of a broader public administration reform
- 2 To assess the effectiveness and performance of DP coordination mechanisms in the field of decentralisation, paying also attention to coordination mechanisms in a limited number of sector programmes where decentralisation of service delivery is concerned (ex. education, health).
- 3 To assess how DPs support interrelates with the country strategies and decentralisation reforms and how different country strategies facilitate or restrain DP harmonisation and alignment.
- 4 To assess how the use of various entry points by DP in their support to decentralisation and local governance reinforce or weaken country decentralisation reforms.
- 5 To analyse possible effects of donor support to the implementation of decentralisation reforms with the results discussed in the above mentioned context of Point 1-4 (specific objectives of the study) and finally;

---

<sup>4</sup> Decentralisation is a wide concept that covers many different approaches. A more thorough assessment of the actual level of decentralisation and local governance support by individual donors would need more input in terms of manpower and archive searches.

- 6 To suggest principles for concrete DP aid harmonisation in support of decentralisation and local governance. The principles would naturally have to be adapted to country specific contexts, but it is expected that the study will lead to some general principles for three broad categories of countries e.g
- a) Countries with significant powers and functions devolved to local governments,
  - b) Countries with a policy framework for reform but lack of coherent operational strategies for fiscal and human resources aspect of decentralisation.
  - c) Countries with broad intentions of reform but no clear policy on devolution

### 1.1 3. Scope of work

The work will include the following tasks:

- a. Inception report:
  - a. Outline the research methodology and working plan in order to analyse DP harmonisation in specific countries.
  - b. Outline of a report format for presentation of findings, conclusions and recommendations,
- b. In each country:
  - a. Review of key policy and strategy documents, decentralisation reviews, evaluations, sector reviews etc.,
  - b. Interviews with key officials and other relevant actors (i.e. civil society organisations, local government associations, research institutes) involved in decentralisation reforms,
  - c. Interviews with local representatives of DP organisations supporting decentralisation and local governance,
  - d. Interviews with selected officials from Ministries of Finance, Local Affairs, Public Service and relevant Sectors
- c. Presentation of first findings to local representative of DP organisations supporting decentralisation
- d. Report drafting with outline of country specific experiences as well as general conclusions and recommendations,
- e. Report presentation at workshop in Berlin (September 17/18. 2007)
- f. Completion of report based on comments and workshop input.

The study will be undertaken in 4 countries in order to find examples of:

- Decentralisation reforms that a) have substantially matured, b) are in their initial phase , c) have been ongoing for long but with limited progress,
- Reform in both Anglophone and Francophone Africa
- Decentralisation experiences from Asia and Latin America,
- Countries where the decentralisation process is well advanced and where the coordination between donors and with the Government is working well (ex. Mali)

- Countries where there is a Joint Assistance Strategy (ex. Ghana – 16 donors involved) and where direct or indirect support to decentralisation may have a key attention.

An overview of potential countries is provided in annex 1 attached to the TOR.

It is recommended to restrict the study to the four following countries:

1. Nicaragua: Central America – after a decade of reform still uncertain national policy of where to take decentralisation. Several donors
2. Burkina Faso: African (French speaking) – comprehensive reform in its initial stages. Several different donors
3. Tanzania – reforms quite mature compared to other LDCs. Substantive support from donors in different forms over more than a decade
4. Nepal: Asian country, conflict situation, - reforms in initial stage.

## 1.2

### 1.3 4. Consultancy Input

It is foreseen that the assignment will require a team of two consultants where one will act as a Team Leader. Following qualifications are required:

- Relevant masters or PhD (political science, sociology, administration studies, economics)
- Minimum five and preferably ten or more years of experience with decentralisation and local governance programmes in Africa, Asia and Latin America
- Fluent in English and French / Spanish

#### Organisation of the study

The two consultants will each conduct two field studies. The Team leader will put together the main results of the four country chapters and general reflections to the harmonisation issue to one general report. The general report will be distributed to the Development Partners and presented at the workshop in Berlin.

#### Timeframe for Consultants

##### A) Consultant for two field studies (Total 48 days):

- 5 days for documentary review and preparation of field visits in 2 countries
- 28 days for field visit (in each country approximately:14 days for interviews/field visit, including 2 travel days)
- 10 days for writing two country chapter
- 5 days for workshop presentation/participation and support to write the final report

**B) Team Leader (Total 63 days)**

- 10 days for inception report, documentary review and preparation of field visits in 2 countries
- 28 days for field visit (in each country approximately:14 days for interviews/field visit, including 2 travel days)
- 10 days for writing two country chapter
- 15 days for completion of overall report, workshop presentation/participation and final report

**1.4 5. Timing**

The assignment will start XXX

The inception report will be submitted two weeks after the start of the assignment,

The draft report will be submitted 3 months after the start of the assignment

**1.5 6. Reporting**

The consultants will report to a reference group composed of: XXXXX

**Annex 1: Overview of Possible Countries for Selection for In-depth Review**

Country	Region	National Decentralisation Strategy	Donor Support Modality
Uganda	Africa	Basic architecture of local governments (LG) supported 1992-1997. Since then less emphasis on legal reforms and main emphasis on improving fiscal decentralisation by introduction of LG development grant, Local Government Finance Commission and Fiscal Decentralisation Strategy. Also development of common framework for capacity building in local governments. However, no comprehensive strategy for other elements of decentralisation. Subsequent to various legal amendments in 2006 that recentralised some LG functions, the Government has developed a restatement of decentralisation policy and an overall Local Government Sector Investment Plan (LGSIP) to reflect and guide all support to the sector.	Many different projects but a high degree of coordination by joint donor funding of the Local Government Development Programme (LGDP I and II) with World Bank as lead. The joint development funding modality was initially piloted by UNCDF. A large group of bilateral donors committed to “budget support” to the LGSIP but arrangements not yet in place. Several separate projects in specific LGs continue with limited coordination. WB LGDP –III under formulation/appraisal
Tanzania	Africa	A Local Government reform policy was passed in 1998 and a Local Government reform programme established and effective from 1999. The initial years focused on basic policy issues and attempts of restructuring local Governments and phasing in of reform elements. Since review in 2004 main emphasis has been on fiscal aspects of reform and more effective inclusion of the sectors. An Evaluation of the reform is expected in March 2007. Key concerns at present are regarding legislation for public staff management and new proposed amendments of the LG Act.	Donors have since 1999 supported a basket funded national programme on local government reform. However, many donors maintained in addition area based programmes up to 2005 when most development funding was mainstreamed through a Local Government Capital Grant System. In a similar way local level capacity building was to a large extent mainstreamed into government operating modalities.
Ghana	Africa	Decentralisation policy is fixed in the Constitution (1992). There is no overall strategy, but a decentralisation action plan (NDAP) seen as a step towards a “decentralisation SWAP”. District Assemblies are partially elected, there are statements regarding further decentralisation .A Comprehensive decentralisation Policy and Strategy is included as a trigger for budget support in 2007. The existing National Decentralisation Action Plan (2004) focus on stepwise coordination	There exist a large number of separate donor projects in support of different aspects of decentralisation – primarily in the form of various area based programme support. Since 2004 some donors support the implementation of the NDAP, further alignment is planned in the form of funding a common district and capacity building funding facility which is still under design.
Burkina Faso	Africa	Decentralisation is anchored in the 1991 constitution as part of the democratic reform process After two municipal elections, Burkina Faso is preparing to expand decentralisation reform to rural areas.	There exist a large number of separate donor projects in support of different aspects of decentralisation.

Mali	Africa	Decentralisation was proposed by President Alpha Oumar Konare as one of the country's key focus areas. Following the national conference and in accordance with the new Constitution subsequently adopted by referendum, it was considered a crucial reform in instigating democracy at local level. In line with this strong political approach and contrary to an administrative approach, a Decentralisation Mission drew up and implemented an overall nationwide reform strategy. It concentrated primarily on the principles of populations taking responsibility and becoming involved	A Fonds national d'Investissement des Collectivités Territoriales (FICT) and the Agence Nationale d'Investissement des Collectivités Territoriales (ANICT) were set up to manage the process together with a national provision for technical support for the launch of municipalities with municipal advice centres. PARAD supported by 11 donors are contributing to the Fonds d'Investissement des Collectivités Territoriales (FICT). The main ones are EC, AFD/France, Dutch, Belgium, KFW, UNCDF and ADB.
Nepal	Asia	Although there is an outdated strategic framework for decentralisation with a dormant monitoring outline. There is lack an overall policy and implementation strategy and action plan for decentralisation.	Earmarked budget support to 20 districts covered by ongoing DFDP (supported by DFID and UNCDF). UNDP/NORAD has on-going project. A new local governance recovery programme under development will align itself to government system.
Cambodia	Asia	A joint donor basket funding arrangement has supported the elaboration of a D&D strategy and action plan (2005-)	Although still rather project based, the Seila Programme has in many years been an example of a comprehensive basket fund arrangement outside of the direct government funding system but with funding flows (part of the funding – the grants to LGs- goes through the GoC's Treasury system). There is a move towards a common support strategy based on GoC's own strategy and plan
East Timor	Asia	UNCDF/UNDP has played a major role in support of the strategy development. The legal framework will follow in 2007.	Funding is still project specific, but some projects have had significant impact on the overall policy and strategy and parts of them will be scaled-up. There is piloting of funding through the government system taking place that might be scaled-up soon.
Yemen	Middle East	Initially no comprehensive decentralisation strategy but a new legal framework, which created new forms of local administration supported by Ministry of Local Administration. Recent efforts by the Government and partners to develop comprehensive decentralisation strategy is still in draft form.	Several separate projects, but increasingly coordination of donor support through programme led by UNCDF and UNDP within Ministry if Local Administration. Individual donors support selected districts but within one common framework for development funding and capacity building.

Bangladesh	Asia	<p>There is no decentralization policy in place (only a brief sector policy for development grants) Joint design of a Programme with development grants to the LGs (Union Parishads)</p> <p>Other coordination agreements between few donors supporting the urban authorities is not common, but has started among few partners, e.g. the World Bank and UNCDF.</p>	In future, the support for the Local Governance Support Programme will go through the GoB's budget as earmarked budget support.
Bolivia	South America	Since the administrative decentralisation law passed in 1995 departments were granted wider powers over planning, economic and social development and social sectors.	Central transfers to local governments (through FPS) are up to 60%... Many active donors (Danida, DGCID/AFD, KfW, DGIS, BTC etc.)
Nicaragua	Latin America	The Municipal law (Ley de Municipalidades no. 40) passed in 1988 defined the central government's and municipalities' responsibilities. Nevertheless, there was not any transfer of the responsibilities or the funds to the municipalities in the practice. The law is vague and has led to deteriorating services at local levels due to lack of precision in assigning responsibilities between central and local government .	According to the law 446 on budget transfers (2003) there was an increase from 2%to 4% and nowadays the transfers amount to 6% of the budget. . with a planned rising to 10% by 2010. A transfer of responsibilities to the municipalities should happen with a further increase of monetary transfers. There are many active donors in Nicaragua (KfW, BID, etc).

