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Supporting decentralisation, local governance and local development through a territorial approach

Directorate-General for International Cooperation and Development

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Abbreviations and acronyms

ALA	association of local authorities
CAP2D	Cap vers la décentralisation et le développement intégré des territoires
CSO	civil society organisation
DLGTD	decentralisation, local governance and territorial development
EC	European Commission
EDF	European Development Fund
ESAP-2	Ethiopia Social Accountability Programme
EU	European Union
FADeC	Fonds d'appui au développement des communes
IDDF	Integrated Decentralisation Diagnostic Framework
LA	local authority
MAAP	Multi-Annual Action Plan
NGO	non-governmental organisation
PADT	Programme d'appui au développement territorial
PAF	performance assessment framework
PASCAL	Programa de Apoyo a la Sociedad Civil y Autoridades Locales
PIIF	policy and institutional innovation facility
SDG	Sustainable Development Goal
TALD	territorial approach to local development

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Introduction

A new narrative on decentralisation

Over the last decade, a shift in the understanding of decentralisation has occurred. There is a clear move beyond the rather narrow concern of reforming the state to ensure efficient resource allocation. The focus now is more on the actual political drivers of decentralisation reforms and their ability to help unleash the potential of territories in order to effectively fight inequality, create wealth and jobs, and tackle other pressing development challenges. This shift has, in turn, led to a greater acknowledgement of the proactive development role that local authorities (LAs) could play if empowered to act as political entities on behalf of their constituencies.

This new perspective has major consequences for external assistance. It invites donor agencies to (i) support decentralisation as a means of promoting territorial approaches to local development through autonomous and accountable LAs, and (ii) acknowledge that the capacity of LAs to play a development role depends on the existence of an effective system of relations with other levels of governance. External support could foster development-friendly decentralisation reforms which empower LAs, as well as other enabling national policies and institutional changes which create conditions for local/territorial development.

In 2013, the European Commission issued a communication, ''Empowering local authorities in partner countries for enhanced governance and more effective development outcomes' (EC, 2013). In this landmark document, the European Union (EU) embraces a larger view of the role of LAs — as key representatives of local polities in a given territory, not just managerial agents of the state — and of the instrumental value of decentralisation as a vehicle to create space for developmental LAs. The communication also commits the EU to promoting territorial development. This ambition was reflected in the next programming cycle of both the thematic and geographic budget lines of EU development cooperation.

These policy developments in the EU mirror what can be observed at the international level. Through their associations, LAs have become recognised actors in dialogue processes at the global, continental and regional levels. They are also expected to play a catalytic role in promoting territorial approaches to local development at the national level.

The Busan Outcome Document (Fourth High Level Forum on Aid Effectiveness, 2011) highlights the multi-actor dimension of development processes and the distinct roles to be played by LAs. In September 2015, the international community adopted the universal 2030 Agenda (UN, 2015b) which defines 17 Sustainable Development Goals (SDGs); they include many targets which are closely related to the daily mandate of LAs. Their achievement will largely depend on credible national policies and the strengthening of developmental LAs — i.e. autonomous and accountable LAs with democratic legitimacy. This was also explicitly

acknowledged in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development (UN, 2015a). The agenda stresses the need to address the lack of financial means, as well as the capacity shortages, at the sub-national level; to scale up international cooperation for that purpose; and to support LAs in their efforts to mobilise resources.

These various initiatives are fuelling interest in the role and contribution of LAs in the implementation of the 2030 Agenda. They also explain why the idea of localising the SDGs is gaining momentum. However, past efforts to achieve the Millennium Development Goals (MDGs) show that merely translating such an agenda into national development policies will not suffice. The actual impact of such policies relies on the quality of the institutions through which they are designed and delivered. Greater attention therefore needs to be given to improving delivery systems which typically entail multiple levels and actors and — after decades of worldwide decentralisation reforms — should include LAs acting as front-line delivery agents.

Hence, the role of LAs in achieving the SDGs will ultimately depend on the extent to which national authorities enable and incentivise the LAs to own the goals by prioritising them in their local planning systems and by monitoring progress through relevant indicators from a local perspective.

Localising the SDGs by focusing on territories and empowering LAs to deliver them may be one of the most effective ways to improve the national system to deliver SDG-based policies. Autonomous and accountable LAs may (i) directly improve the overall efficiency of national SDG-based programmes by matching resources to local demands and increasing the value for money in their use, as well as (ii) both directly and indirectly promote the SDGs by mobilising a wide range of local resources (first and foremost local social capital) to supplement and complement national efforts and deliver genuine development of the territory.

Purpose and development of this guidance

Against this background, the overall aim of this guidance is to clarify how a territorial approach to local development (TALD), driven by developmental LAs, could be promoted through EU-supported programmes and projects with a view to promoting economic development, social cohesion and environmental sustainability. This aim may help reconnect the decentralisation and development agendas, while aiding in translating the new EU vision on the developmental role of LAs into a coherent set of support strategies in different country contexts. This guidance updates the 2007 reference document on decentralisation and local governance that helped frame EU interventions in this area over the past decade (DG DEVCO, 2007).

This document is the product of a broad consultation process involving different units in the European Commission's Directorate-General for International Cooperation and Development, other European Commission directorates, EU delegations as well as various sources of external expertise. Several seminars were organised at EU Headquarters and in various regions with a view to ensuring a co-production process in formulating this guidance. These various

participants helped shape a shared vision on how to re-frame decentralisation support and apply a TALD[1].

Using this document

This guidance provides a comprehensive overview of the TALD analytical framework that is meant to help EU delegations assess the policy, institutional and technical capacity constraints affecting territorial development in a given context; and to determine where and how they can best intervene to support it. Building on this, the guidance seeks to help EU delegations more effectively use the TALD framework to undertake the identification, design and implementation of country-specific interventions to support decentralisation, local governance and territorial development (DLGTD) in partner countries.

Ideally, readers should approach this material systematically and sequentially in order to see where the EU is coming from and going to in the area of DLGTD support. However, the guidance has been organised with a modular structure, divided into parts that can be read independently from each other to target the specific questions raised. The guidance is structured as follows:

- Part I sets the scene by reviewing three decades of decentralisation reforms in partner countries. It examines evolving EU engagement strategies and the overall effectiveness of the support provided. It then dissects the key messages of the 2013 communication on LAs as well as the resulting broader definition of decentralisation — conceived of as a process of empowering both LAs and citizens, amongst others through organised civil society[2].

- Part II reviews the implications of the new EU ambition to empower LAs as development actors that can play a catalytic role in promoting local/territorial development. It first revisits key concepts such as LAs, local governance, local democracy and decentralisation. It goes on to explain why a TALD is required to connect decentralisation to development, what this entails and how it can be promoted.

- Part III focuses on the various building blocks of a TALD. It examines how this framework could be used as a navigation tool to identify relevant entry points for EU support — geared at achieving a diversity of outcomes through a smart combination of approaches, instruments and aid modalities.

- Part IV introduces the different modalities and financing mechanisms available to EU delegations in choosing the best mix of modalities in supporting DLGTD interventions. The sections in this part cover budget support, the 'smart' project approach, innovative financing mechanisms such as blending and trust funds, and the Civil Society Organisation–LA Thematic Programme.

[1] Specifically, in December 2014, an internal brainstorming session focused on the concept of TALD, its practical implications and feasibility. This exercise was repeated in Brussels in the form of a four and half–day seminar involving more than 60 policymakers, practitioners and experts in April 2015. Next, regional seminars were organised to contextualise the notion of TALD and explore concrete ways of supporting it. The first such regional meeting took place in Bogotá in June 2015. Similar gatherings were organised for the francophone countries of West and Central Africa in Cotonou in November 2015; in the Asia region in Jakarta in February 2016; and in the Anglophone countries of East and South Africa in Dar-es-Salaam in April 2016.

[2] The EU fully recognises the key role of civil society organisations in articulating citizen concerns and rooting democracy. This vision is clearly spelled out in a 2012 communication (EC, 2012).

- The annexes present a variety of useful supplementary materials. Notably, Annex 6 presents a set of case studies derived from EU practice in various country contexts. These are meant to illustrate different paths which could be followed to promote genuine territorial development fuelled by multi-actor dynamics at the local level and supported by development-friendly decentralisation reforms, other national policies and smart donor assistance.

The audience for this guidance are EU staff in delegations and at Headquarters, ranging from heads of cooperation to sector experts, governance specialists and task managers of thematic budget lines that:

- directly support local/territorial development;
- directly support national decentralisation reforms, initiated by central governments in partner countries;
- seek to integrate the local dimension in sector budget support operations;
- engage in state-building and democratisation processes in situations of fragility and conflict;
- seek to use the Civil Society Organisation–LA Thematic Programme in a more strategic manner by fostering constructive partnerships.

PART I

Three decades of decentralisation and EU support — and the path ahead

THIS PART:

- considers the wave of decentralisation reforms that swept the developing world from the mid-1980s onwards;
- describes the trajectory and learning curve of the European Union in terms of supporting local development and decentralisation reforms in partner countries;
- introduces the landmark 2013 communication on empowering local authorities and what it means for future European Union engagement strategies.

SECTION 1: History and track record of decentralisation reforms

From the mid-1980s onwards, a wave of decentralisation reforms swept across the developing world. A wide range of governments embarked on state reform processes aimed at transferring responsibilities, resources and authority from higher to lower levels of government. Each country followed its own trajectory related to historic legacies, geographic features, political factors, and prevailing socio-economic conditions and culture. Decentralisation has occurred in unitary systems as well as in federal/quasi-federal systems.

The factors driving decentralisation have varied from region to region. In Latin America, the main push towards decentralisation originated in the need to transform political systems from military dictatorships to democracies. In Eastern Europe and the former Soviet Union, decentralisation has been part of the political and economic transformation process from a socialist system to a market economy. In Africa, decentralisation was generally promoted from the outside and linked to the dual imperative of structural adjustment and democratisation/good governance following the end of the Cold War.

Conventional theory ascribes important potential benefits to decentralisation reforms. The transfer of responsibilities may enhance the quality and efficiency of service provision through improved governance and resource allocation. The proximity of local authorities (LAs) may induce citizens to participate in public life and exercise more influence on local officials — which may help reduce corruption and improve accountability.

Three decades in, the overall track record of decentralisation is mixed. Though decentralisation dynamics vary greatly across regions, it is possible to identify some common elements that shed light on what worked and what was not as effective. Table 1.1 presents an at-a-glance summary of positive achievements as well as recurring constraints observed in carrying out decentralisation reforms in European Union (EU) partner countries[1].

In practice, the actual status of decentralisation in a given country will not align precisely with the summary provided in the table. It will instead feature a specific mix of ingredients in each country, and moreover will change over time; this is in line with the non-linear nature of decentralisation reforms, which is characterised by unpredictable ups and downs.

Despite the diversity of experiences over the last three decades in decentralisation reforms worldwide, a few generic lessons have been learnt.

- **Decentralisation is a highly political process.** The mixed track record of reform should not come as a surprise. In the real world, decentralisation is driven by politics and not by development objectives. The course of decentralisation in a given country (including its timing and sequencing) is primarily determined by the balance of power between the different stakeholders involved and their relative ability to bargain and shape policy design and implementation. In many countries, the coalition of interests is such that reforms do not necessarily lead to more autonomous and accountable LAs endowed with adequate resources to play an effective role as development actors.

[1] This information is largely drawn from regional exchange seminars organised by the European Commission's Directorate-General for International Cooperation and Development in Latin America and Africa in 2013–2014.

TABLE 1.1 **Overview of progress made and obstacles encountered in decentralisation efforts in EU partner countries**

AREA	PROGRESS MADE	OBSTACLES ENCOUNTERED
Existence of a legal framework and actual decentralisation	Countries have adopted constitutions and laws providing for sub-national elections, some degree of autonomy and revenue sharing.	There is a major gap between the legal framework and practice. Competences are devolved without adequate resources. Revenue sharing remains very low and hampered by numerous conditions.
Emergence of a local public sector	The institutional landscape has changed profoundly by the emergence of a local public sector.	Many countries do not yet have an effective intergovernmental system which adequately integrates the local public sector and fosters inter-agency cooperation in the delivery of public goods and services.
LAs as autonomous actors	Within this local public sector, LAs seek to become autonomous actors with their own identity as a representative of a political community, legitimacy and added value in development.	Many LAs have been appropriated by local elites and/or are characterised by weak governance, low institutional density and overall fragility. Countries often opt for a managerial type of LA limited to executing tasks conferred by the central government.
Recognition of LAs in accountable management of public affairs	New LAs have appeared with an interest in local development, wealth creation and accountable management of public affairs.	Progressive LAs which are eager to expand their autonomy and promote local development tend to encounter fierce resistance from politicians, sector ministries or traditional authorities. They are seldom recognised as distinct political entities, including by donor agencies, which tend to bypass them in their budget support operations or other programmes.
Citizen engagement and local participation	Decentralisation has stimulated citizens to engage in local public policymaking, budget processes and service delivery.	Lack of effective service provision hampers LA legitimacy and reduces citizen willingness to engage or pay taxes. Frameworks for local participation are often dominated and utilised by the power holders to foster their interests.
Relationships between civil society organisations and LAs	Civil society organisations invest in local governance and in building legitimate and capable LAs.	Conflict rather than cooperation often characterises civil society organisation–LA relations. Civil society initiatives often bypass LAs or interfere in the competences conferred to them. The societal demand for decentralisation is often limited.
Existence and independence of LA associations	LAs have organised themselves in associations at different levels (global, regional, national) to preserve, protect and promote the local dimension of development and LA prerogatives.	The dominance of central powers remains high. In several countries, a recentralisation of competences is taking place. The independence of LA associations is often compromised by national party politics.

- **The link between decentralisation and development is problematic.** Not only is the empirical evidence of a link between decentralisation and development limited and inconclusive, the very concept of such a link is open to question. Moreover, because decentralisation is invariably driven by politics, there is inevitably no direct link between it and the promotion of local/territorial development.

- **A democratic foundation is important.** Countries that have put in place a development-friendly decentralisation process typically allow for some degree of free administration by elected officials. This autonomy is a necessary but not sufficient condition for decentralisation to yield positive development outcomes. What is also needed is a democratic foundation, in the form of individual freedoms, space for meaningful citizen engagement and effective accountability mechanisms. In many countries where the political culture is based on strong centralisation of power, hierarchical loyalty, patronage and fiscal disobedience, the progress of local democracy and development is seriously hampered.

- **Uneven development is a risk to be avoided.** National development policies have often followed outward-looking approaches focused on accessing global capital and world markets. However, the spatial model associated with this strategy tends to create territorial imbalances. The resulting uneven development has high social and political costs — including reduced growth prospects, increased inequalities and conflicts — and hampers a country's ability to unleash the potential of its territories.

- **An effective intergovernmental system is critical.** Decentralisation reforms across regions have often focused on managing reform in a top-down manner. They have concentrated on building the state's technocratic capacity while largely neglecting bottom-up dynamics and the role of LAs as development actors. Experience suggests that the collaboration between different layers of government is critical in effective delivery of quality public services and goods.

SECTION 2: The EU learning curve on decentralisation, local development and local authorities

Over the past three decades, EU involvement in matters of decentralisation and local development has gone through a cycle of experimentation and learning by doing. Building on this, a coherent policy framework has gradually developed. This process has been driven by dynamics in partner countries (e.g. the emergence or re-emergence of a decentralisation agenda), changes in international thinking on development (e.g. the growing recognition of LAs as a distinct set of actors) and evolving EU priorities in terms of development and governance.

Four major phases of EU engagement strategies can be distinguished during this time frame. Figure 2.1 illustrates the EU trajectory and learning curve of approaches towards decentralisation and local/territorial development.

Phase 1: development projects at the local level (1980 to mid-1990s). The EU has a long-standing tradition of intervening in local development, including through several generations of community-driven micro-project schemes, mainly aimed at fostering rural development and providing basic infrastructure. Following the new wave of decentralisation reforms of the early 1990s, LAs emerged as a new actor in the local arena. It took some time before they could establish a basic institutional existence and claim space. However, as they became more visible, the EU began to explore ways and means by which to involve this new institutional player in its cooperation. This led to a new generation of micro-projects embedded in a wider approach to local development, propelled by joint action between communities and LAs. Initially, there was no defined policy framework to guide EU interventions, which were generally confined to the local level and lacked a clear political/institutional and systemic vision. This lack was compounded by a strong donor preference to work mainly with central governments on policy matters and with non-governmental organisations (NGOs) at the local level to implement projects. This context explains why, for a long time, LAs remained a rather marginalised actor in development and EU development cooperation, both as a dialogue partner and a recipient of funds.

Phase 2: evolution towards actor-based approaches and systems thinking (mid-1990s to 2010). As LAs started to acquire more legitimacy and credibility, there was a growing interest on the part of the EU to provide more tailored forms of support. A first generation of projects targeting LAs as a distinct actor appeared, both at the country level (e.g. municipal development projects) and at the regional level (such as the successful URB-AL programme in Latin America and URB Asia). Over time, these projects helped enhance the capacity of LAs in addressing issues such as social cohesion, local economic development, environmental sustainability and internally displaced persons. They also supported organisational strengthening and good governance at the local level. These efforts were complemented by a variety of decentralised cooperation schemes driven by municipalities in European countries.

FIGURE 2.1 **Evolution of EU intervention in local development**

Yet as these actor-based support programmes were rolled out, the EU realised that LAs do not operate in isolation, but rather are part of a wider system of relations with other levels of governance. The delivery capacity of LAs ultimately depends on the quality of this intergovernmental system. Consequently, from 2000 onwards, the EU became increasingly engaged in supporting national decentralisation reforms, particularly in francophone Africa. It also invested more in building its internal knowledge base, as reflected in the reference document *Supporting decentralisation and local governance in third countries* (DG DEVCO, 2007).

Phase 3: recognition and mainstreaming of LAs in EU cooperation (2005 onwards). The growing international recognition of LAs as development actors — propelled by vocal LA associations at various levels — led to the EU's gradually integrating LAs into its cooperation processes. From 2005 onwards, the following steps were taken to this end:

- incorporation of specific provisions regarding LAs in the revised 2005 Cotonou Agreement;
- creation in 2006 of a new thematic EU financial instrument for both non-state actors and LAs;
- formulation of the first dedicated EU communication on LAs in 2008 (Commission of the European Communities, 2008);
- full-fledged involvement of LAs in the 2010–2011 structured dialogue process aimed at rethinking partnership approaches[2];
- elaboration of the landmark European Commission (EC) communication of 2013, 'Empowering local authorities in partner countries for enhanced governance and more effective development outcomes', which invites the EU to contribute to the empowerment of LAs as catalysts of local/territorial development;
- launch of a new strengthened thematic programme dedicated to civil society organisations (CSOs) and LAs for the period 2014–2020;
- increased efforts to mainstream the participation of LAs in policy dialogue processes at various levels as well as in geographic instruments, including budget support operations;
- establishment in 2015 of framework partnership agreements with five LA associations acting at the global and regional levels, thereby formalising new EU policies regarding LAs at the highest political level;
- adoption of the 2030 Agenda for Sustainable Development by the international community and the related challenge to localise implementation of the new Sustainable Development Goals through active involvement of LAs.

Phase 4: reconnecting decentralisation and development through territorial approaches (2013 and beyond). The above-mentioned 2013 EC communication provides an opportunity to make a qualitative leap forward in how the EU deals with decentralisation, local development and LAs. It may lead to the elaboration of a more coherent EU response strategy which overcomes the limitations of the forms of engagement used in the previous phases.

The initial EU approach of the 1980s–1990s focused on the local level and sought to promote genuine bottom-up processes of local development increasingly steered by both civil society and LAs. While these programmes yielded concrete results at the local level, their ability to ensure scaling-up and sustainability was less evident. Subsequently, the EU shifted

[2] The structured dialogue for an efficient partnership in development was a process that took place between 2010 and 2011, bringing together more than 700 civil society organisations and LAs from all over the world, as well as participants from the EU Member States, the European Parliament and the European Commission. During a wide range of seminars, participants identified ways to improve the effectiveness of all actors involved in EU development cooperation. These recommendations were compiled in the 2011 Budapest Declaration. The structured dialogue heavily influenced subsequent communications regarding civil society (EC, 2012) and LAs (EC, 2013).

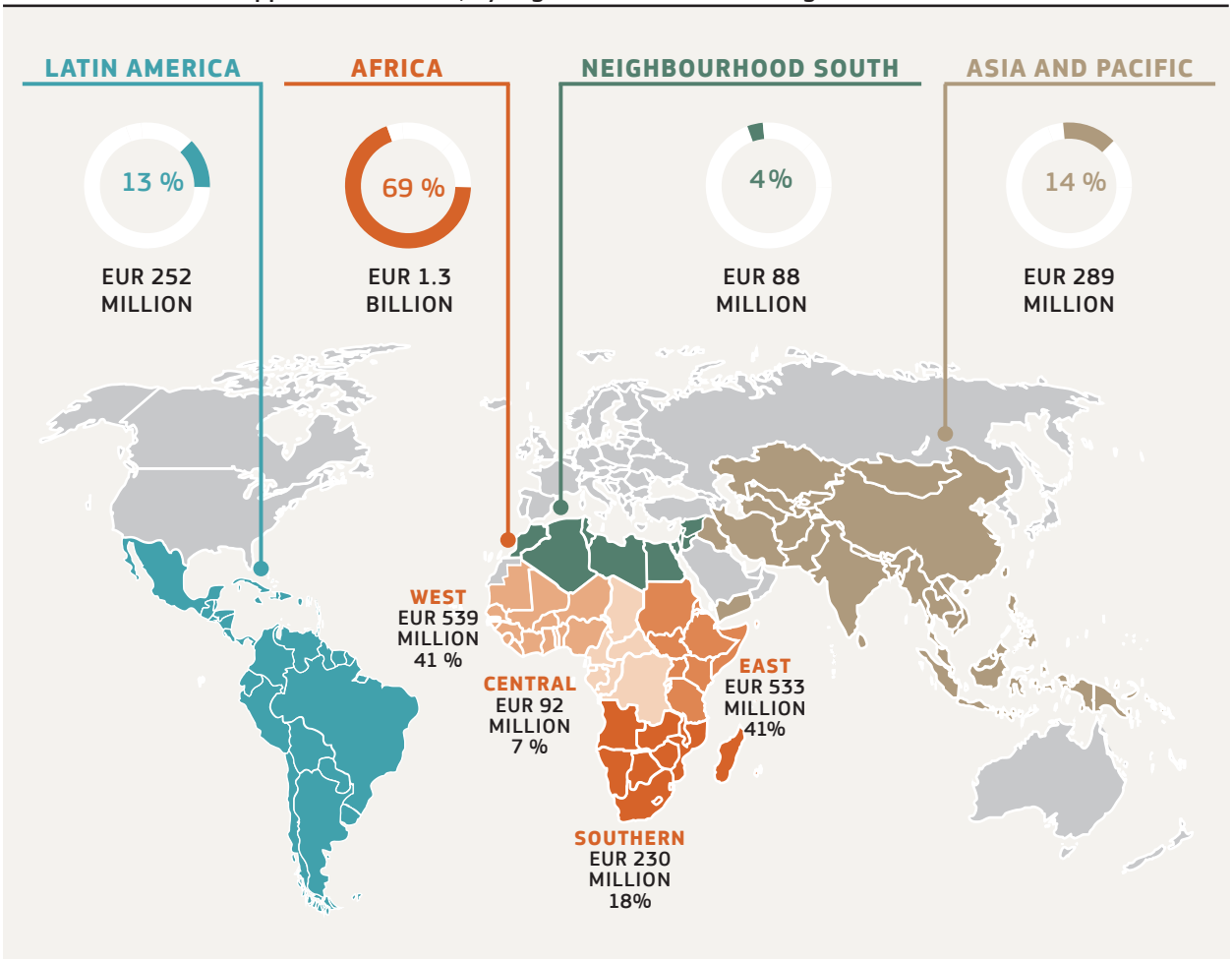
its attention to national framework conditions by supporting decentralisation as a public sector reform process aimed at transferring functions and resources to sub-national entities. Yet this shift in focus to national systems and institutional changes meant that the development dimensions of the reforms were lost.

The new policy framework of the 2013 communication — with its focus on empowered LAs and territorial approaches — holds the potential to re-establish the link between decentralisation and development. It seeks to combine the bottom-up approach to development, enriched by a broader territorial perspective, with the elaboration of supportive national decentralisation policies and institutional changes that help to create the conditions for genuine territorial dynamics.

2.1 Dispensation of EU funding

Across the four phases, EU support for decentralisation, local governance and local/territorial development has been channelled through a wide range of partner regions and countries. Figure 2.2 provides a regional overview of EU funding for the period 2002–2014; see Annex 2 for a more detailed analysis of countries that benefited in each region. The data reveal the following.

FIGURE 2.2 **EU support 2002–2014, by region and African sub-region**



- EU financial contributions for direct support to national decentralisation policies were spent in a limited set of countries: Benin, Liberia, Madagascar, Mali and Tanzania. From 2008 onwards, there has been a striking decrease in new major interventions in support of national reform agendas[3].

- Africa — particularly francophone Africa — received the major share of EU resources for decentralisation, local governance and local development[4].

- Within Africa, countries in East and West Africa received the major share of EU resources. Lesser amounts were dedicated to Southern and Central Africa. The top three countries receiving EU funds for activities related to decentralisation, local governance and local development are Ethiopia (EUR 313 million), Mali (EUR 156 million) and South Africa (EUR 104 million).

- Most financing for decentralisation, local governance and local development was provided through the EU's geographical instruments — funds allocated to particular countries and regions under various cooperation agreements — including the European Neighbourhood Instrument, the Development Cooperation Instrument and the European Development Fund. A significant portion of the funding was channelled through various thematic instruments, including Rehabilitation, Decentralised Cooperation, NGO co-financing, the European Instrument (previously Initiative) for Democracy and Human Rights, and the Development Cooperation Instrument's thematic programme for CSOs and LAs (previously for non-state actors and LAs)[5].

2.2 Assessing EU support to decentralisation and local governance: the 2011 thematic evaluation

A thematic evaluation of EU support to decentralisation covering the period 2000–2009 was conducted in 2011. It pointed to areas where the EU could add value as well as to areas that have proved more difficult to address effectively. In general, EU support seems to have been more effective in addressing comprehensive public sector reform; it has been less effective in focusing on the political dimension of key reform areas (see Figure 2.3).

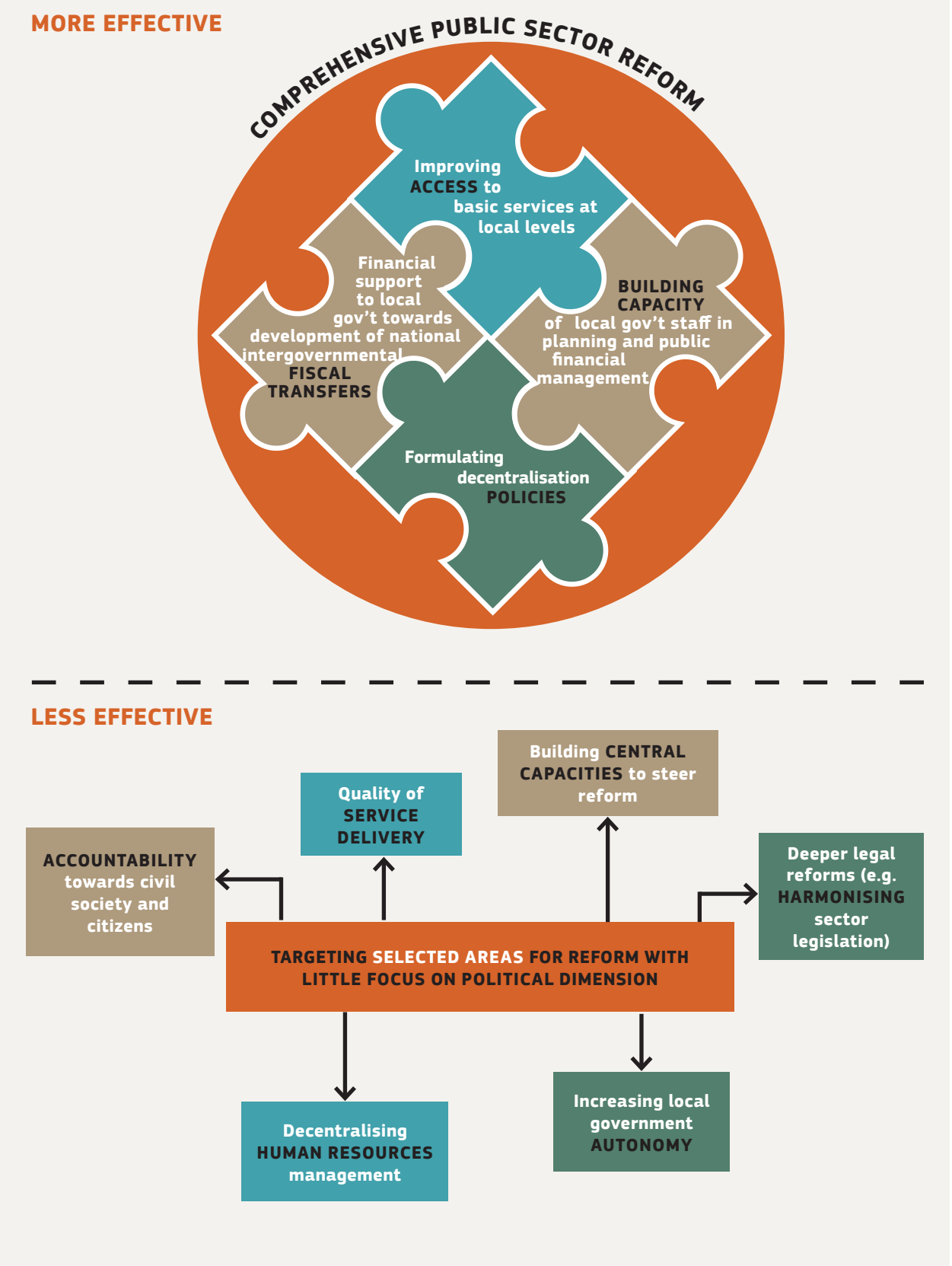
Based on these findings, the evaluation concluded that the EU has 'a unique, but largely unrealised, potential for global support to decentralisation in partner countries' (Particip GmbH, 2012). In order to tap into that potential, the evaluation, in its central recommendation, encourages the EU to develop 'an explicit response strategy that clearly embeds future support for decentralisation reforms within a wider public sector reform agenda'. Concurrently, it should intensify efforts to better understand the politics of the reform process, broadening country ownership and ensuring concrete development outcomes such as qualitative and sustainable local services.

[3] This decline is partly linked to EU programming cycles (a new cycle began in 2014), but could also indicate a declining commitment in direct support to decentralisation.

[4] Factors contributing to the low level of aid for decentralisation processes in Asia include the limited demand for interventions in this area and the presence of other donors with more experience than the EU (e.g. the World Bank and the Asian Development Bank). The two largest EU contributions in Asia were targeted at Afghanistan and Cambodia — countries with a rather poorly developed public sector structure and no significant degree of fiscal decentralisation.

[5] This thematic programme has proven difficult to access for LAs, primarily because of its high transaction costs and ill-suited call for proposals system.

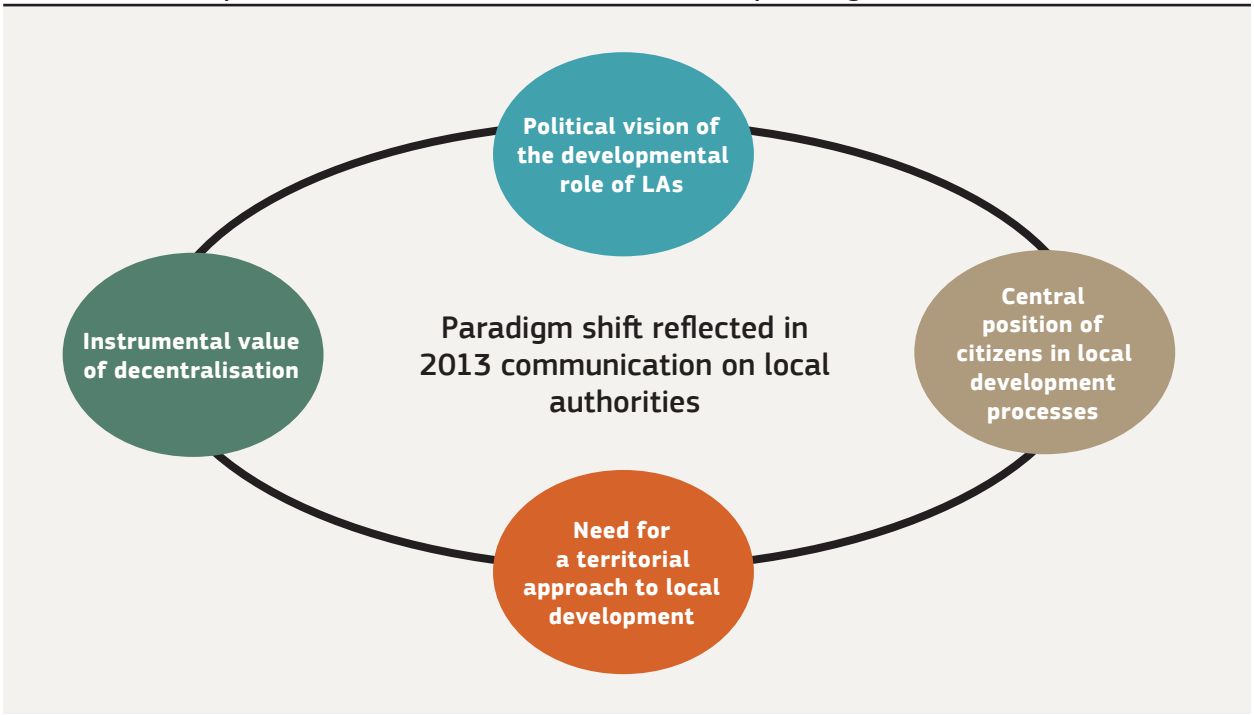
FIGURE 2.3 **Impact of EU support on decentralisation reform**



SECTION 3: Why the 2013 communication on local authorities reflects a paradigm shift

The policy evolution, lessons learnt and structured dialogue described in Section 2 were all instrumental to shaping the content of the 2013 EC communication, 'Empowering local authorities in partner countries for enhanced governance and more effective development outcomes'. In many ways, this document reflects a paradigm shift in dealing with decentralisation and local/territorial development (Figure 3.1).

FIGURE 3.1 **Key features of the 2013 communication on empowering local authorities**



In this communication, the EC spells out for the first time a clear and coherent political vision of the developmental role of LAs and the need for an enabling environment allowing sufficient levels of autonomy for LAs through development-friendly decentralisation reforms. The message is clear: LAs cannot have an added value in promoting development if they are not empowered with autonomy and if they are not functioning in a network of accountability relations.

The communication recognises the central position of citizens in local-level development processes. Citizens have a critical role to play in terms of ensuring improved access to services, a more balanced distribution of available resources as well as enhanced transparency, and accountability as to how public affairs are conducted at the local level.

The communication stresses the instrumental value of decentralisation as a tool in obtaining better development and governance outcomes. This concept is a departure from previous policies, wherein decentralisation was primarily seen as part of the good governance agenda and thus worth pursuing as an end in itself. The EC communication moves beyond that

perspective, suggesting that decentralisation reforms are vital to the emergence of autonomous and accountable LAs that can operate as effective development actors.

Finally, the communication recognises the need for a territorial approach to local development as a means to liberate the potential of territories for national economic growth, social cohesion and environmental sustainability through a shared spatial vision as well as joint action between public and private actors.

The new EU political vision regarding local development, LAs and the value of decentralisation processes is highlighted in Box 3.1 through excerpts from the 2013 communication.

BOX 3.1 **Salient quotes from the 2013 communication on empowering local authorities**

- 'Centrally-led, top-down development policies and programmes cannot alone succeed in addressing the complexities of sustainable development and fighting poverty. Public and private actors have their role to play especially at local level' (p. 2).
- 'In the last two decades, many central governments…have attributed responsibilities to Local Authorities [through decentralisation reforms]… However, this political recognition has not always been accompanied by an adequate level of autonomy, capacity development and financial resources, leaving their empowerment incomplete' (p. 2).
- 'The quality of local governance is primarily linked to the political willingness of central governments to create a conducive environment at local level, through legal and regulatory instruments, allowing Local Authorities to benefit from sufficient levels of autonomy in exercising power' (p. 3).
- This implies that '[f]rom an operational point of view, the new EU approach would promote enhanced political, administrative and fiscal autonomy of Local Authorities, through decentralisation reforms, capacity and institutional development' (p. 5).
- 'The participation of citizens in decision-making processes that affect their lives and access to accountability mechanisms is fundamental to the promotion of sustainable development and poverty reduction' (p. 3).
- 'Decentralisation is inherently a political question… [Hence,] EU support to decentralisation processes will be based primarily on the understanding of the political economy of the reforms' (p. 6).
- 'The quality of local governance is also related to the way local authorities manage and implement public policies on the basis of local policymaking processes and interactions with other public institutions, citizens and private sector and through the allocation of available resources' (p. 3).
- '[A] territorial approach to local development should be promoted… [It] is characterised as a dynamic bottom-up and long-term process based on a multi-actor and multi-sector approach, in which different local institutions and actors work together to define priorities, and plan and implement development strategies' (p. 5).

Source: EC, 2013.

SECTION 4: New EU vision on decentralisation

The new EU vision on the developmental role of LAs, as spelled out in the 2013 EC communication, ushers in a new narrative on decentralisation.

Traditionally, decentralisation theory largely focuses on the transfer of central government functions and resources to largely passive recipient LAs. This approach reflects the primary concerns of fiscal federalism with the optimum distribution of functions and resources across levels of government, which has framed the provision of external policy and technical advice to developing countries over most of the last three decades. It is based on the premise that decentralisation can contribute to development by improving efficiency in the allocation of public resources. Such a perspective is mainly concerned with the technical fiscal and administrative dimensions of decentralisation and tends to obscure the critical political dimension.

Yet there is another way in which decentralisation could contribute to development — i.e. by helping mobilise additional resources at the local/territorial level. This broader perspective on decentralisation has emerged recently. It does not reduce decentralisation to the central-local transfer of resources, but understands it as an essentially political process of empowering people over the public sector through the empowerment of their LAs that can help unleash the development potential of territories.

Part II explores what this means in practice.

PART II

Decentralising for development

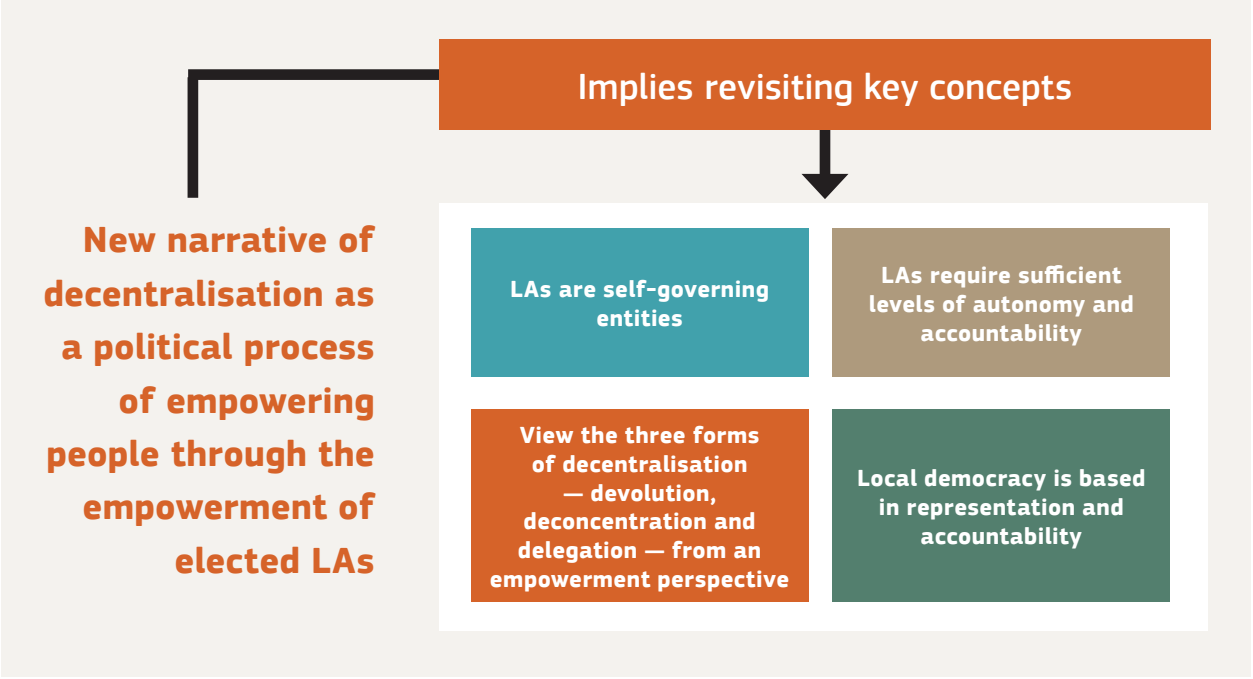
THIS PART:

- considers the implications of adopting a broader definition of decentralisation as a process of empowering local authorities and citizens;
- revisits some basic concepts in the context of the new narrative on decentralisation;
- explores how to connect decentralisation with development outcomes;
- introduces the concept of a territorial approach to local development as a multidimensional national policy aimed at unleashing the full economic and social potential of territories.

SECTION 5: Rethinking basic concepts

The European Union's (EU's) shift towards a more political view on decentralisation as a process of empowerment has major consequences for the ways in which to support reform in partner countries. To this end, it is useful to review several key concepts involved in the process, as shown in Figure 5.1.

FIGURE 5.1 **Key concepts to be revisited in understanding decentralisation as a process of empowerment**



5.1 Managerial and governmental types of local authorities

There are fundamental differences around the world in conceptualising the purpose of local authorities (LAs), and this obviously affects the extent to which people might be empowered through them. The basic question is, what is the actual role of an LA? Is it an instrument of central government to implement national policies, or an expression of a local political community developing and implementing local policies in response to the demands of the community, or some combination of both?

To help assess the nature of LAs, Nickson (2011) suggests a classification based on two pure, or ideal, types: managerial and governmental. Table 5.1 summarises the main features of these two models.

In developed countries, examples of the managerial model are found in the Australian, English, Japanese and New Zealand systems, as well as in parts of northern Europe and the United States. Governmental model systems are prevalent in continental Europe (France, Italy, Spain, parts of Germany and Switzerland) as well as in the Nordic countries (Nickson, 2011).

TABLE 5.1 **Features of managerial and governmental types of local authorities**

FEATURE	MANAGERIAL TYPE	GOVERNMENTAL TYPE
Legal status	Creature of parliament	Protected by national constitution
Average population size	Large	Small
General powers	Limited by statute	General competence
Intergovernmental fiscal transfer system	Determined by central government and limited by earmarking	Revenue sharing and with considerable discretion
Financial control and audit function	Strict regulation and 'value for money' auditing	Weak regulation and legal/probity auditing
National monitoring of standards of service provision	Strict	Weak
Number of citizens per elected councillor	High	Low
Electoral system	First past the post	Proportional representation
Voter turnout	Low	High
Citizen participation	Limited/restricted	Extensive/encouraged

Source: Nickson, 2011.

Historically, both LA models have been found among developing countries. However, over the last few decades, and as a result of policy dialogue with development partners, the managerial model has come to dominate. Many reasons exist for this shift, among them that the managerial model (i) de-emphasises the political nature of LAs and is thus less threatening to the central authorities with which external aid agencies interact and (ii) responds better to the key concern of aid providers that LAs help implement the programmes these agencies negotiate with, and finance through, the central government. Nickson notes in this regard that the managerial model 'is the type of local government preferred by the World Bank and the Inter-American Development Bank... [which view] local government basically as an institutional arrangement for improved service delivery... [and] as a more efficient administrator of poverty alleviation programmes during structural adjustment' (Nickson, 2011, p. 2).

Ideal types aside, LAs worldwide tend to take the form of evolving combinations of managerial and governmental types. Thus, when it comes to promoting development, they have a dual purpose:

- to help national governments localise national policies and programmes by improving their design and the effectiveness, efficiency and equity of their implementation;
- to develop and implement their own local public policies and programmes in response to the demands of local constituencies.

This dual mandate has implications for the traditionally understood functions and competences of LAs[1]. From this perspective, LAs should be understood as having both specific and general competences.

- **Specific competences** refer to the specific service delivery and other functions which might be devolved or delegated to LAs by national governments.
- **General competence** refers to LAs' responsibility for functions of their own choosing, reflecting a constitutionally or legally recognised general mandate for the welfare of their constituencies.

This general mandate significantly expands the potential for people's empowerment, as it enables their LAs to undertake any activity they deem to be in the interest of their local communities, as long as they do not break the law or impinge on the areas of responsibility exclusively and legislatively assigned to other spheres of government[2]. The general mandate is also critical for LAs that want to reach out to their communities, be more responsive to their demands and — most importantly — offer community-based and civil society organisations opportunities to become involved in, or support their existing involvement in, the provision and production of services and the related mobilisation of additional local resources.

The new EU vision of LAs as self-governing entities endowed with a general mandate is consistent with the European Charter of Local Self-Government adopted by the Council of Europe in 1985 (see Box 5.1 and Figure 5.2).

BOX 5.1 **Nature and scope of local authorities according to the European Charter of Local Self-Government**

'Local Self-Government denotes the right and ability of local authorities, within the ambit of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population' (Article 3, par. 1).

'Local authorities shall, within the limits of the law, have full discretion to exercise their initiative with regard to any matter which is not excluded from their competence nor assigned to any other authority' (Article 4, par. 2).

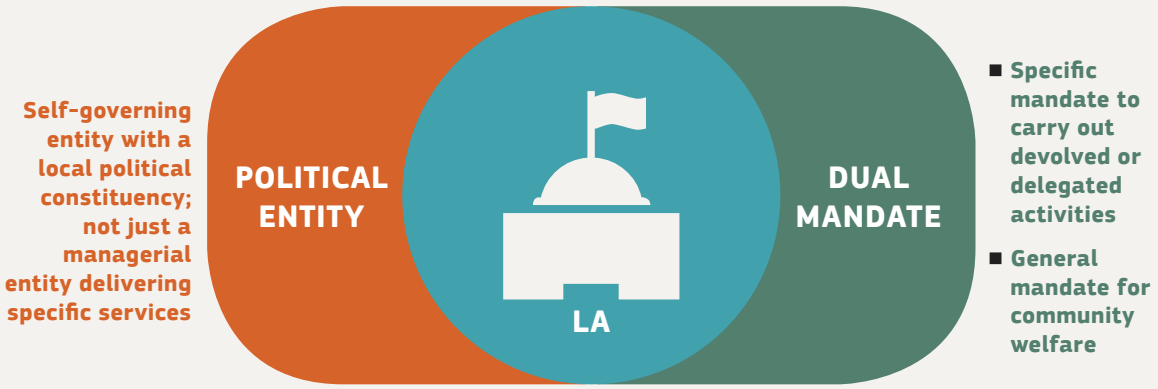
Source: Council of Europe, 1985.

In the real world, the constitutional/legal framework supporting the LA dual mandate encounters many difficulties. Moreover, experience shows that even where constitutional or legal provisions uphold the general mandate, this does not guarantee that LAs will be able to make use of it. The empowering effect of constitutional or legal provisions may be countered in practice by the disempowering effect of a political environment which rewards loyalty to national parties over performance, inhibits the emergence of autonomous local leadership and frustrates local initiative. Where those countering factors prevail, LAs are bound to operate solely or primarily as agents of the central administration.

[1] As defined in a 2005 EU-funded report, functions refer to the fields of activities in which LAs play a *de facto* role. Competences refer to the legally mandated responsibilities and powers of LAs in each field of activity; these may include both provision and production responsibilities, such as regulating, delivering, financing, monitoring and evaluating, sanctioning or otherwise intervening in the way in which functions are carried out (Parrado, 2005, p. 5).

[2] A typical example of an activity falling within the general mandate is the promotion of local economic development, a functional area that is not exclusively assigned to any specific level of government and in which LAs worldwide have been, and should be, increasingly active to foster growth and employment and connect their communities to global economic networks.

FIGURE 5.2 **Recognising the nature and mandate of local authorities**



5.2 Empowering local authorities: autonomy and accountability

Recognising LAs as governments in their own right — and not just as implementing agencies on behalf of the central state — raises questions about their autonomy (or discretion[3]) and accountability. These are critical issues, because autonomy and accountability are the foundation stones of any LA system and are key variables in explaining its performance as a development actor.

Autonomy

A classic definition of LA autonomy suggests that it is a combination of power of initiative and immunity from controls which infringe on LAs' discretion by questioning the intrinsic worth of their choices, as opposed to just checking their conformity with the law (Clark, 1984). It refers to the ability of LAs to adopt policies, implement programmes and issue regulations on their own initiative (i.e. without being directed to do so by any other authority), limited only by the legality of their actions.

Without substantial margins of autonomy to adjust and manage the implementation of national programmes in their localities, LAs would be no more than deconcentrated agencies of national administrations. More importantly, they would not be able to mobilise additional local resources if they could not develop their own policies and programmes in response to the priorities of the owners of such additional resources.

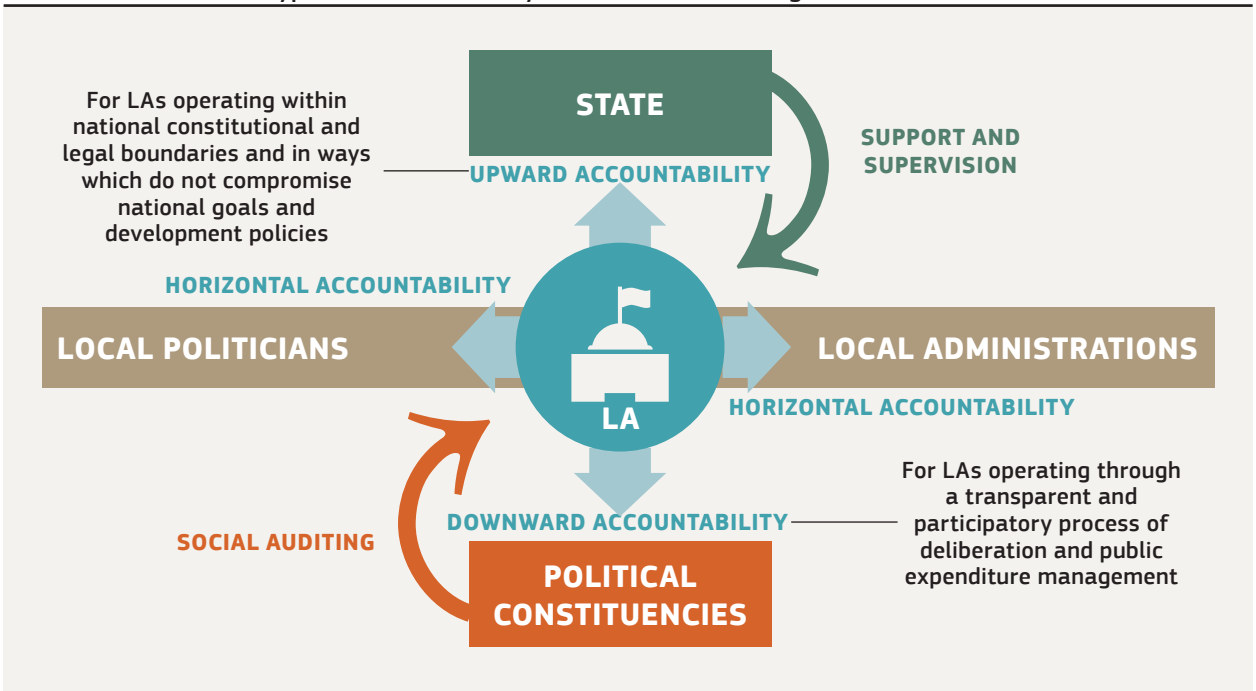
Thus, denying or severely restricting the autonomy of LAs (i) reduces the scope of potential efficiency gain in public expenditures that they could help realise, and (ii) impedes the additional resource mobilisation for local development with which they could also help. Failure to grant a meaningful degree of local autonomy ultimately amounts to a policy choice by the state — whether deliberate or involuntary — to forgo the additional benefits genuine local development might bring to bear on national development.

[3] In discussing LA systems, some authors prefer to use the term *discretion* rather than *autonomy* to avoid any intimation of claims to outright political independence.

Accountability

Accountability is about LAs being responsible for their actions. Three types of accountability mechanisms are here considered: upward, downward and horizontal (see Figure 5.3). Where upward, downward or horizontal mechanisms do not work, the resulting lack of accountability (i) increases the risk of LAs operating in an out-of-control manner, creating a macroeconomic imbalance, territorial disparities and public investment inefficiencies; (ii) increases the risk of capture of local development benefits by local elites, worsening social imbalances and poverty conditions; and (iii) reduces the ability of citizens to meaningfully participate in the conduct of public affairs at the local level, thus eroding the basis of local democracy. Ultimately, decentralising without embedding LAs in an effective network of upward and downward accountability equates to a —again, deliberate or involuntary — state policy choice to trade political benefits to the dominant coalition, a loss of efficiency of devolved resources and an overall reduction of the central state's capacity to promote growth and reduce poverty.

FIGURE 5.3 **Three types of accountability mechanisms involving local authorities**



Accountability mechanisms require the establishment or strengthening of appropriate institutions for state support and supervision of the LA system.

- **Support** refers to intergovernmental facilitation and technical assistance services delivered through an appropriate mix of supply- and demand-driven approaches.
- **Supervision** refers to both independent performance monitoring and appropriate legality controls.

The importance of appropriate state support and supervision systems cannot be overemphasised, yet these are often the weak link in the design and implementation of real-world decentralisation reforms, as numerous perverse incentives are at work within the central administration against their effective operation. Instead of enabling support and effective supervision, LAs all too often receive from the centre a barrage of confusing, and sometimes paralysing, instructions and reporting requirements.

5.3 Rethinking decentralisation: moving from a public sector reform perspective to a political process of empowerment

Classic definitions

Traditionally, decentralisation is generally framed as a public sector reform process intended to transfer responsibilities, resources and general authority from higher levels to lower (largely passive) levels of government. This focus reflects the central concerns of fiscal federalism with the optimum distribution of functions and resources across levels of government, and has framed the mainstream international debate on decentralisation — as well as the provision of external policy and technical advice to developing countries — over most of the last three decades.

In considering this downward reallocation of authority, three basic functional dimensions of decentralisation are generally distinguished: administrative, fiscal and political (see Box 5.2). Linked to this, three basic forms of decentralisation can prevail in a given country, involving varying degrees of empowerment of LAs.

BOX 5.2 **The functional dimensions of decentralisation**

- **Administrative decentralisation** comprises the systems, processes and policies that transfer administration of public functions to sub-national governments. This need not involve autonomous authority over revenues and expenditures or formal mechanisms of accountability to local citizens.
- **Fiscal decentralisation** refers to the formal assignment of expenditure functions and revenues (intergovernmental transfers and own tax and non-tax sources) to LAs. It need not involve formal mechanisms of accountability to local citizens.
- **Political decentralisation** is the set of provisions designed to devolve political authority to LAs and enhance their accountability to the residents of their jurisdictions. Examples include the popular election of mayors and councils that previously may have been appointed or did not exist. In effect, political decentralisation adds democratisation to the more technical mechanisms of administrative and fiscal decentralisation.

- **Devolution** implies that (semi-) independent and typically elected LAs are legally responsible for specific functions and empowered to receive or raise certain revenues. Genuine devolution also gives LAs a general mandate to develop their territories and promote citizen well-being.
- **Deconcentration** refers to decentralising central agencies and adoption arrangements by which local actors perform functions as central agents. These actors may have the authority to make some independent decisions, but usually within central guidelines and subject to considerable central control/oversight.
- **Delegation** involves arrangements with local (governmental or non-governmental) entities to deliver services that are formally central government responsibilities. Specific arrangements vary, but the entity always acts on behalf of the centre.

Towards a broader development-oriented definition of decentralisation

Recently, along with a growing attention to institutional and political factors affecting real-world decentralisation processes, the limits of the early fiscal federalism perspective have been recognised. As a result, a more comprehensive definition of decentralisation has been advanced that does not reduce it to the central-to-local transfer of responsibilities and resources:

Decentralisation is a broader, and essentially political, process of empowerment of people (over the public sector) through the empowerment of their LAs.

This broader definition has major consequences from a policymaking point of view.

- It confirms that the empowerment of LAs should not be seen as an end in itself, but as a means for empowering people with greater choice and control over the delivery of public services and local development at large. The instrumental character of decentralisation reforms is therefore firmly established.

- To the extent that LAs are instruments for empowering people over the public sector, their empowerment cannot be limited to a greater role in direct provision of public services. Rather, it should also encompass their ability to influence and cooperate with other public sector actors operating in the locality. This imperative brings to the fore the need for effective mechanisms of intergovernmental cooperation for consultation, coordination and mutual contracting.

- Because decentralisation is about people's empowerment, its success depends on local governance mechanisms that enable people to effectively interact with their own LA at all stages of formulation and implementation of local development policies. Mechanisms are thus needed not only for people to participate in local policymaking and hold their local officials accountable, but also for enhanced forms of active citizenship — including civic engagement in the co-provision and co-production of services in a given territory.

From an empowerment perspective, the instrumental value of the three main forms of decentralisation varies considerably.

- **The instrumental value of devolution** is obviously the greatest, as it enlarges the scope of service delivery and development management directly governed by local policies. Under enabling local governance conditions (discussed further below), devolution expands the opportunities for people to make choices, exercise control and otherwise participate in all stages of the local development planning, resourcing and implementation process.

- **The instrumental value of deconcentration** is more limited, but may still be considerable when, by empowering local agents of the state, it brings the decision-making over central resources closer to decision-making by LAs over their own resources. Deconcentration thus both requires and facilitates the establishment of effective intergovernmental planning mechanisms by which people may also influence the delivery of services and other developmental decisions by actors other than their own LA.

- **The instrumental value of delegation** for empowering people through their LAs may also be considerable. To the extent that the terms of the delegation contract between a central agency and an LA (i) empower the latter with discretion to tailor a programme to local conditions, and (ii) enable people's participation in planning and managing delegated responsibilities, delegation arrangements may significantly contribute to empowering people in the local service delivery process.

5.4 Rethinking local governance and local democracy

If decentralisation is redefined as the empowerment of people through the empowerment of their LAs, the notions of local governance and local democracy also need to be clarified. Both are essential in ensuring that LAs can effectively operate as catalysts of local/territorial development.

Local governance

EU policy documents recognise the critical importance of good governance at the local level to achieve equitable and sustainable development outcomes. In essence, local governance is about the way power and authority are exercised at the local level and built on two axes:

- **responsive and accountable LAs** acting on behalf of a local political constituency;
- **active citizens, civil society organisations and private sector actors** contributing to the development effort (e.g. in co-producing public services) and exercising a watchdog role with the capacity to demand rights, transparency and accountability.

Local governance requires a set of local institutions to engage citizens in public affairs (e.g. mechanisms for participatory policymaking, planning and budgeting), to enable LAs to perform as facilitators of networks of service providers (e.g. public-private sector partnerships) and to ensure accountability to citizens.

The European Commission's 2013 communication on empowering LAs is fully in line with this approach. It stresses that the quality of local governance is dependent on two factors: (i) the political willingness of central governments to create a conducive environment at the local level, through legal and regulatory instruments, allowing LAs to benefit from sufficient levels of autonomy in exercising power; and (ii) the way in which LAs manage and implement public policies on the basis of local policymaking processes and interactions with other public institutions, citizens and the private sector and through the allocation of available resources.

Local democracy

For decentralisation processes to yield development outcomes, it is not sufficient to work to improve the supply side of governance — i.e. by empowering LAs. There is just as much need to strengthen the demand side of governance as well, by fostering more constructive state-society relations and empowering citizens to engage.

Local democracy is based on two premises:

- leaders have the power to respond to citizens' needs and aspirations;
- citizens have the means to hold them accountable so as to ensure that responsiveness.

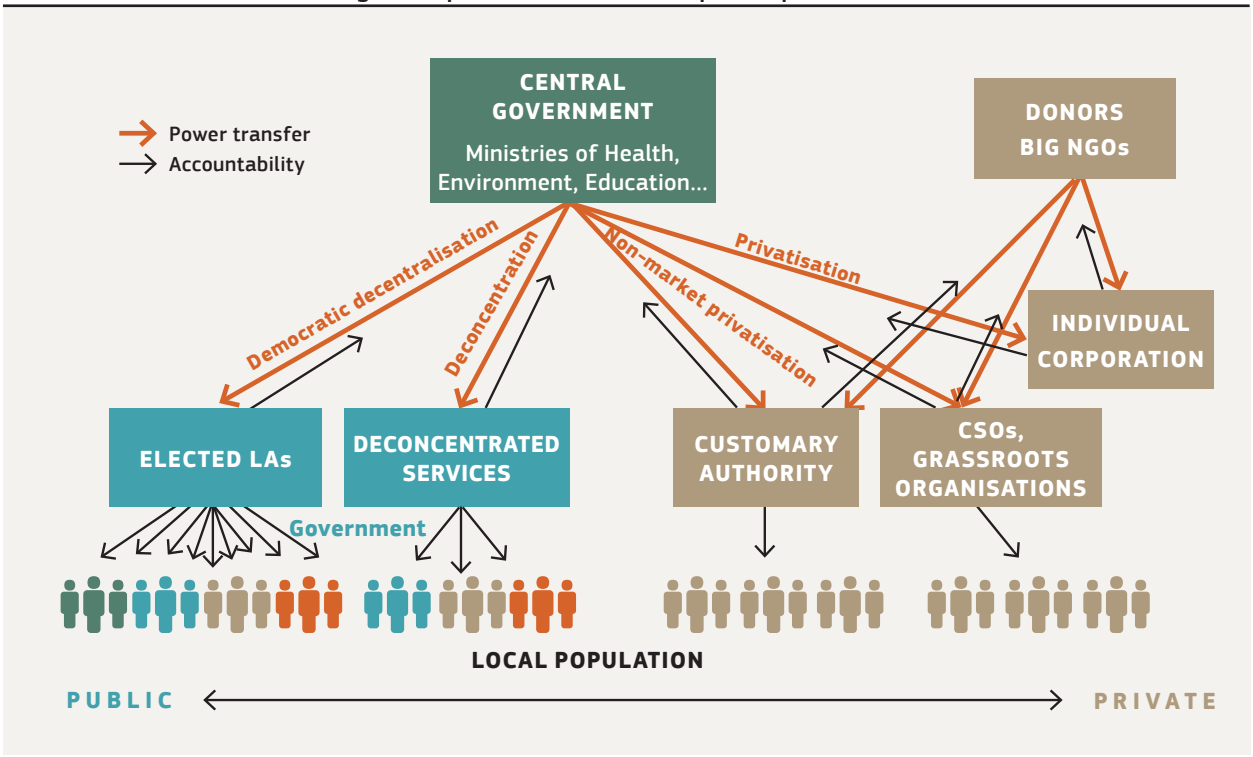
Citizens are not interested in electing or holding accountable LAs that do not have powers (executive, legislative or judicial) worth holding them accountable for, and citizens cannot hold LAs accountable and make them represent them without an array of accountability mechanisms (positive and negative sanctions). This may seem self-evident, but most elected LAs lack either the power to respond to local needs or the accountability that would make them respond when they are actually empowered. Together, discretionary powers in the hands of leaders who are accountable to citizens constitute democracy. Accountability

without power is empty; power without accountability is dangerous. Democracy — at any scale — requires both.

Implications for donor agencies

The donor's choice of aid delivery mechanism at the local level can have major positive or negative effects on local governance and democracy, depending on the role given to local public institutions, particularly LAs (see Figure 5.4 on the relative strengths of local development partners). In essence, two tracks are possible.

FIGURE 5.4 **Relative strengths of potential local development partners**



- Donors can decide to largely circumvent LAs because they are considered too fragile an institution, lacking legitimacy and capacity to deliver. In practice, this means looking for more efficient aid delivery channels (e.g. non-governmental organisations or private sector operators).

- Donors can opt for an institutional path starting from the premise that the substance of democracy is all about the capacity of citizens to shape public policies and having LAs with real power pursue such local public policies and provide accountability towards citizens. In practice, this approach implies respecting the legally enshrined roles of LAs — even if these structures are fragile.

Evidence suggests that many donor initiatives are launched at the local level without duly factoring in the political and institutional preconditions necessary for local democracy to flourish — enabled citizens and empowered LAs. If the EU wants to ensure that its interventions at the local level nurture democratic processes, it must address three issues.

- **Actors/authorities.** With whom should the EU work? Should it work with elected LAs, or with local community-based organisations, project implementation units, project committees, local administrative authorities, local traditional chiefs, private corporations, or through participatory processes?

- **Powers.** Which powers are needed in the local arena for responsiveness, active citizenship, and applying the principle of subsidiarity between levels of governance?

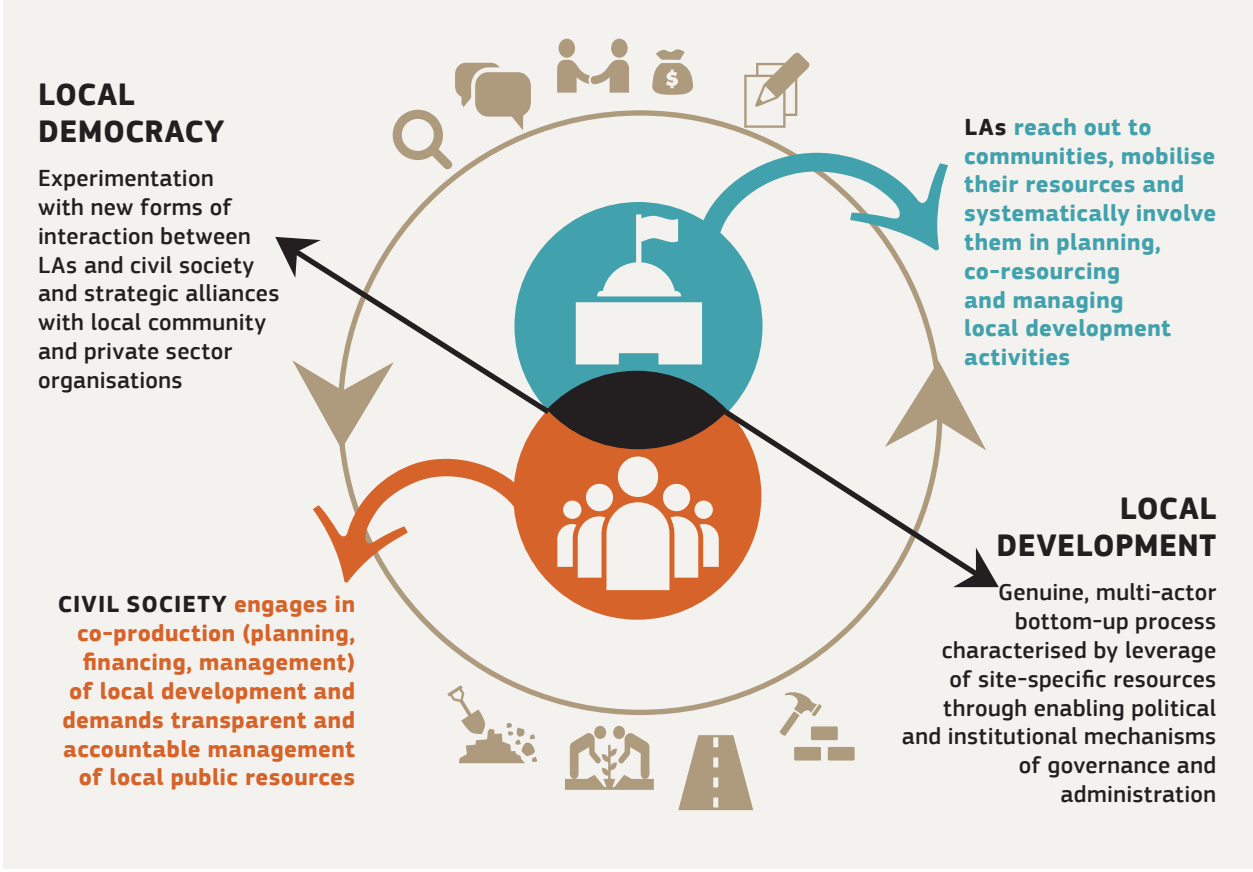
- **Accountability.** Which accountability mechanisms matter?

As shown in Figure 5.4, LAs are a special case among local players, with a distinct identity, authority and legitimacy as a public institution representing a political constituency. This specificity has to be respected in donor interventions if the purpose is to consolidate the local state and promote development-friendly and democratic forms of decentralisation.

Role of civil society

It is also useful to note the communication on civil society (EC, 2012). In this document, the EU commits itself to engage in a more strategic way with civil society as governance actors with a view to helping them construct legitimate and viable states at both the central and local levels. Figure 5.5 shows the interactions that are required between citizens/civil society and LAs to produce local democracy and local development outcomes.

FIGURE 5.5 **Interactions required to produce local democracy and local development outcomes**



SECTION 6: Connecting decentralisation with development

6.1 The tenuous link between decentralisation and development

An extensive review of the literature on the nexus between decentralisation and development prepared for the United Kingdom's Department for International Development (DFID) concluded that 'There is evidence to support both positive and negative decentralisation outcomes, but no grand generalizations beyond a very basic level emerge — as with much of the research on decentralisation, results depend on context' (LDI, 2013, p. i).

It may nonetheless be useful to return to the basic conceptual level at which something can be said about the link between decentralisation reforms and development outcomes. The starting point of this reflection is the political nature of decentralisation reforms.

Decentralisation reforms are invariably driven by political motives. Careful political economy analysis is therefore needed to understand the deeper motivations, interests and incentives of the various actors and stakeholders involved (politicians, finance ministry, interior ministry, sector ministries, civil service at national and deconcentrated levels, LAs, etc.). The goals and attitudes of these actors may differ considerably. It follows that the scope and pace of decentralisation reforms in a given country is determined by the relative strength and bargaining power of the various interest groups.

This context heavily influences the timing and sequencing of the various dimensions of decentralisation (fiscal, administrative, and political) as well as the locus of reform in each country (see Box 6.1). It also helps to explain why in many partner countries decentralisation remains 'frozen' (beyond the elaboration of strategies and laws) or does not lead to enhancing the levels of autonomy effectively enjoyed by LAs. This situation may evolve if the configuration of powers and interests behind the reform changes.

BOX 6.1 **Illustrations of the political nature of decentralisation reforms**

Typically, decentralisation is promoted to enhance the legitimacy of parties in power and strengthen their political control at the periphery of the country. In other cases, it is driven by claims of regional elites within the dominant coalition to a greater share of state resources and influence in national politics. Occasionally, it may be driven by the need to avoid or resolve conflicts by accommodating a major shift in composition of the dominant coalition, with the entry of new regional (sometimes ethnic-based) elites.

In cases of the first type (e.g. Cambodia), the locus of decentralisation tends to be lower-tier jurisdictions (communes, districts, etc.). In the other cases (e.g. Vietnam and Yemen, respectively) the locus of decentralisation tends to be intermediate-level jurisdictions (provinces, regions, etc.). The geographic scale of decentralisation is highly relevant to the promotion of genuine local development, as it is typically at the lower level (where jurisdictions are not excessively small) that this prospect is greater.

6.2 Conditions under which politics-driven decentralisation may contribute to development

Working from the premise that decentralisation reforms are generally not designed with lofty development objectives in mind or with the aim of empowering LAs per se, it is possible to consider when and how politically inspired decentralisation reforms may contribute to development. Accumulated experience around the world suggests that this link depends on three factors.

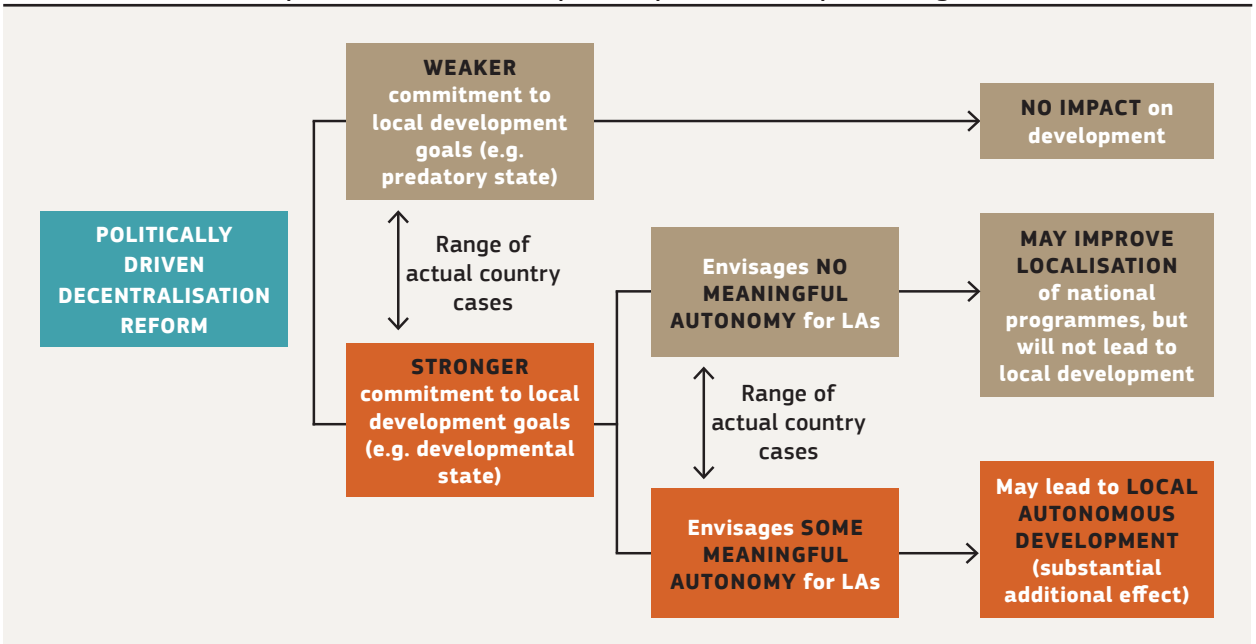
- **Minimum commitment to development on the part of the decentralising state.** Decentralisation is unlikely to yield development outcomes in a 'predatory' state, wherein elites are primarily concerned with the accumulation of wealth and limiting potential resource access by other groups in society.

- **National policy commitment to local/territorial development.** Having a development-oriented state is not a sufficient condition to ensure that decentralisation yields development outcomes. The state also needs to recognise the specific contribution local/territorial development could make in achieving national development objectives — e.g. by addressing problems of social cohesion or mobilising additional resources. This recognition needs to be formalised through the adoption of a more or less explicit national policy to promote local/territorial development.

- **Recognition of LAs as development actors.** Recognising this role of LAs is a third condition for positive linkage between decentralisation reforms and development. In order to fully tap the potential of local/territorial development, LAs must have sufficient levels of autonomy and accountability. If the central government is not prepared to provide such space and power to LAs, the chances for achieving progress will be substantially reduced.

Figure 6.1 visualises different scenarios that can prevail in different country contexts. The figure shows that decentralisation may promote development if the political rationale of the reform is consistent with a development agenda that recognises the importance of genuine

FIGURE 6.1 **Reform potential conditioned by country context and political agenda**



local/territorial development for the national development effort and the crucial role of empowered LAs therein.

Successful examples exist across the globe of localities, cities and regions that have been able to occupy the political space left to sub-national entities and effectively use their general mandate to pursue a transformative agenda that dramatically affected the lives of their citizens — thus showing a virtuous link between decentralisation and development (see Box 6.2).

BOX 6.2 **Innovative approaches to local/territorial development: the example of Medellín**

Two decades ago, Medellín, Colombia, was the most dangerous city on the planet — the hub of Pablo Escobar's drug cartel. Since 2003, Medellín has embarked on a process of political, social and economic transformation under the visionary leadership of Sergio Fajardo, a mathematician serving as the city's mayor in 2003–2007. Medellín is now widely hailed as a success story of radical city renewal and holistic territorial development driven by local actors.

Like other violence-wracked cities worldwide, Medellín had experienced massive unplanned urban growth which, combined with weak governance, led to the emergence of informal settlements neglected by the authorities where criminal groups could flourish.

In the mid-1990s, small group of local actors began to envision a different future for the city, viewing it from the bottom up, outside the traditional party and power structures. Their ideas for radical social change were taken up by the Fajardo administration and translated into a holistic policy aimed at reducing violence by promoting inclusive development in the territory and ensuring police and law enforcement through reinvigorated public institutions, including in the justice sector. The policy focused in particular on improving access to basic services by marginalised communities, reducing the spatial segregation of the city and addressing youth unemployment. Within a few years remarkable progress had been achieved, including a drop in the homicide rate by 90 per cent.

Key factors behind this transformation included (i) the commitment of the main political, economic and social actors in the city to work together in implementing the new policy; (ii) changes in local governance aimed at putting citizens at the centre of the process and integrating leading civil society actors in the management of public institutions; and (iii) supportive national policies, particularly security sector reforms that helped to disband the paramilitary groups.

Many other examples could be given of such transformations from the bottom up with a view to promoting territorial approaches to local development (TALDs). In all these cases, the local level served as a laboratory for testing out and institutionalising new democratic and governance practices (e.g. participatory budgeting or social accountability) over time. In analysing these territorial dynamics, a number of common features are apparent:

- the existence of a political project underpinning these local change processes (i.e. the construction of the public sector from the bottom up);
- local development coalitions (i.e. LAs and other reform-minded forces);
- experimentation with new forms of citizen engagement beyond the routine use of participatory approaches;
- a focus on wealth creation and inclusive local development;
- a drive to scale up local experiences with a view to influencing national policies and norms.

6.3 The growing popularity of territorial development

The concept of territorial development is not new. In past decades, there have been many initiatives across development regions which sought to unlock the potential of territories, mobilising different actors and using a variety of labels and implementation approaches, both top down and bottom up. Within the EU integration process, territorial development has been stimulated through the instrument of structural funds for regional development or in the form of European territorial cooperation schemes. European municipalities engaging in decentralised cooperation often adopt territorial approaches in providing support.

In recent years, the topic of territorial development has received increasing attention from policymakers, practitioners and researchers across the globe, as well as from external development agencies. Annex 3 summarises approaches adopted by international organisations and donors regarding territorial development.

What underlies this renewed interest? Why are national policymakers, international agencies and the EU increasingly concerned with promoting territorial development? Four main factors can be identified: uneven spatial development, the limits of traditional policies to correct territorial disparities, the ability to address inequality through territorial development and opportunities to localise implementation of the Sustainable Development Goals (SDGs).

Uneven spatial development

As globalisation advances, national development policies in most developing countries are framed by efforts to connect the national economy to the global one, promoting its outward orientation and competing for global capital and access to world markets.

Since the connection between the domestic and world global economies is made primarily through major cities, where the requisite human, financial and logistic resources are typically concentrated, the spatial model associated with an outward-oriented economy tends to be one of growing imbalances across a wide range of economic and social indicators between the globalising cities and the rest of the country — as well as within the globalising cities themselves. This phenomenon is uneven spatial development (see Box 6.3 for a concrete illustration). It is widely agreed that such unbalanced development constitutes a time bomb in many countries — threatening political stability, social cohesion and economic growth[4].

The adoption of a territorial perspective on local development can help in understanding why these differences exist and what can be done to evolve towards a more homogeneous map in terms of economic growth, poverty reduction and improved income distribution across all territories.

Limits of traditional policies aimed at correcting territorial disparities

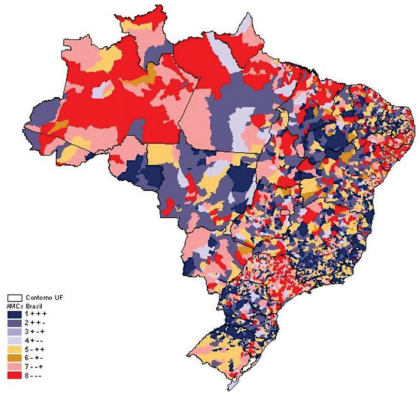
Efforts to deal with territorial imbalances are not new. Past responses have aimed at correcting territorial disparities through increased public spending (mostly for infrastructure) in depressed or marginalised areas, via a variety of regional development programmes. When

[4] *World Development Report 2009: Reshaping Economic Geography* espoused a quite different message. It exposed the negative effects of ill-conceived policies for territorial redistribution and, on this basis, questioned whether balanced development should be pursued at all (World Bank, 2009).

BOX 6.3 **Uneven spatial development in Brazil**

Between 1990 and 2010, Brazil was generally seen as a success story in terms of development. Yet research indicates that this positive picture at the country level masks widely varying local dynamics. The map opposite illustrates the mosaic of situations across Brazilian municipalities and the hugely diverging development outcomes in terms of economic growth, social cohesion and environmental sustainability.

Similar studies carried out in other countries reveal similar patterns of uneven development across territories. The studies all stress that these variations cannot be explained by a single predominant variable (e.g. endowment in natural resources) but are instead the product of a complex interplay of social structures, culture, localised institutions and territorial actors.



Source: Julio Berdegue, Centro Latinoamericano Para el Desarrollo Rural (RIMISP); for more information, see http://www.rimisp.org/.

the central concerns have involved widening intra-urban disparities in major globalising cities, most public spending has been directed to upgrading housing and sanitation conditions in fast-growing slum areas.

The results have been mixed — depending on the context and the seriousness of the effort — but generally inadequate to stop, or substantially slow, the continuing growth of both regional and intra-urban disparities. The problem with these policies is both conceptual and practical, as explained in Box 6.4.

BOX 6.4 **Factors explaining the limited success of traditional approaches to promoting territorial development**

- States adopt a top-down, centrally driven mode of operation, with territories serving as a receptacle for national policies regardless of local priorities (e.g. the tendency of governments and donors to localise national, regional or global development objectives such as the Millennium Development Goals).
- A strictly sectoral logic is applied instead of integrated packages including a strategic spatial focus in public investment planning.
- The level of resources required to address territorial disparities exceeds available public spending in both developed and developing countries when resources are constrained by both external and internal pressures to maintain fiscal discipline, lower taxes and cut expenditures.
- Interventions too often focus on a 'hyper-local' perspective on development, preventing the necessary linkages to be established for scaling up the process.

Addressing inequality through territorial development

In order to take advantage of the opportunity for economic growth offered by globalisation, while limiting the risks of growing social and spatial inequalities potentially associated with it, a middle road must be found between closure and openness, between equity and growth.

Experiences in promoting territorial development across the globe have yielded some valuable lessons. Realistic attempts at correcting territorial disparities will largely rely on the following.

- **Context-specific knowledge, data and analysis.** These elements are critical in determining the scope, possible windows of opportunity and specific conditions for the success of territorial development processes. Interventions therefore need to be rooted in a profound understanding of evolving local development dynamics. Such understanding will require empirical data collection (e.g. on the resources in a territory, mapping of private sector potential), but also exploration of possible synergies (e.g. around value chains, corridors, trans-border cooperation). A sound analysis of the formal and informal rules at work in a given territory is also needed, considering the critical importance of trust and social capital in territorial development processes.

- **Revised economic model.** All too often, attempts to promote local/territorial development have not materialised because the economic dimension was not adequately considered. The mixed track record of local/municipal development plans, generally elaborated with donor support, attests to this oversight. While such plans may have enhanced citizen participation and local governance, many of them have been shelved in the absence of economic drivers pushing for their effective implementation. The economic model that generates these territorial imbalances/inequalities must be calibrated towards greater support of internal demand, the development of the domestic market and mobilisation of local resources.

- **Shift from sector-based, top-down spatial redistribution policies.** Redistribution policies should better fit local development strategies and help localities, particularly smaller cities and their rural surroundings, to respond to opportunities offered by both domestic and global markets.

- **Better use of co-provision and co-production arrangements.** The central government should seek out community and private sector service providers to overcome the structural constraints on its public spending.

- **Appropriate match of strategy and institutions.** When considering the feasibility of territorial development, it is important to look at both the quality of the strategies and the institutions to carry the process forward. An overambitious strategy for territorial development in a context of national and sub-national institutional fragility is bound to fail.

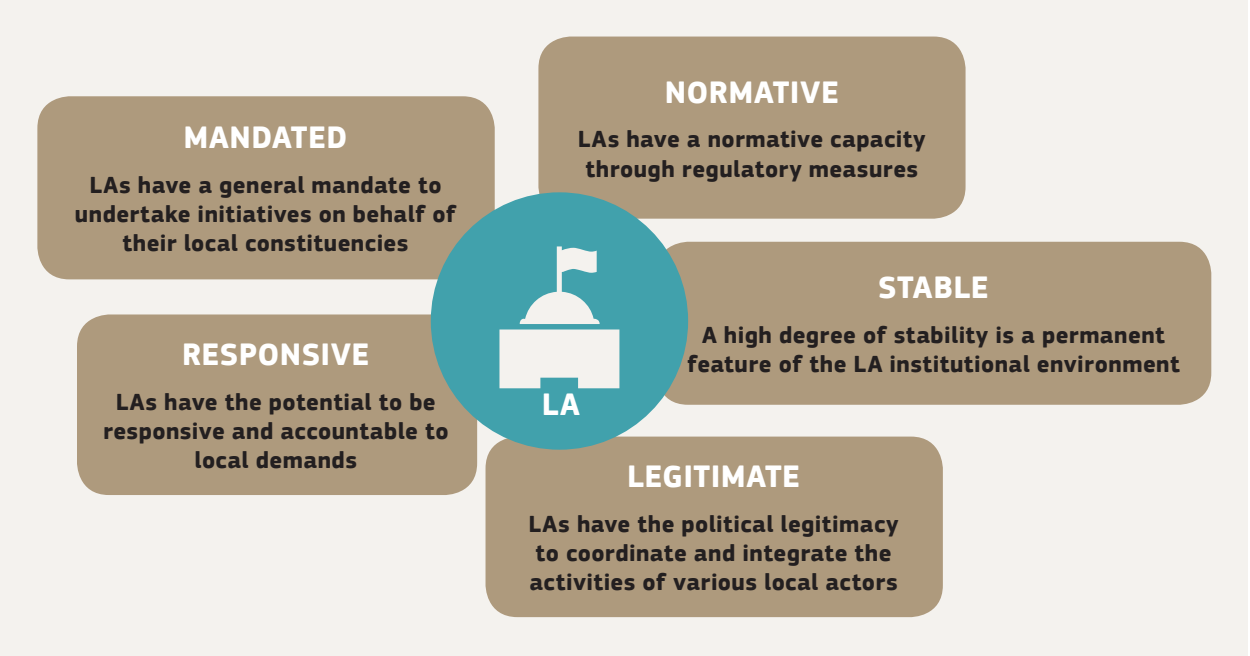
- **Development-friendly forms of decentralisation.** Such forms must empower local authorities with a meaningful degree of autonomy and accountability so they can effectively reach out to local communities and the private sector and mobilise additional resources for growth and service provision. The catalytic role of LAs is linked to a set of unique assets they bring to the table (see Figure 6.2).

Localising implementation of the Sustainable Development Goals

Achievement of most of the SDGs and their many targets will depend on the active involvement of LAs. Yet a paradox is observed:

> ...local governments are not the ones defining these goals, choosing the indicators to monitor progress or making commitments to meet the targets. Discussions of funding for addressing

FIGURE 6.2 **Comparative advantages of local authorities in promoting territorial development**



> the SDGs are all about national governments and international funding sources (including private-sector funding). They are not about the funding needed by local governments to address the SDGs within their jurisdiction, or about supporting local governments to develop their own revenue base. (Satterthwaite, 2016)

Discussion of the role of LAs which has accompanied the elaboration of the new global development agenda is commonly referred to as the debate on localising the SDGs — an expression that had also been used with reference to the Millennium Development Goals (UN-Habitat, 2004). The discussion has focused on two main roles for LAs (Lucci, 2015).

- **Monitoring progress of the goals at the sub-national level.** This role highlights the importance of geographic disaggregation of data for most outcome-based targets to allow for better assessment of inequalities within countries and inform better decision-making and resource allocation at all levels. Such disaggregation would also provide vital information for local communities and civil society organisations to hold their governments to account.

- **Implementing the goals at the sub-national level.** This role would be accomplished by adopting a sub-set of the goals and targets for which LAs would have specific delivery responsibility and prioritising them in accordance with their own sub-national planning and resource allocations in specific sectors.

A purely top-down assignment of targets to LAs — or the treatment of LAs as just implementers of nationally designed programmes in their localities — will not work. The LA role in implementing the SDGs is not the same as their role in implementing national programmes to implement the SDGs. Efforts to localise the SDGs should start by recognising that the LA role extends to a much wider range of actions that they could autonomously decide to undertake to complement/supplement such programmes based on both their specific responsibilities and their general mandate for the welfare of their communities.

A purely bottom-up approach would also be problematic. Where decentralisation reforms have devolved substantial development management responsibilities to LAs, the commitment

of the latter to prioritise the SDGs in the allocation of their own programmable resources cannot be expected to flow automatically from the adoption of the goals by the national government.

The task at hand is thus to forge an effective partnership between national governments and LAs in pursuing the SDGs. The scope and modalities of an effective partnership forged to this end will depend on the country context and status of decentralisation reforms. Such a partnership would be greatly facilitated everywhere by the adoption of a place-based, or territorial, approach to development policy. Its prospects largely depend on the state's recognition of, and commitment to, territorial development as a way to bring LAs into the national development effort, mobilise additional local resources and improve the efficiency of their use. The LA contribution to the achievement of the SDGs therefore depends on the degree to which developmental LAs are allowed to emerge by national politics and are empowered by a national policy to promote territorial development.

This point was clearly made by the UN Secretary-General's High-Level Panel of Eminent Persons on the Post-2015 Development Agenda in the run-up to the adoption of the SDGs. In its report to the Secretary-General, the panel suggested that

> the most pressing issue is…how to foster a local, geographic approach to the post-2015 agenda. The Panel believes this can be done by disaggregating data by place, and giving LAs a bigger role in setting priorities, executing plans, monitoring results and engaging with local firms and communities. (UN High-Level Panel, 2013, p. 17)

6.4 A working definition of territorial development?

To overcome the limitations of traditional approaches (see Box 6.4) and avoid loose and confusing usage of the concept of territorial development, it is important to agree on a definition that will identify the key ingredients of genuine territorial development.

The search for an adequate definition should be built on experiences gained in promoting local development in the past. A key lesson learnt is that the term 'local' should be understood not just as development that happens locally (all development does), but rather development that leverages the comparative and competitive advantages of localities and mobilises their specific physical, economic, social, political, and cultural resources and institutions. Thus, in the term local development, 'local' does not refer to where, but to how and by whom development is promoted.

- **How is local development promoted?** This question refers to the need to mobilise the resources within the territory. Among locality-specific resources, two are of paramount importance: local social capital and local political institutions. In fact, the presence of these two resources, their quality and — in particular — the capacity of the latter to build and mobilise the former may well determine the way in which all other local and non-local resources (human, physical and financial capital) can be developed, mobilised and combined to pursue specific local development strategies.

- **By whom is local development promoted?** This question stresses the importance of empowered local political institutions to reach out to all relevant actors (communities, and private sector) in the territory; mobilise their resources; and systematically involve them in planning, co-resourcing and managing local development activities.

This understanding has two major implications.

- **Local development is an endogenous process.** It is the mobilisation and leveraging of place-specific resources through enabling political and institutional mechanisms of governance and development administration — which constitutes the critical difference between genuine local development and the simple localisation of national, multi-national or global development objectives and programmes. Such localisation is important, but the reduction of local development to this basis would lose all the policies and programmes that might be autonomously identified, formulated, financed and implemented by LAs in response to, and in partnership with, local communities and the private sector.

- **Local development is incremental.** Local development is incremental with respect to national development efforts in the sense of having the potential to improve the efficiency (through the adaptation of national policies to local conditions) and scope (through the mobilisation of additional private and community resources that can be combined with national/global resources) in order to contribute to national development efforts.

Two further ingredients are needed for a useful definition of territorial development.

- **Spatial integration.** Local development must have a holistic, spatial orientation to integrate physical/environmental and social/economic considerations and overcome the fragmentation of sector-based policymaking and implementation. Economies of scale and added value may be realised through horizontally integrated and spatially coordinated management by LAs.

- **Multiple scales.** Local development can be promoted at multiple levels (i.e. local, urban, metropolitan, regional, national and supra-national) and requires cooperation between the various levels.

Based on these elements, the following definition for territorial development can be advanced:

> **Territorial development designates development that is endogenous and spatially integrated, leverages the contribution of actors operating at multiple scales and brings incremental value to national development efforts.**

Figure 6.3 presents a visualisation of local and territorial development and their relationship to each other. Table 6.1 enumerates genuine and non-qualifying approaches to territorial development under this rubric.

FIGURE 6.3 **Local development versus territorial development**

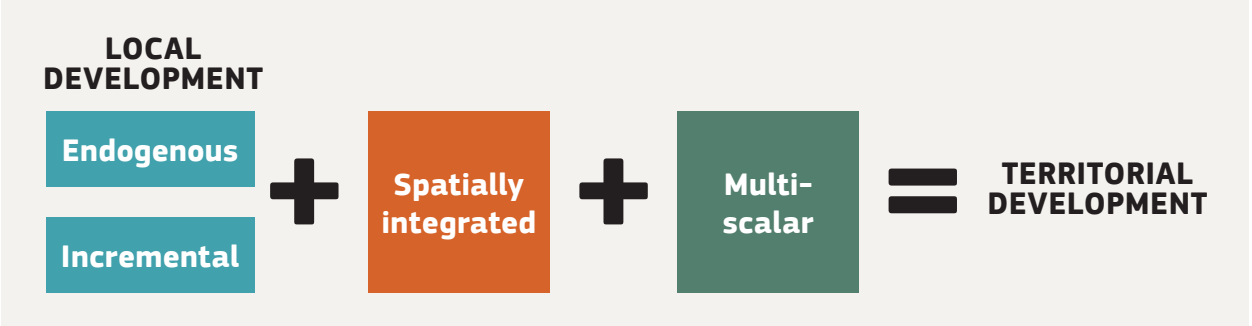


TABLE 6.1 **What genuine territorial development is and is not**

GENUINE TERRITORIAL DEVELOPMENT DYNAMICS	PROCESSES THAT DO NOT REPRESENT GENUINE TERRITORIAL DEVELOPMENT
Primacy of territories as a social construct and active agent, rather than passive receptacles of policies defined elsewhere	Central governments that seek to 'territorialise' national policies through top-down approaches
Multi-actor partnerships drive territorial development processes and involve all relevant local actors	Territorial development processes are driven by a single set of actors (central government, civil society actors, donors)
LAs play a catalytic role in the promotion of territorial development using their legitimacy as a political entity endowed with a general mandate	LAs are marginalised in or excluded from territorial development processes, thus preventing the local public sector from playing an enabling role and ensuring sustainability
Supportive national policies regarding decentralisation, urban and rural development strategies, etc., exist	Territorial development processes depend on local dynamics, without strong linkages to other levels of governance and coherent national policies
Holistic, integrated approach to territorial development with a view to addressing economic growth, social cohesion and environmental sustainability	Single-sector approaches to territorial development

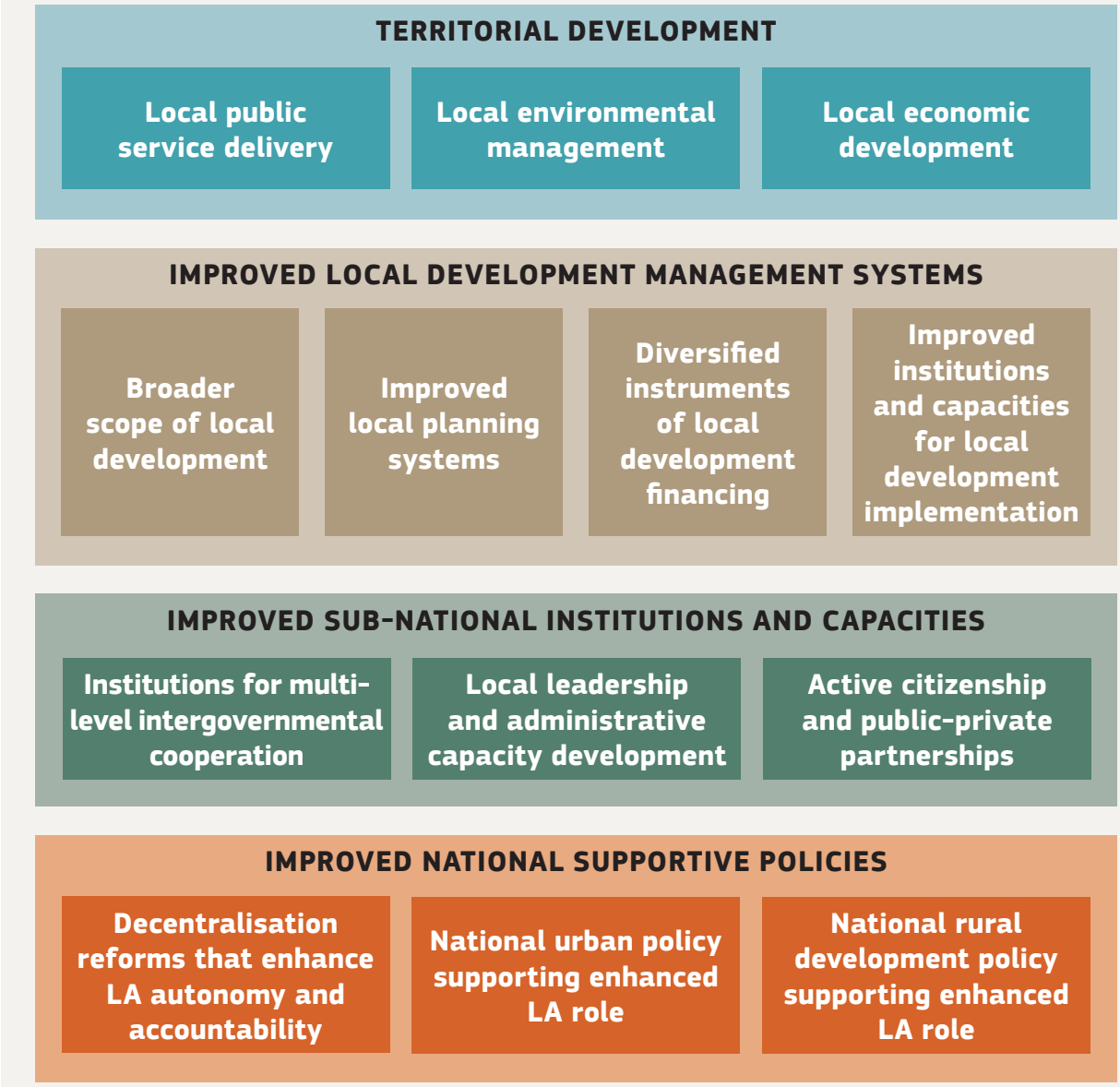
6.5 TALD building blocks

Territorial development cannot happen without a national strategic commitment to it. This linkage with national policies is what distinguishes a territorial development approach from traditional local development approaches. It is also here that the issue of decentralisation comes in. A development-friendly decentralisation process — driven by a commitment to territorial development and accompanied by a set of supportive national policies (most importantly a national urban agenda and a rural development strategy) — is critical to unleashing the potential of territories. Without this supportive national framework, there is a real risk that territorial development will remain a marginal local endeavour instead of a transformative force.

A TALD is a multidimensional national policy that reflects a commitment to territorial development. National governments in decentralising states may want to adopt a TALD, and international development partners may want to support/promote a TALD, in order to unleash the full potential of territories. A TALD should enable autonomous and accountable LAs to deliver local development which is endogenous, integrated, multi-scalar and incremental. Figure 6.4 shows the TALD building blocks.

The TALD framework should not be seen as a rigid model, but as an analytical framework to identify how decentralisation reforms could be connected to the goal of achieving better development outcomes. A TALD should function as a global positioning satellite (GPS) system to help:

FIGURE 6.4 **TALD building blocks**



- understand territorial development as an endogenous, incremental, spatially integrated and multi-scalar process;
- value territorial development as a critical component of a national development policy;
- recognise the key role to be played by autonomous and accountable LAs in territorial development processes.

Parts III and IV examine the TALD building blocks in detail and provide guidance on how the EU can design and implement adequate support strategies.

PART III

Shaping EU support to DLGTD through the TALD framework

THIS PART:

- recapitulates the new European Union (EU) vision on the developmental role of local authorities and what this means for future EU-supported programmes and projects;
- stresses the importance of context analysis by introducing a diagnostic framework for assessing decentralisation reforms and identifying opportunities and constraints for empowering local authorities and promoting territorial development;
- provides guidance on how to define realistic outcomes and choose relevant entry points for a territorial approach to local development (TALD);
- clarifies the supportive role that can be played by associations of local authorities, civil society and European municipal actors in promoting territorial development;
- explores the TALD framework principles for selecting and combining aid modalities.

SECTION 7: Factors underlying future EU interventions

There are three main factors that should shape future European Union (EU) programmes of support to decentralisation, local governance and territorial development (DLGTD); these are:

- the new EU policy of support to developmental local authorities (LAs);
- the broad scope of EU support to DLGTD and the multiple aid instruments available to this end;
- the adoption of a territorial approach to local development (TALD) as an analytical and programming framework to translate the new EU policy into a new generation of EU-supported programmes and projects.

7.1 New EU policy of support to developmental local authorities

Future interventions should be framed by the new EU policy orientation regarding the developmental role of LAs as set forth in the 2013 communication on 'Empowering local authorities in partner countries for enhanced governance and more effective development outcomes'. This communication stresses the instrumentality of decentralisation for improved governance and development outcomes and the need to empower LAs in partner countries so they can play a broader and more active developmental role in true partnership with both the state and the local civil society/private sector. The underlying vision, as discussed in Part II, is of LAs operating as political bodies rather than merely managerial entities. Their role is not only that to improve the efficiency of local implementation of national policies and programmes, but also to formulate, finance and implement local public policies for the development of their territories and the welfare of their communities.

7.2 Broad scope of EU-supported programmes and projects

The second factor relates to the broad scope of possible EU interventions and to the multiple instruments that EU delegations may be able to deploy to promote territorial development and empower LAs to deliver it. Specifically, EU delegations may (i) provide bilateral support through the European Development Fund (EDF) or the Development Cooperation Instrument (DCI), (ii) activate thematic budget lines (e.g. the thematic line targeted at civil society organisations (CSOs) and LAs) or (iii) use the regional programmes.

With regard to bilateral support, the outcome of the 2014–2020 programming exercise clearly shows that EU delegations generally tend to propose three types of support:

- support for a national decentralisation reform policy;
- support for a sector policy (e.g. in rural development, health, water and sanitation) that may rely on decentralised, multi-level delivery systems;
- support for place-based, territorial development.

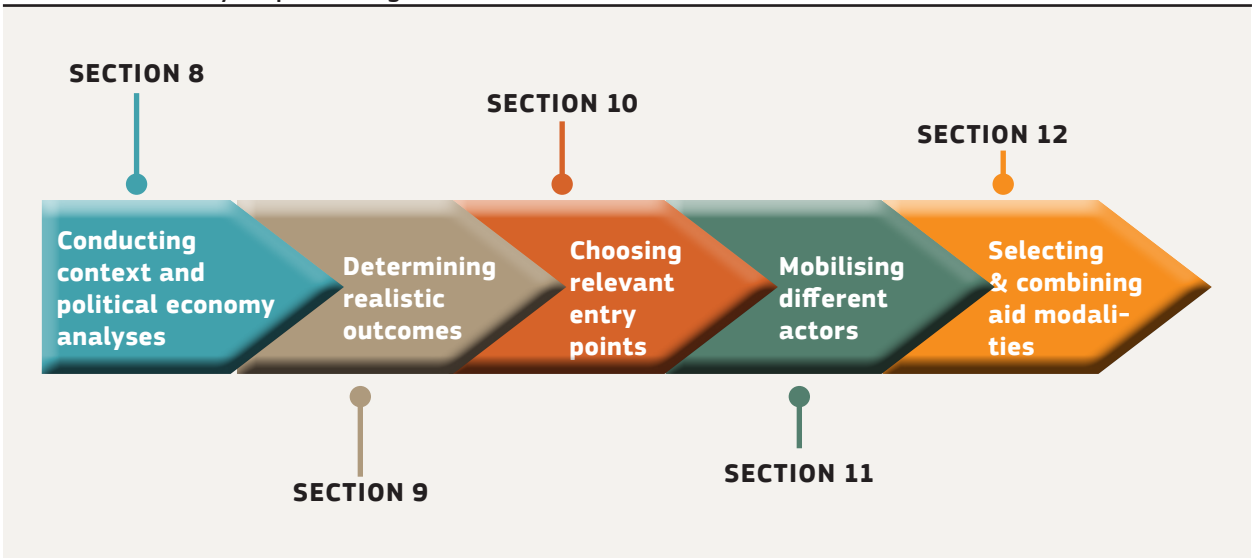
The thematic line offers the possibility of fostering developmental LAs and promoting territorial development by providing direct support to actions led by LAs and/or CSOs in partner countries. Regional programmes can support increasingly frequent cross-border forms of territorial development promoted by LAs.

7.3 Adoption of a territorial approach to local development

EU delegations may wish to apply a TALD when providing these various forms of support. A TALD provides a broad analytical and programming framework that is meant to help EU delegations assess the policy, institutional and technical capacity constraints that affect territorial development in a given context and determine where and how to best intervene to support it. The TALD framework maps the linkages between decentralisation and development outcomes and highlights the scope of policy, institutional and technical capacity development required to strengthen those linkages.

The remainder of this part — Sections 8 to 12, as shown in Figure 7.1 — seeks to help EU delegations use the TALD framework to better and more effectively identify, design and implement country-specific interventions to support DLGTD.

FIGURE 7.1 **Key steps in using the TALD framework**



SECTION 8: The starting point: context and political economy analysis

To design operations supporting DLGTD requires a politically smart approach to context analysis, programming and related policy dialogue with partner governments and other stakeholders. Two defining features characterise such an approach: (i) a clearly articulated and firm commitment to territorial development and the empowerment of LAs to deliver it and (ii) an ongoing, open-minded search for what is politically feasible to advance these objectives.

- **The EU delegation should communicate the fundamental rationale for EU operations in support of national DLGTD policies and programmes.** This rationale should comprise the following elements.
  - **Promoting territorial development as a distinct contribution to national economic growth and social cohesion.** Such promotion is always important, but is critical where these goals are threatened by growing territorial imbalances and social inequalities.
  - **Empowering LAs to manage and coordinate territorial development.** This empowerment should recognise LAs' comparative advantages with respect to multiple public, private and community actors operating in the local space, as well as their potential to reach out to and cooperate with such actors.
- **The EU delegation needs to understand what is politically feasible in terms of empowering developmental LAs.** The EU delegation's commitment to the basic principles of local democracy and governance[1] should be combined with an understanding of what is politically feasible in terms of empowering developmental LAs in any given context. Rather than following a blueprint, EU delegations are invited to look at possible best fit solutions to reform the intergovernmental system at hand and to enhance the autonomy and accountability of the LAs within it. This perspective means embracing a pragmatic approach which supports both top-down initiatives of national reform champions and bottom-up experimentation by local actors. It requires detecting windows of opportunities and focusing on specific problems that can be solved. Such an approach might entail temporary retreats and circuitous detours in navigating political waters, all the while staying focused on the ultimate goal In other words, the EU delegation needs to keep its 'eyes on the prize' while pursuing an often non-linear path. Neither unprincipled flexibility nor normative rigidity is appropriate in this regard.

Adopting this politically savvy and problem-focused approach to supporting DLGTD begins by fully understanding the context in which the EU delegation is operating.

[1] As set forth in the 1985 European Charter of Local Self-Government, among other documents.

8.1 Conducting a context analysis

While the ultimate goal of DLGTD-supporting operations is territorial development and the welfare of local communities, the most critical intermediate objectives are policy and institutional changes that empower autonomous and accountable LAs to become effective developmental actors. Experience shows that such empowerment depends in practice on:

- **national politics** — the opportunities and constraints created by the political drivers of decentralisation reforms;
- **national policies** — the extent to which national development policy supports place-based territorial development and the role of LAs in promoting it.

For example, the same political motives which often drive decentralisation reforms in the first place (e.g. countrywide consolidation and legitimisation of parties in power) may run counter to assigning LAs a meaningful developmental role — for fear of weakening the claim to deliver development (a key source of legitimacy) by the party in power and the central government it controls. Under these conditions, national development policy typically would continue to assume a centralised delivery system, even in the presence of decentralisation reforms. The disconnect between politics-driven decentralisation and empowerment of developmental LAs is most glaring when LAs continue to be marginalised in the design and implementation of even those national policies that are directly concerned with territorial development — namely, the urban agenda and the national rural development policy.

Assessing the extent to which LAs may be empowered as autonomous and accountable development actors is therefore a complex and multidimensional effort. But it begins with an assessment of the status and prospects of decentralisation.

Admittedly, a well-designed national decentralisation policy is only one of the building blocks of a national strategy for territorial development (the TALD; see Figure 10.1), but, it provides a necessary foundation for it. Understanding decentralisation is in fact a prerequisite to looking into any other dimension of the TALD. For example, assessing the role that LAs could play in shaping the national urban agenda and/or rural development policy (two other building blocks of the TALD) is hardly possible without an understanding of the opportunities and/or constraints created by decentralisation. Similarly, it would be difficult to identify issues and feasible changes in the local development management system and underlying sub-national institutions (two other key dimensions of a TALD) without an appreciation of how decentralisation policy and legislation may open or close space for institutional change and related capacity development.

The Integrated Decentralisation Diagnostic Framework (IDDF) outlined below is meant to facilitate the first step of any analytical effort in support of programming EU aid to DLGTD.

The Integrated Decentralisation Diagnostic Framework

The IDDF is built around six root questions (see Table 8.1[2]). Each of these questions is then articulated into more detailed lines of inquiry. The IDDF integrates basic elements of political

[2] The IDDF tool is available online: http://capacity4dev.ec.europa.eu/topic/public-sector-reform-decentralisation.

TABLE 8.1 **Root questions of the Integrated Decentralisation Diagnostic Framework**

ROOT QUESTION	POINTS OF ATTENTION
1. **Nature and form.** What are the essential characteristics and roles of decentralisation, the intergovernmental system and other enabling national policies?	■ To identify basic parameters of the decentralisation framework, e.g. the number of sub-national levels, the types/degrees of empowerment, the quality of the intergovernmental system, the nature/direction of accountability mechanisms ■ To assess other relevant national civil society/association rights, freedom of information, etc.
2. **Motivations and rationale.** Why does the decentralisation policy framework take this particular form in a given country context?	■ To understand the historical and political factors that have shaped the particular form of decentralisation ■ To assess the strength of these factors, some of which may need to be accepted as hard to change[(a)]
3. **Progress in implementation.** To what extent has the decentralisation policy framework been implemented as designed?	■ To establish the extent to which the provisions of the legal framework for decentralisation and the intergovernmental system have been operationalised ■ To determine the existence and severity of identifiable distortions in policy execution[(b)] and the extent to which these might be corrected
4. **Performance and delivery.** How well has decentralisation performed to date in terms of meeting its intended objectives?	■ To determine how satisfactorily the system has met performance expectations, taking into account the multiple objectives of the reform and their respective weight ■ To distinguish objectives which can be verifiably measured (e.g. improved processes or services) and those which are more difficult to assess definitively (e.g. improved governance) or to attribute directly to decentralisation (e.g. poverty reduction)
5. **Drivers of change and obstacles.** What factors/actors have influenced the decentralisation implementation process, in terms of aiding and hindering realisation of its goals?	To assess the contribution of specific factors and actors to decentralisation performance, including e.g.: ■ design parameters (e.g. administrative, fiscal and political mechanisms); ■ political economy actors and dynamics at the central or sub-national levels; ■ capacity factors affecting central and/or LA actors as well as civil society.
6. **Scope for further reform.** What are the potential next steps in improving decentralisation, and how can they be further built on in the future?	To use the IDDF to identify potential steps to improve the status and performance of decentralisation which are: ■ productive in dealing with underlying issues, not just cosmetic actions aimed at observed symptoms; ■ pragmatic in terms of taking achievable steps in the right direction, even if they may not immediately meet decentralisation goals; ■ strategic in terms of establishing a progressive trajectory of feasible reform and support measures.

[(a)] Countries may opt for sub-national government jurisdictions that are large because of ethnic considerations or small because of the importance of the influence of traditional decision-making structures. Similarly, one level of sub-national government may be more empowered than another because of political considerations that outweigh all other concerns.

[(b)] Typical examples include the refusal of central agencies to devolve power as outlined by a policy mandate, or the engineering of significant delays in the flow of essential intergovernmental transfers — hampering the capacity of LAs to act as a developmental player.

economy and development policy analysis so as to move beyond formal descriptions of the decentralisation system.

Using the IDDF should help EU delegations understand the political drivers of reforms and the power relations between their champions and opponents. It should also help identify those structural obstacles of a policy and institutional nature to translating decentralisation into development, stemming from the political and bureaucratic incentives of the actors involved and limiting collective action to make a qualitative leap forward in decentralisation reform.

Some practical tips in using the IDDF follow.

- The comprehensiveness and quality of the answers is bound to vary depending on context, the availability of information and EU delegation capacity.
- The EU delegation should not be constrained by a lack of internal capacity or time in using the IDDF. Often, other in-country actors are engaged in similar types of analysis on which the EU delegation can build. For instance, a core task of national associations of LAs (ALAs) is to monitor progress in decentralisation reforms. Civil society networks also may have set up similar tracking systems. By engaging with these local actors, the EU delegation can overcome internal capacity challenges and obtain valuable strategic information at a low cost.
- The IDDF should not be expected to provide 'all the answers', but will help in placing a particular issue or problem within a broader context and to determine the additional investigations needed to design the operation at hand.

Additional analytical modules

Once the broader contextual conditions set by the national decentralisation policy and legal framework are understood through application of the IDDF, further investigations may be necessary, with the help of additional analytical modules. Building on the results of the IDDF, the EU delegation may want to deepen the political economy analysis of decentralisation and/or further investigate issues associated with other building blocks of the TALD framework. The decision will depend on which building blocks are selected as specific entry points for EU support to DLGTD (see Section 10).

The scope and depth of these additional investigations will depend on the problem at hand and the type of operation being planned. Additional analytical modules supporting aid programming for DLGTD may address the following.

- **The political economy of specific issues.** The EU delegation may want a deeper analysis of how specific features of decentralisation reforms (e.g. the electoral system, the selection of local executives, the accountability of local administrations, the space for participatory democracy) reflect political and bureaucratic interests and may create or suppress space for the emergence of developmental LAs.
- **Territorial policy issues.** The EU delegation may want to further explore the scope for enhancing and supporting the role of LAs in shaping and implementing (i) the national urban agenda and (ii) the national rural development policy — i.e. the two national policies that typically reflect national thinking on what territorial development is and how it should be promoted. The task here would be to assess the extent to which such policies are based on an effective conceptualisation of the value of territorial development for

national economic growth and social cohesion, a commitment to empowering LAs to deliver this, and how progress could be made on both counts.

- **Sector-specific issues.** In partner countries where EU assistance is focused on a specific sector, EU delegations may want to explore the scope for supporting a more active role of LAs in such sectors, including delivering health, education, food security, welfare and other social services; protecting the environment and managing natural resources; as well as promoting local economic development. Analytical modules in this category would help explore both the role that LAs could play in the delivery of specific services and the intergovernmental arrangements necessary to support such a role.

- **Institutional development and capacity issues.** Additional analytical modules in this category would be used to help EU delegations take a more in-depth look at the institutions, techniques and capacities associated with planning, financing, and managing territorial development to determine their current status, the scope of feasible improvements and related capacity development requirements. They could also be used to assess political and institutional incentives or constraints to the emergence of local development leaders, improvement of LA accountability, consolidation of local deliberative democracy practices and the rise of active citizenship.

Developing and applying these additional analytical modules will help in determining precisely what the EU delegation can do to support developmental LAs within the existing decentralisation policy and legal environment as revealed by the IDDF. No matter how enabling or constraining such an environment may be, the analysis is likely to uncover incremental steps that could actually be taken to promote developmental LAs. Additionally — and particularly in less favourable policy environments — these modules might help assess what could be done to move beyond such environments by pointing to specific institutional and capacity limitations and supporting negotiation with partner governments on the space for local actors to experiment with solutions and ultimately lead to policy reform in a positive bottom-up, practice-driven, change process.

8.2 Assessing EU delegation capacity to support DLGTD policies and programmes

Applying the IDDF and other tools may help clarify the country context and illuminate the role of politics and policy in shaping decentralisation reforms and LA systems. However, in order to use these various analyses effectively to formulate solid interventions, EU delegations will need considerable in-country capacity. Particularly important will be the capacity to reach out to the primary stakeholders of the reforms, and engage them in a policy dialogue on the adoption of a TALD.

Experience suggests that many EU delegations face constraints in mobilising such internal capacity. These difficulties tend to stem from three main sources:

- confusing and/or contradictory messages on EU policy — e.g. emphasis on budget support as a preferred aid modality regardless of the context; a 'silo' mentality in sector-specific programming; mixed signals on the CSO-LA relationship;

- country-level organisation and (shrinking) staffing, with staff primarily being generalists and spending large amounts of time on administrative obligations;

- limited resources at headquarters to provide iterative quality support, either directly or through high-level consultancy services.

These structural constraints need to be taken into account when conducting the context assessment. A quick institutional readiness test can be undertaken at the EU delegation level. Table 8.2 proposes a set of five criteria and related indicators to check internal capacity.

TABLE 8.2 **Assessment criteria for EU delegation capacity to support TALD policies and programmes**

CRITERION	INDICATOR
Overall approach of the EU delegation towards ongoing decentralisation dynamics in the partner country	■ Awareness of/active interest in understanding political motives behind decentralisation reforms and potential as a development tool ■ Level of knowledge and analytical capacity to work in decentralised contexts ■ Willingness/capacity to integrate decentralisation realities into programming and the design of key interventions (e.g. sector budget support operations)
Overall approach of the EU delegation towards territorial inequalities in the partner country	■ Awareness of/active interest in spatial development and inequality issues ■ Level of knowledge and analytical capacity to deal with territorial development dynamics ■ Willingness/capacity to integrate the spatial dimension into programming and the design of key interventions
Overall approach of the EU delegation towards local democracy and joint action between LAs and civil society	■ Willingness/capacity to deal with both sets of actors in a coherent and complementary way, based on the respective role and comparative advantages of each player ■ Degree to which EU democracy support integrates the local dimension ■ Degree to which EU (sector) support programmes provide incentives for the co-production of public services and goods ■ Coherent use of the CSO-LA Thematic Programme (i.e. respect for legitimacy/added value each actor)
EU delegation level of engagement with LAs and ALAs	■ Existence and quality of policy dialogue between the EU and ALAs ■ Degree of involvement of LAs in the EU programming process ■ EU delegation efforts to promote greater participation of LAs in relevant domestic policy processes
EU delegation funding for local authorities	■ LAs are involved in the preparation of, and benefit from, budget support operations ■ Existence of specific financial mechanisms to ensure direct funding to LAs ■ Effective use of the CSO-LA Thematic Programme to channel resources to LAs ■ Support measures for National Associations of LAs

SECTION 9: Determining realistic outcomes

After having conducted these various analyses — in relation to ongoing decentralisation dynamics, government interest in territorial inequalities and the institutional readiness of EU delegations — and incorporated key implementation principles, it is time to clarify the type of outcomes the EU interventions ultimately seek to achieve in supporting DLGTD. Such clarification is a crucial step in determining a feasible set of objectives regarding territorial development that might be pursued in a given country context through different programmes and projects.

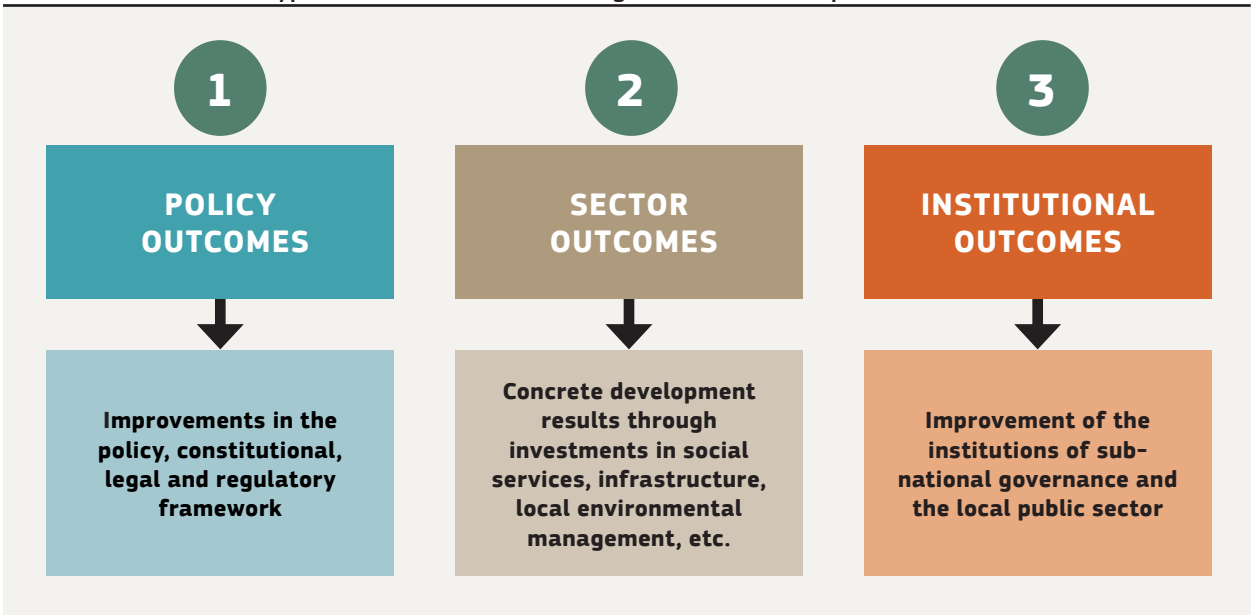
EU support to DLGTD may produce mutually reinforcing outcomes in three major categories. Figure 9.1 illustrates, and the following describes, the various types of outcomes EU interventions in DLGTD can seek to achieve.

- **Policy outcomes.** These refer to improvements in the policy, constitutional, legal and regulatory framework within which autonomous and accountable LAs may be able to operate. They may include formulating/revising national decentralisation policies and strategies, undertaking constitutional revisions or developing LAs' organic law and related detailed regulations.

- **Sector outcomes.** EU-supported interventions with sector outcomes mainly seek to achieve concrete development results through actual investments in social services and infrastructure, local environmental management and local economic development.

- **Institutional outcomes.** These refer to improvements of the institutions of sub-national governance and the local public sector that may help exploit the potential developmental

FIGURE 9.1 **Three types of outcomes in fostering territorial development**



role of LAs under a given constitutional and legal framework. They may deal with several of the TALD building blocks, such as building institutions and capacities for local political deliberations and policymaking, strengthening intergovernmental cooperation and state oversight systems, or promoting inclusive local governance and citizen engagement in local public policy formation and implementation. Experience suggests that priority often must be given to improving local public resource management (planning, programming, budgeting, procurement, accounting and auditing systems) as a foundation for further local institutional development.

In the past, donor agencies have often supported interventions at the local level that were confined to the delivery of development (sector) outputs (Item 2 in Figure 9.1). Such programmes often lacked a political and institutional vision on the developmental role of LAs (Item 3 in Figure 9.1) or on the necessary link with broader state (decentralisation) reforms and institutions (Item 1 in Figure 9.1).

When using the TALD framework, EU delegations should seek to identify a politically smart and feasible mix of outcomes in the three spheres — sector, institutional and policy. Action in any of the three areas should not be held hostage by progress — or a lack thereof — in the other two areas. Progress in each of the three areas is typically affected by a different dynamic and time frame. Although the policy and legal framework may set the boundaries for institutional development, some space is likely to exist for improving local political deliberations and local resource management institutions within such boundaries. Similarly, there may always be space for empowering LAs to deliver sector/local development within an existing, and not entirely satisfactory, set of institutions and capacities. Recognising this may lead to more realistic and effective programming of EU assistance for territorial development.

SECTION 10: Choosing relevant entry points for the intervention

Building on the context and political economy analyses (Section 8) and definition of the outcomes the EU delegation seeks to achieve (Section 9), the next step is to identify the most suitable building blocks of the TALD that could serve as entry points for a possible EU intervention for promoting territorial development.

As explained above, the TALD has three main constituent elements, or building blocks: (i) local development management systems, (ii) institutions and capacities at sub-national level and (iii) supportive national policies. For each of these elements, a number of challenges must be addressed in order to enable LAs as developmental actors and catalysts of territorial development (see Figure 10.1).

The most suitable set of building blocks to be targeted by EU interventions will differ from country to country. For instance, in a particular country, there might already be some government attention to and donor support for strengthening management systems for local/territorial development, while other equally critical fields such as supportive national policies or active citizenship receive far less attention.

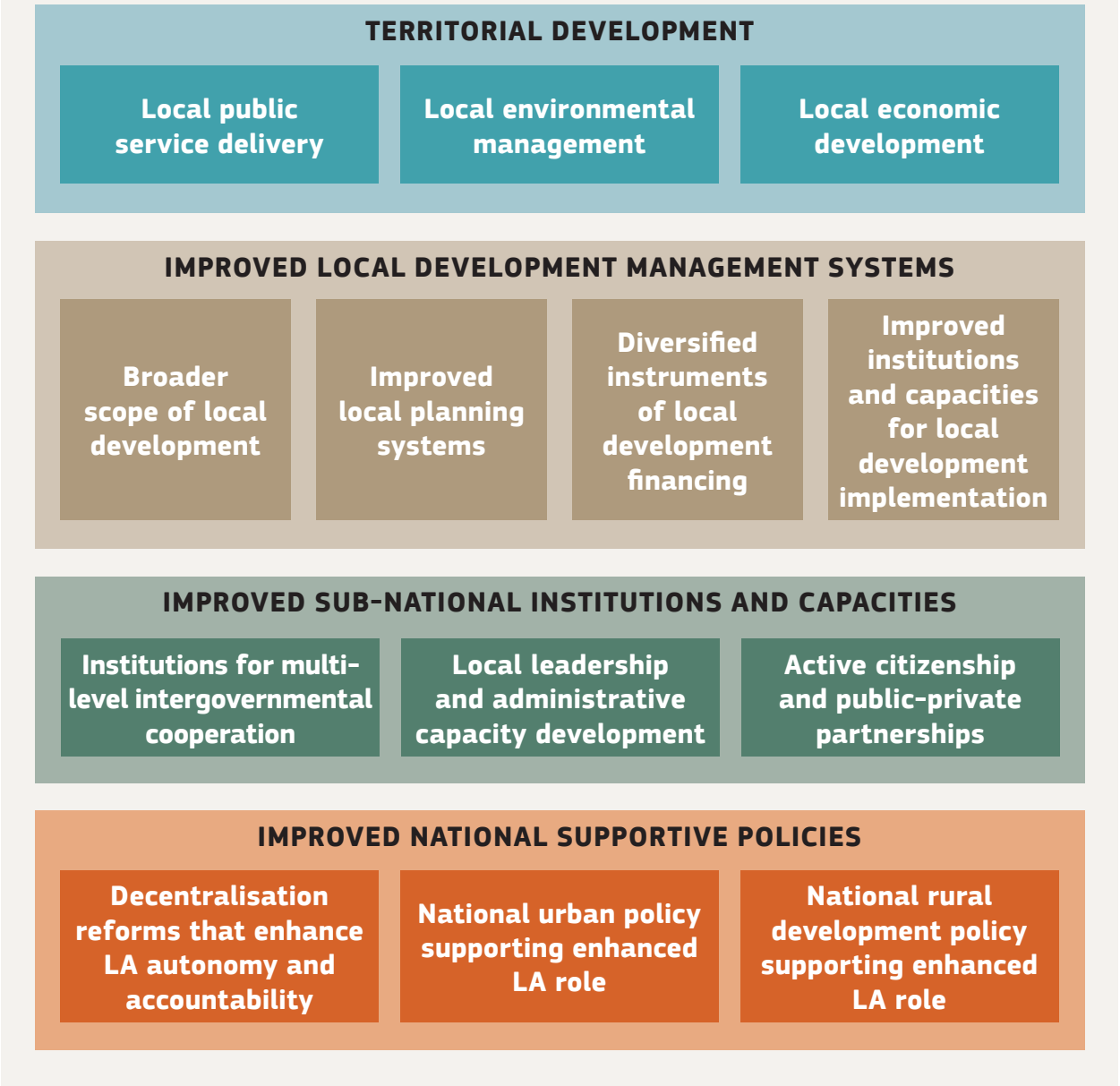
EU interventions do not need to address all of the building blocks. EU assistance in a given country can perfectly be targeted to those areas where there is real traction and a possibility to effectively promote territorial development through focused and problem-solving approaches.

In order to facilitate the selection of entry points for using a TALD, the following questions deserve attention:

- What are the priority actions in terms of enabling LAs as developmental actors?
- What entry points are most consistent with the various types of outcomes the EU wants to achieve?
- Where is there sufficient political traction to move forward relatively smoothly (considering the power relations, interests and incentives of the various actors involved)?
- What are other players doing (e.g. central governments, donor agencies, civil society actors) in support of territorial development?
- Where can the EU — as a political player with leverage and resources — add value?

The remainder of the section briefly examines the various building blocks and possible entry points of a TALD.

FIGURE 10.1 **Building blocks in territorial approaches to local development**



10.1 Entry points for strengthening local development management systems

The first building block is concerned with strengthening capacities for local development management. This is not a new area of work. A wide range of activities aimed at enabling LAs to assume their responsibilities in development processes have been sponsored by central governments, donor agencies, civil society organisations or (European) municipalities involved in decentralised cooperation activities. Available evaluations suggest the track record of these capacity development activities have often been quite limited, as they were generally conceived as technocratic project interventions of limited duration and disconnected from the wider intergovernmental system in which LAs have to operate. Building on these experiences, EU delegations using the TALD framework need to adopt a different lens in providing capacity development support to LAs (see Box 10.1).

BOX 10.1 **Using a TALD requires a broader scope of local development**

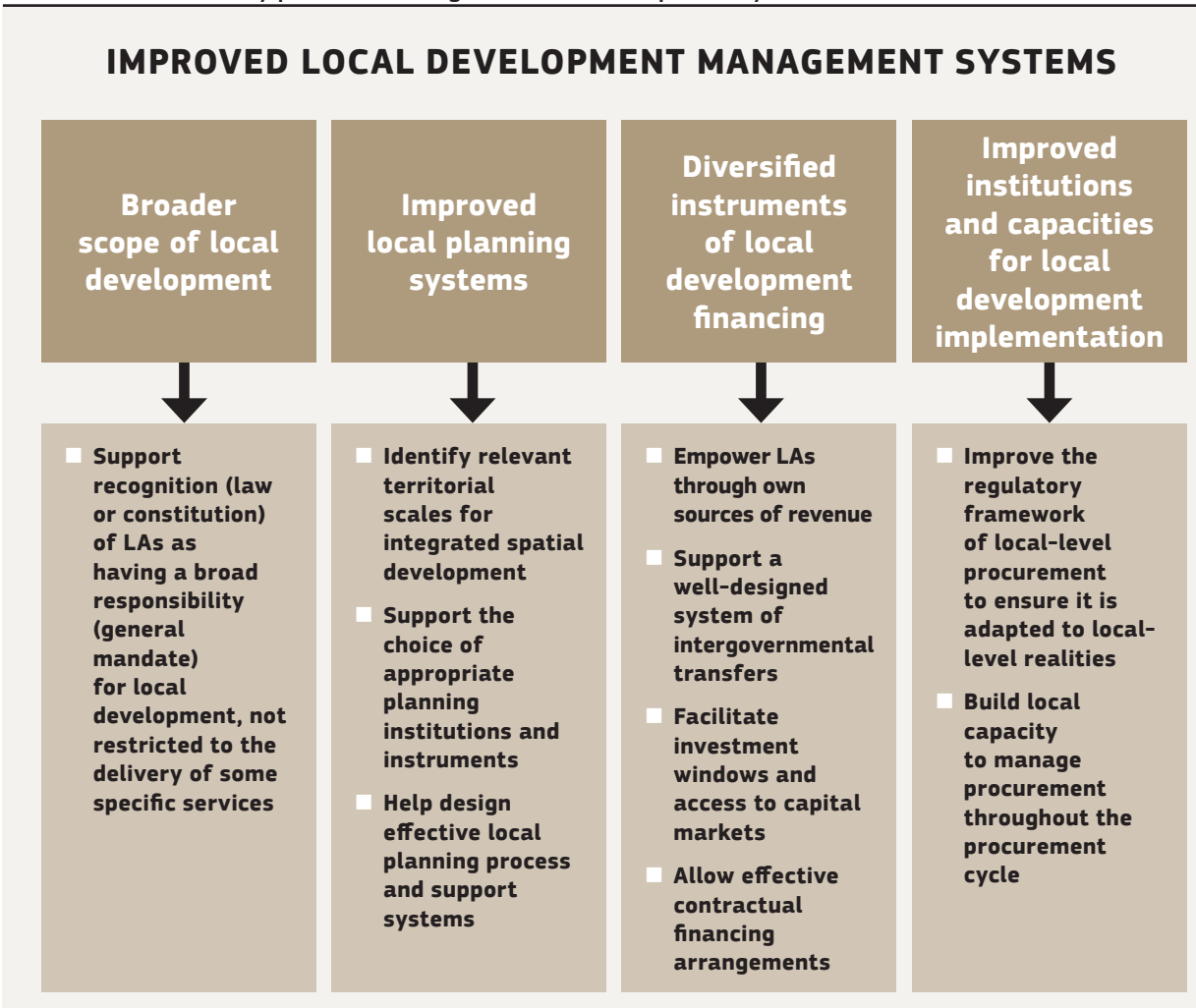
If the EU seeks to expand the developmental role and capacities of LAs as a means of unleashing the potential of territories, it needs to recognise the conceptual difference and complementarity between local development planning on the one hand, and localisation of national development goals (or even global, as in the case of the Sustainable Development Goals) on the other.

The first perspective creates scope for territorial approaches to local development; the latter tends to confine LAs to a role as implementing agencies for policies decided elsewhere.

In practice, promoting genuine local development planning as defined above requires the development of a sub-national planning system that is both distinct from, but aligned with, the national planning system. Such a system should include and support both the corporate planning processes of autonomous LAs and effective mechanisms for horizontal and vertical coordination of such plans with those of other planning units — e.g. national agencies, higher- or lower-tier LAs, and private and non-profit organisations.

Different changes could be supported in each of the cases of this first building block, as illustrated in Figure 10.2.

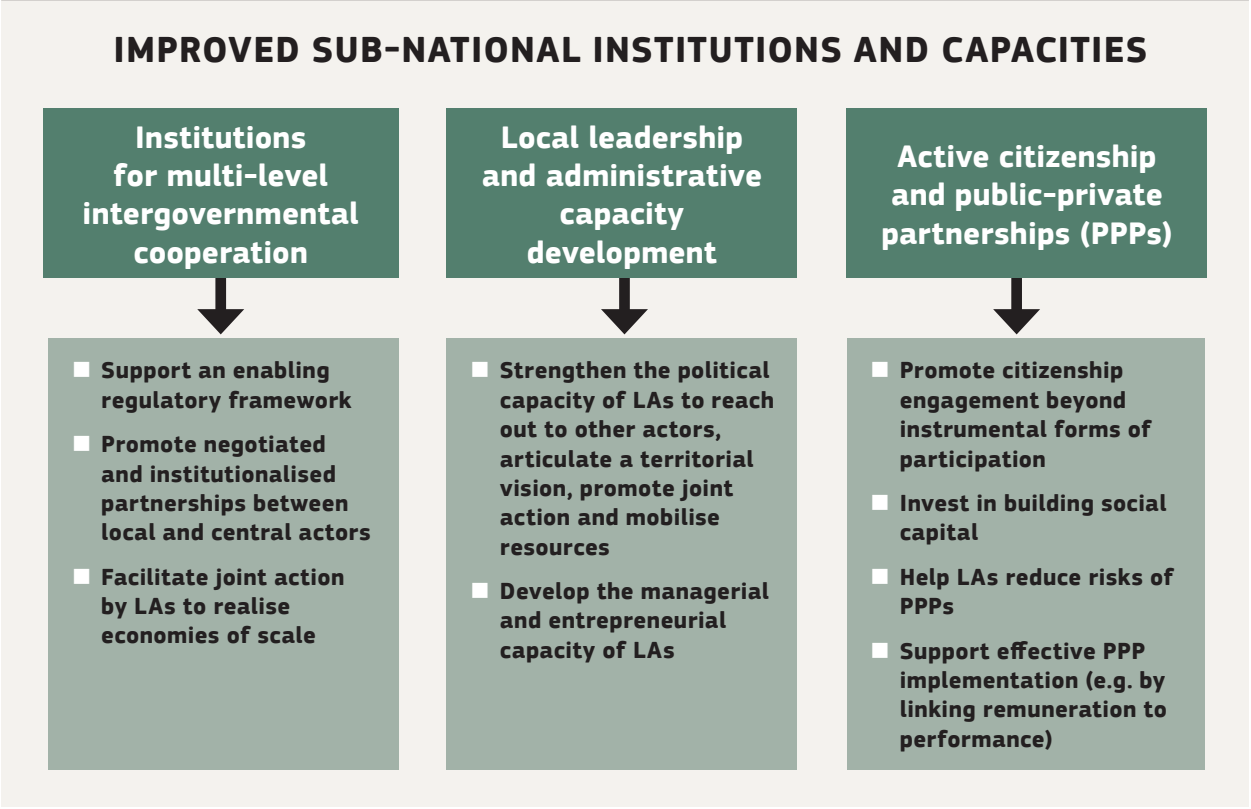
FIGURE 10.2 **Entry points to strengthen local development systems**



10.2 Entry points related to institutions and capacities at the sub-national level

The second building block is equally crucial for genuine territorial development (see Figure 10.3). It first recognises the need to put in place an effective system for intergovernmental cooperation, while preserving the autonomy of LAs — i.e. intergovernmental cooperation instead of hierarchical subordination. Such a system is often difficult to achieve in practice because of (i) the absence of a clear constitutional/legal distinction between the central state and LAs, (ii) capacity constraints and a lack of investment in newly established LAs and/or (iii) control-oriented approaches by central authorities that ultimately deny local autonomy and uphold hierarchical relations.

FIGURE 10.3 **Entry points to strengthen institutions and capacities at the sub-national level**



This building block is additionally concerned with developing strong leadership and effective administration at the local level as well as with the quality of interactions between LAs and other actors in the territory and at other levels. Establishing relations of trust is key to fostering joint action between local stakeholders and effective partnerships, both of which underpin a TALD. Leverage of local and external resources greatly depends on the strength and continuity of these horizontal and vertical interactions.

10.3 Entry points for supportive national policies

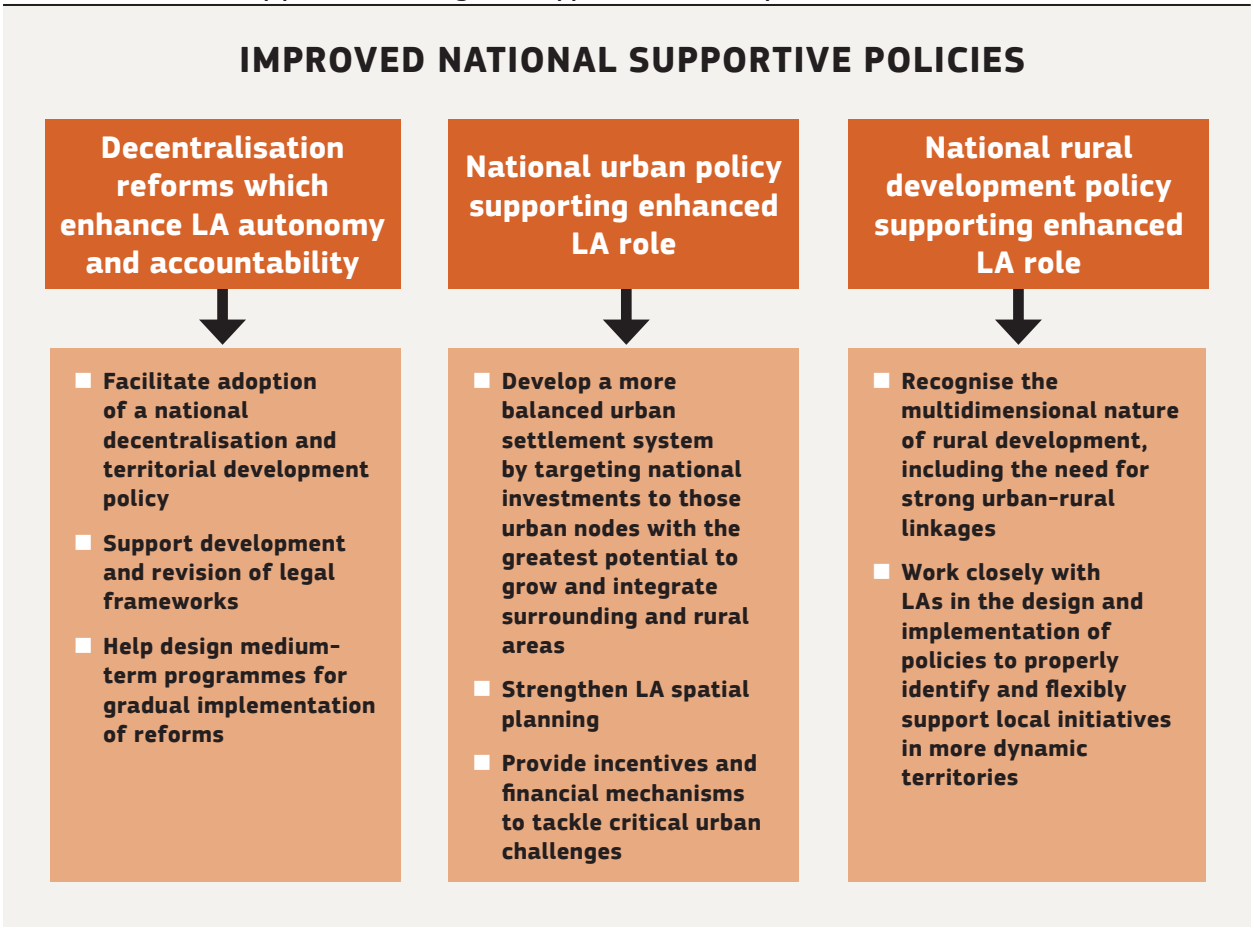
The third building block of a TALD encompasses the set of national-level policies that are essential to and support enhancement of the developmental role of LAs and foster genuine territorial development. In the absence of such national policies, there is a real risk that attempts to unleash the potential of a given territory will fail or remain locked into

unsustainable forms of hyper-localism, disconnected from wider and higher-level societal and economic dynamics. These national policies are a necessary condition for making the critical link between decentralisation reforms and territorial development outcomes.

A development-friendly national decentralisation policy which enables LAs is an obvious target in this building block. Equally important is a new generation of national urban policies which support territorial development by recognising (i) the role that urbanisation plays in national economic growth, (ii) the importance of correcting social and spatial inequalities that may be associated with growth and (iii) the comparative advantages of LAs in contributing to and implementing the national urban agenda. The role of a rural development policy is equally key, but has been more difficult to advance in practice, because of the continuing reliance of top-down sector approaches, strong central bureaucratic resistance, and lower political and administrative capacity on the part of rural LAs.

Figure 10.4 shows how EU delegations can use these entry points to foster the empowerment of LAs and support territorial dynamics.

FIGURE 10.4 **Entry points to strengthen supportive national policies**



SECTION 11: Mobilising key actors in the promotion of territorial development

Developmental LAs occupy a strategic position in bottom-up processes of territorial development, taking into account their general mandate and legitimacy to act as catalysts and honest brokers. If they display local leadership and make effective use of windows of opportunity, they can make a difference in terms of development. Yet they cannot do the job alone. This reference note continually stresses that a TALD is a multidimensional policy whose adoption by central governments might ensure that politics-driven decentralisation reforms also produce territorial development results. Understanding a TALD as a national policy choice illuminates the prominent role of central governments as partners of EU delegations in formulating aid operations in support of DLGTD programmes.

Other actors have equally crucial roles to play and may therefore qualify as EU partners, provide complementary channels for aid, and bring to bear their comparative advantages in the design and implementation of DLGTD-supporting operations. Three sets of actors are of particular importance: (i) national, regional and global associations of LAs (ALAs), (ii) CSOs and (iii) European local and regional authorities engaged in decentralised cooperation.

This section provides operational guidance on how EU delegations can engage strategically with these three sets of actors in order to translate the EU vision of developmental LAs and promote territorial development.

11.1 Working with ALAs

Evolving role and added value of ALAs

In the course of the last century, the number of ALAs at the national, regional and global levels has continued to grow while their functions have become increasingly sophisticated. Around the world, ALAs have been assuming various roles of a political and technical nature, serving as:

- documentation and information clearing-houses;
- vehicles for exchange of experiences among members on LA issues and practices;
- lobbyists for LA interests with central authorities[3];
- providers of a diversified range of policy, legal and technical advisory services to their members.

[3] ALAs are confronted with a broad advocacy agenda in relation to decentralisation reforms or wider national policymaking processes that affect them. These may relate to local democracy issues (e.g. electoral laws and practices); the intergovernmental system for cooperation between tiers of government (e.g. the implementation of exclusive, shared and delegated competences) and related fiscal rules, jurisdictional boundaries, etc.

In recent years, they have increasingly sought to influence the planning and implementation of external aid programmes in support of their members' capacity and initiatives by:

- insisting on a greater representation of LA views and interests in national-level processes of external aid programming;
- acting as intermediaries and facilitators of technical and financial aid flows through decentralised cooperation partnerships between LAs from developed and developing countries;
- playing a more active and direct role in the design and implementation of externally financed programmes to build LA capacity.

All of which implies that ALAs may have a critical role to play in facilitating the emergence of developmental LAs. They can do so by (i) advocating and sustaining the momentum of decentralisation reforms and (ii) building the capacity of their members to adopt good local governance practices and promote territorial development.

Over the past decade, the international development community has increasingly recognised the potential of ALAs at various levels. At the EU level, a similar trend can be observed, resulting in the recent conclusion of strategic partnerships with key ALAs — particularly at the global and regional levels — as explained in Box 11.1.

BOX 11.1 **EU strategic partnerships with ALAs**

One initiative arising from the 2013 EU communication regarding the empowerment of LAs was the negotiation of a set of framework partnership agreements (FPAs) as a modality to establish political and long-term partnerships with — and channel financial support to — ALAs. These partnerships are predicated on EU support of ALA priorities and processes within a framework of common policy goals. In a first phase, five FPAs were signed for the period 2015–2020 with three international ALAs — the United Cities and Local Governments (UCLG) World Secretariat, the Commonwealth Local Government Forum (CLGF) and the Association of Francophone Mayors — and two regional structures — United Cities and Local Governments, Africa (UCLG-A) and the Council of European Municipalities and Regions (CEMR) together with PLATFORMA.

These FPAs involve substantial funding geared at enabling the associations and their members as development actors and representative policy interlocutors at the global and regional levels. The framework partners were selected on the basis of their *de jure* and *de facto* monopoly and their exclusive competence in the field of activity to which EU support relates.

Beyond the institutional and capacity development objectives of the FPAs, their potential added value for the EU is manifold: (i) long-term collaborative arrangements based on mutual interests and objectives, (ii) a comprehensive policy vision that could be implemented by several EU-funded actions through various cooperation instruments; (iii) more structured dialogue and cooperation between ALAs and the EU.

The political and operational results of the FPAs will be monitored and evaluated through a mechanism put in place by the European Commission's Directorate-General for International Cooperation and Development with the support of external experts.

Limitations affecting ALAs' ability to promote developmental local authorities

The added value of ALAs inevitably varies from country to country. There are significant — sometime dramatic — differences in mandate, structure and capacity, reflecting variations in both the advances of decentralisation reforms and the nature of LAs thereby created in any

given country. As a general rule, the ability of ALAs to provide services, act as independent advocates for their members' interests and speak with credibility on their behalf depends on the extent to which LAs (i) are recognised as an autonomous sphere of government within the national state, and (ii) have the executive and administrative capacity to function as such. Consequently, effective and capable ALAs often are not found precisely where they would be most needed — i.e. where decentralisation is stuck at an embryonic stage, and LAs do not yet play a meaningful developmental role.

Besides the constraints imposed by national decentralisation policies, ALAs often face other internal and external limitations.

One limitation refers to the quality of their internal governance and the extent to which this is affected by short-term partisan goals or supports the long-term interests of the LA sector at large. As national political parties either control — or compete for control of — the ALAs, they often tend to make the greatest possible political use of them. This tendency reduces ALA ability to act as a unified voice for LAs of different political colours, turning them into either rubber stamps for ruling party policies or tools of opposition politics. Their credibility as advocates of LA empowerment and of institutional reform is then seriously compromised (see Box 11.2).

BOX 11.2 **Defending ALAs' non-partisan identity**

The role of ALAs as a non-partisan institutional entity in the LA movement is critical, but not easy, as ALAs are often the target of partisan attempts to take over and manipulate their agenda. Nonetheless, perhaps the greatest value of an ALA is, as a Sri Lankan ALA official put it, 'challenging the notion that when one [local government] Chairman says something, that is a party position, when normally it's not... With the Association, it's our common view. Now when we deal with other levels of government they can't dismiss it as being a party issue' (UCLG, 2009, p. 37).

A second limitation involves the often marginal position to which ALAs are relegated by external aid providers, which tend to negotiate their support for DLGTD with central governments, bypassing ALAs in the process.

ALAs as a voice and mirror for developmental local authorities

In spite of the above limitations, a consensus is emerging in the international community that ALAs may have an important role to play in helping their members become more developmental and thus make a greater contribution to the achievement of the Sustainable Development Goals (SDGs).

The question nevertheless arises as to the extent to which LAs are embracing such a role. Unfortunately, while much development work is actually being done by individual LAs across the world, too many of them are still unsure about whether and how to become more assertive developmental actors. As a consequence, their collective voice to claim and responsibly carry out a new and critical role in territorial development and the achievement of the SDGs remains weak.

Amplifying that collective voice and making it heard by government, civil society and donors is therefore a critical task for ALAs at the national, regional and global levels. But they should also be providing their members with a mirror in which to recognise and begin addressing the internal obstacles of leadership and capacity that prevent their fulfilment of a greater developmental role. Too often, where LAs do not play such a role, the limited and politically driven nature of decentralisation reforms tends to be blamed — and indeed, these are often tremendous constraints to the emergence of proactive developmental LAs. However, one

needs to think beyond decentralisation reforms to the local attitudes and skills necessary to translate them into improved governance and development outcomes.

What are needed are more mature, more confident and more responsible LAs, which — while fighting for greater autonomy and an enabling decentralisation policy environment — do not hide behind the limitations of such an environment and proactively embrace their developmental role, making the most of any given situation. The 'Freeport Declaration on Improving Local Government' issued at the conclusion of the 2009 conference of the Commonwealth Local Government Forum (CLGF) may have put it best, stating that 'a business un-usual approach, which speaks of confidence, opportunity and innovation rather than helplessness, is needed; a shift towards a developmental model, with clear strategic vision and leadership, that focuses on what needs to be done rather than on systems and structures' (CLGF, 2009).

How ALAs can foster developmental local authorities that engage in territorial development

How can ALAs contribute to the emergence of more confident and more responsible LAs? Box 11.3 presents some examples. In general, action appears to be needed in five areas.

BOX 11.3 **Examples of good ALA practices supporting developmental LAs and territorial development**

ALAs across the developing world have taken steps to assume their dual role of advocacy and capacity building in support of developmental LAs and territorial development, as the following examples illustrate.

- The Uganda Local Governments Association has been advocating for improvement in the budget allocation to LAs since 2001/2002, focusing on issues such as the development of various sector grant allocation formulas, local revenue-enhancing strategies, timely release of funds and the ability of LAs to retain committed unspent balances so as to pay service providers — especially when funds arrive late and/or towards the end of the financial year. On the capacity side, it has trained elected authorities in drafting by-laws to promote local economic development and regulate environmental issues under their sphere of responsibility.
- The Association des municipalités du Mali is lobbying for the inclusion of communes as developmental actors within the peace agreement. This is crucial, in that peace relies heavily on effective (fiscal) decentralisation and inclusion processes as part of the 're-foundation' of the Malian state. The association's main political objective is to highlight the political importance of communes as actors for development, if endowed with the necessary resources, and as vehicles for peacemaking in the country.
- The Association of Urban and Rural Municipalities in El Salvador (COMURES) has been incorporated in fiscal transfer systems and annually receives a budget of around USD 500 000 from the national government with the exclusive mandate of conducting capacity-building activities amongst its members.
- The Rwandan Association of Local Governments has evolved from a donor-dependent organisation with limited support from its members (in 2008) to a solid, professional organisation recognised by government as a policy interlocutor and enjoying financial independence through membership contributions. It provides the following services: staff recruitment for LAs through sophisticated and objective assessment aligned to national laws, land management, formulation of plans and strategies for local economic development, and the promotion of public-private partnerships.

- **Recognising the specificity of territorial development as well as its relation to national/global development efforts, including the pursuit of the SDGs.** For ALAs, a proper understanding of and commitment to territorial development, and to the role of local political institutions in promoting it, should be the foundation of a new agenda in support of developmental LAs. A focus on territorial development could change the way in which ALAs interact with national governments in advocating for and shaping decentralisation reforms. With such a focus, attention could indeed be shifted to what needs to be done rather than on formal changes to systems and structures.

- **Advocating for the role of LAs in managing territorial development.** A proper conceptualisation of territorial development would enable ALAs to argue that the role of LAs is not limited to improving the efficiency in state resource allocation and use, but extends to the mobilisation of additional private sector and community resources. At the same time, focusing on territorial development would bring to the fore the centrality of local autonomy to effectively use the LA general mandate — without which, neither public expenditure efficiency gains nor additional resource mobilisation is likely to materialise. ALAs could also lobby for appropriate forms of intergovernmental cooperation and sharing of responsibilities for service delivery.

- **Documenting success stories in promoting territorial development.** Many ALAs already perform this task, but a greater focus is needed on documenting how LAs (i) build and mobilise social capital, (ii) facilitate active citizenship and (iii) bring additional private and community resources to bear on improved local service delivery and local economic development.

- **Raising awareness and developing LA capacities.** In order to promote territorial development, the capacity of LAs must extend beyond the competences needed to manage an LA organisation. LA leaders will need to develop strategic goals, including local articulation of the SDGs, and leverage local community resources to achieve them. Hence a new kind of capacity is needed for the practice of both strategic planning and horizontal subsidiarity (see Box 11.4).

BOX 11.4 **Embracing a wider capacity agenda towards local authorities**

> There is a need for 'a wider capability to lead in collaboration with partners and communities. Working with communities implies... learning to think about services from users' perspectives, recognizing the ways in which communities work, enabling and supporting community leaders. Working with partners implies being aware of different interests, ...leading through influence rather than control, developing strategic priorities which meet the needs of all partners' (Geddes and Sullivan, 2007).

- **Partnering with donor agencies.** ALAs can partner with donor agencies by systematically voicing LA concerns — on national poverty reduction strategies, decentralisation agendas and adequate approaches for providing donor support in ways that respect the role and added value of LAs — in national-level policy and political dialogue processes, and by offering new and complementary channels for external aid to support the emergence of developmental LAs (including the coordination of decentralised cooperation[4]). ALAs

[4] Much remains to be done to coordinate decentralised cooperation activities in a way that is responsive to actual needs, adds real value and supports national reform processes.

could also look to serve as an effective channel for and facilitator of capacity development programmes directed towards LAs to ensure a proper match between demand and supply. In this context, the EU could engage in a strategic partnership with ALAs, demonstrating that both partners share a vision and mutual interest in empowering LAs as development actors. Such a partnership would also indicate that the EU fully recognises the mandate and added value of ALAs in pushing for domestic change in that direction.

11.2 Engaging strategically with the local civil society

This is a second type of partnership EU delegations should seek to promote in order to empower LAs and foster territorial development. Constructive interactions between LAs on the one hand and communities, civil society actors and citizens on the other are crucial in unleashing the potential of territories, mobilising additional local resources and ensuring LAs' downward accountability to constituencies — thus giving substance to the concept of local democracy.

The EU has committed itself to encouraging joint action between LAs and civil society in two recent EU communications (see Figure 11.1). Taken together, these two policy documents highlight the need to better distinguish and articulate the respective roles and responsibilities of LAs and civil society. This, in turn, should lead to more coherent EU support strategies, which acknowledge the legitimate role of LAs in designing and implementing local public policies while empowering citizens to engage in the local political process and demand accountability to their LA. The local space provides a potentially enabling environment to test out new forms of collaboration between both set of actors and mobilise additional resources supporting both local development and democracy processes. The 2012 communication on civil society invites all EU delegations to elaborate a roadmap for strategic engagement with civil society as governance actors, particularly at the local level.

FIGURE 11.1 **EU communications push for new forms of collaboration between civil society and local authorities in the local space**

In order to foster such constructive interactions between LAs and civil society, three premises need to be kept in mind regarding possible EU support strategies:

- **Decentralisation processes potentially create more space for a mutually beneficial interaction between LAs and civil society actors.** For this potential to be unlocked, two conditions are needed. First, LAs must be made more attractive to citizens and organised interest groups. If LAs are bypassed by donor agencies or lack autonomy to formulate and implement local public policies, there will be limited incentives for CSOs to engage with them. LAs represent a political community and provide the institutional space for citizen participation. For this reason, the empowerment of LAs should be a strategic objective of the EU. Second, citizens and CSOs have a critical role to play in constructing the local political space and influencing the local political process for better development and governance outcomes. That is where strategic EU support to CSOs as governance actors is vital.

- **Civil society actors need incentives to engage in local public policymaking.** In many developing countries, a history of separation — if not mistrust — exists between LAs and CSOs, fuelled by competition for legitimacy in the eyes of local populations or for funding, including from donor agencies. This divide needs to be bridged for sustained territorial development. Several EU delegations have used their civil society roadmap to identify ways and means to promote joint action between LAs and CSOs. They have created space and opportunity for different categories of CSOs as well as citizens to engage meaningfully in local affairs. Examples of such targeted actions include the following.

  - Small associations or grassroots organisations are incentivised to abandon 'project logic' and instead invest in the co-production of local public policies by intervening in policymaking (e.g. setting priorities, identifying funding sources or adequate management approaches) or ensuring social accountability.

  - Intermediary organisations are invited to play a useful role in facilitating dialogue between the LA and local stakeholders. They can build alliances with LAs to demand more development-friendly decentralisation reforms from the centre, or they can invest in strengthening the local systems and processes required for LAs to be effective development players.

  - Support is seen as involving citizens in participatory budget processes at various levels.

- **Supporting CSOs as governance actors implies adhering to a number of guiding principles.** In the past, donor agencies have often helped blur the lines of responsibility between LAs and CSOs. This has particularly been the case in projects which funded non-governmental organisation interventions while discarding the legitimate role of LAs in providing services or fostering local economic development. There is now growing recognition that the creation of a legitimate, capable and viable local public sector is a key institutional challenge — to be met with the help of the local civil society. A set of guiding principles may help EU delegations when conceiving support to civil society for enhanced local governance (see Box 11.5).

BOX 11.5 **Five tips to engage civil society organisations in building viable local governance systems**

1. **Promote access of local communities to their LA's resources rather than to external funding sources.** This is potentially one of the most powerful ways to reconnect citizens with the local state while strengthening accountability relations. It also implies that access of communities to resources should, to the greatest extent possible, take place within rather than outside the LA planning and budgeting process.
2. **Avoid rote forms of participation.** Better development and governance outcomes are primarily created through political bargaining processes between state and society. This, in turn, requires EU delegations to have a clear understanding of the politics surrounding the participation of civil society in local public affairs. In the absence of certain levels of political dissent, electoral competence and freedom of expression, it will be difficult to promote institutional innovations in terms of participatory development.
3. **Focus on amplifying the local public sphere.** This is accomplished by ensuring an ongoing flow of information on what actually happens within the local public sector and by promoting debates on policies, priority programmes, quality of service delivery, results of annual audits, etc.
4. **Avoid ad hoc approaches to capacity development.** Attending a few seminars will not change the behaviour of citizens or enable them to engage in local policymaking processes.
5. **Involve local CSOs and the local private sector in all phases of the projects conceived as local system experimentation.** Testing out and elaborating new local governance practices (e.g. suitable local procurement rules) should not be outsourced to external consultants. By involving all relevant stakeholders in the experiment and learning process, the likelihood of producing adequate local solutions increases. At the same time, the very process of co-producing these new local governance tools may help strengthen the levels of trust between actors and build more social capital.

11.3 Linking with European regions and municipalities involved in decentralised cooperation

Role and potential added value of decentralised cooperation approaches

Decentralised cooperation between sub-national levels of governments has a long-standing tradition in Europe and is a growing phenomenon. A wide variety of motivations push European regions, cities and municipalities to establish bilateral relations or engage in networks with their peers in the developing world. The resulting partnerships take different forms, reflecting diverging levels of ambition, maturity and capacity among participating municipalities. Though the main added value of decentralised cooperation does not reside in the amount of financial resources transferred, the overall contribution of this type of cooperation can be quite considerable in particular countries (e.g. France and Italy).

A more detailed analysis reveals different models for engaging in decentralised cooperation. Table 11.1 provides an overview of the various strategies and approaches used by European regions, cities and municipalities. In practice, a mix of these different forms of decentralised cooperation can be found across Europe. Moreover, municipalities appear to go through a learning phase, adopting more ambitious approaches over time.

A growing number of European regions and municipalities are engaging in these more sophisticated, direct forms of decentralised cooperation as autonomous actors in international

TABLE 11.1 **Decentralised cooperation approaches**

APPROACH	MAIN OBJECTIVES	OTHER ACTORS LIKELY TO BE INVOLVED
Traditional aid-oriented twinning programmes	■ Poverty reduction ■ Funding for small development projects ■ Provision of ad hoc technical assistance to southern partner municipality	■ Primarily development non-governmental organisations (NGOs) ■ Sector-specific actors depending on the aid project funded (e.g. schools or youth groups)
Subsidy programmes for local citizen projects in the South	■ Support to a wide range of small-scale citizen initiatives	■ Development NGOs and organised citizen groups
Financial participation in ongoing international campaigns (e.g. the Millennium Development Goals or the fair trade movement)	■ Expressing international solidarity	■ Development NGOs ■ Education NGOs ■ Local businesses
Support of awareness-raising activities towards citizens from the territory	■ Sensitising the population ■ Broadening support for international cooperation ■ Promoting active forms of global citizenship	■ Education NGOs
Structured, reciprocal partnerships (direct decentralised cooperation) as the emanation of a municipal external policy	■ Institutional development ■ Local governance ■ Social cohesion ■ Long-term relations between the societies and citizens of both cities ■ Structured exchanges on managing territories	A wide range of public and private actors including civil society groups, universities, hospitals and businesses as well as citizens on both sides of the partnership (depending on the nature of the intervention)

cooperation. They see decentralised cooperation as a key component of their external action as an LA. This type of decentralised cooperation goes far beyond the traditional concept of twinning arrangements with their focus on project aid, funding and ad hoc exchanges. Direct decentralised cooperation emphasises the need to construct more egalitarian, long-term partnerships between municipalities with a view to tackling common agendas confronting their societies and territories through structured, reciprocal exchanges of knowledge and expertise. The focus on strengthening the democratic governance of LAs is evident on both sides of the coin:

- building responsive and accountable (elected) LAs as key development actors and a nodal point for the delivery of public services at the local level;
- a vibrant civil society that is enabled to play its dual role as a partner in local development processes and as a countervailing force with the capacity to demand rights, transparency and accountability.

The partnership goes beyond the LA itself and seeks to mobilise all relevant actors from the respective territories — the local private sector, civil society, universities, specialised agencies, professional associations, etc.

Limitations of decentralised cooperation approaches

Four main limitations can often be observed in decentralised cooperation processes.

- For many European municipalities, it is not easy to create a political and institutional space for meaningful external action as reflected in a solid set of decentralised cooperation activities in the South[5]. Fierce debates rage as to whether such actions constitute a legitimate core task of the municipality, and there can be significant political opposition to spending public resources on such matters.

- It is difficult for small municipalities to engage in structured forms of direct decentralised cooperation, especially if the aim is to develop reciprocal and mutually beneficial long-term partnership. Capacity weaknesses may drastically reduce the scope for a meaningful decentralised cooperation approach.

- The challenge of sustaining decentralised cooperation partnerships is real, as political coalitions may change or budget constraints intervene. In some countries, support from national governments for decentralised cooperation activities tends to be narrowly associated with traditional aid projects, rather than helping European municipalities engage in the empowerment of LAs and local governance. In short, the foundations of decentralised cooperation partnerships are at best fragile if the whole weight of the process has to be carried by the European municipalities alone. To overcome this challenge, a growing number of European LAs seek to ensure the participation of a wider range of stakeholders from within the territory in decentralised cooperation schemes. This approach may lend more legitimacy to the, improve the quality of the cooperation by drawing on multiple sources of know-how and expertise, and facilitate sustainability through joint ownership and the mobilisation of additional resources.

- Another problem is the tendency of decentralised cooperation programmes to work in a silo, without much connection with other initiatives of the government or donor agencies in the same territory.

Promoting the developmental role of local authorities and supporting endogenous processes of territorial development with direct decentralised cooperation

The core added value of direct decentralised cooperation programmes lies in support to improving the local development management cycle (the TALD building block discussed in Sub-section 10.1). There is abundant evidence that decentralised cooperation has helped put

[5] European municipalities may display an interest in international cooperation, but it is difficult to orient this interest towards support of LAs in developing countries. Rather, their priorities are based in Europe (in participating in European city networks, primarily for economic purposes), in establishing the city internationally (branding the position of the city's companies or institutions in the international arena) and in contacts with countries of origin (city partnerships with countries with important migrant populations).

in practice the mandate of LAs as catalysts of local development, and triggered innovations in the way LAs plan and finance their local development strategies and organise themselves to ensure effective implementation.

Yet experience also suggests that European LAs can be an ally of their Southern partners in other key components of a TALD policy. A wide range of direct decentralised cooperation programmes has sought to stimulate active citizenship or the use of public-private partnerships in delivering goods and services to local constituencies. There are also examples of effective support to strengthening the advocacy capacity of LAs/ALAs for more development-friendly decentralisation reforms and functioning systems of intergovernmental cooperation.

The operational challenge for EU delegations in promoting the developmental role of LAs through various instruments is to identify promising decentralised cooperation activities in the territory and seek to join forces with the European LAs. The key task at hand will be to provide incentives for joint action and task division in the pursuit of shared objectives around territorial development. Box 11.6 provides some examples that can be a source of inspiration to EU delegations.

BOX 11.6 Decentralised cooperation at the service of territorial development dynamics

Innovative practices can be found in direct forms of decentralised cooperation:

- The city of Amsterdam has definitively abandoned the modality of twinning for its international cooperation activities. It now engages in horizontal forms of city-to-city cooperation in different continents. The aim of these is to exchange experiences and create an enabling environment for the active involvement of a wide range of private and public agencies on both sides in addressing common concerns linked to developing the territory. In February 2014, Amsterdam and São Paulo signed a four-year memorandum of understanding to cooperate on eight areas of mutual interest closely connected to sustainable urban (territorial) development.
- The city of Barcelona was a forerunner in Spain in terms of promoting civic-driven forms of municipal international cooperation covering both actions of solidarity and twinning exchanges. The region of Catalonia soon followed with legislation to reserve 0.7 per cent of its total budget for international cooperation. Despite the economic crisis, decentralised cooperation was institutionalised at the city level, with a dedicated direction and the involvement of more than 100 technicians on a voluntary basis as well as non-governmental organisations executing agreed priority projects. Barcelona's cooperation agency has been working in more than 10 cities around the world. A concrete example of municipality-to-municipality cooperation is occurring in the city of Maputo, Mozambique. It aims to support the design of a master plan for municipal markets covering various critical dimensions (management of markets, health, hygiene and food safety, etc.) in a broader perspective of local/territorial development.
- As a global network, the Union of Cities and Local Governments is promoting new forms of South-South decentralised cooperation between LAs in similar contexts. It fosters so-called triangular cooperation, whereby the South-South partnership is complemented with a third organisation from developed countries (which might be a non-governmental organisation, a university or a foundation) contributing its expertise to nurture the relationship.

SECTION 12: Selecting and combining EU aid modalities

This section looks at how EU delegations can choose the right mix of aid modalities for DLGTD interventions.

Three forms of support may be envisaged:

- support to a national decentralisation reform policy;
- support to a sector policy (e.g. in rural development, water and sanitation, health) that relies on decentralised, multi-level delivery;
- support to place-based development (local/territorial).

In any event, the design of EU support to DLGTD should not begin by choosing an aid modality; rather, selection of appropriate aid modalities can only be tackled once the preliminary strategic choices in conceiving a DLGTD operation have been carefully thought through, as described in Sections 8–11.

> **The design of EU support should not begin by choosing an aid modality. The appropriate selection of aid modalities can only be tackled once the strategic choices have been made on outcomes, entry points and actors.**

This has important implications for EU practitioners, who will need to:

- think beyond what are officially considered to be the preferred aid modalities;
- conduct a dedicated search for more creative ways of using various aid modalities in light of contextual realities and the objectives being pursued.

12.1 Importance of careful reflection on suitable aid modalities

There are two interlinked reasons why EU delegations have to be strategic and pragmatic when choosing relevant aid modalities to carry out DLGTD operations.

- **Effective support to DLGTD goes beyond channelling financial resources for ensuring a set of development outcomes.** Experience clearly demonstrates that improving public services at the local level or unleashing the potential of territories is not just a matter of injecting more funding into the national budget. In many partner countries, better development outcomes will only be achieved if and when the overall policy and institutional system itself is strengthened. Hence, EU support is also meant to help remove the policy, institutional and individual capacity constraints that affect the sub-national governance and public administration system in which LAs operate. To empower LAs as catalysts of local/territorial development, tackling these systemic shortcomings

at the policy and institutional levels should be a core priority of DLGTD interventions supported by the EU.

- **The use of a single aid modality has proven highly problematic if the purpose is to achieve a mix of outcomes (i.e. development, policy and institutional outcomes).** Recent evidence from studies and evaluations suggests that budget support, which is the preferred EU modality for financial assistance, faces a number of structural limitations when it comes to supporting policy and institutional changes that condition overall performance and delivery[6]. This holds particularly true for three core aspects.

  — **The policy dialogue and disbursement conditionalities associated with budget support operations tend to focus on implementation issues related to the use of the funds.** They are generally much less conducive to instigating a forward-looking debate on effective policy reforms that may be translated into new policies and institutional changes.

  — **The capacity development inputs that come with budget support operations tend to focus on fiduciary risks and public financial management reform.** There is generally limited scope for defining a more systemic capacity development agenda that can tackle the multiple institutional constraints affecting the overall service delivery chain. As a result, a tool like budget support is often confronted with the problem of the 'missing middle' — the phenomenon whereby effective delivery on the ground is severely hampered because too limited attention has been given to the critical (middle level) part of the delivery chain, the institutions that translate policy into results on the ground[7].

  — **Funds can remain trapped at the central level.** Development partners are increasingly concerned that budget support operations lack appropriate dialogue and accountability mechanisms related to the disbursement of funds to sub-national levels. In practice, this means that LAs are further disempowered to fulfil their mandate.

Considering these limitations when opting for a single aid modality such as budget support, EU delegations have some homework to do in terms of sorting out the right mix of aid modalities for their intended DLGTD intervention. While much will depend on context, some burning questions will need to be addressed in selecting relevant aid modalities, as shown in Figure 12.1.

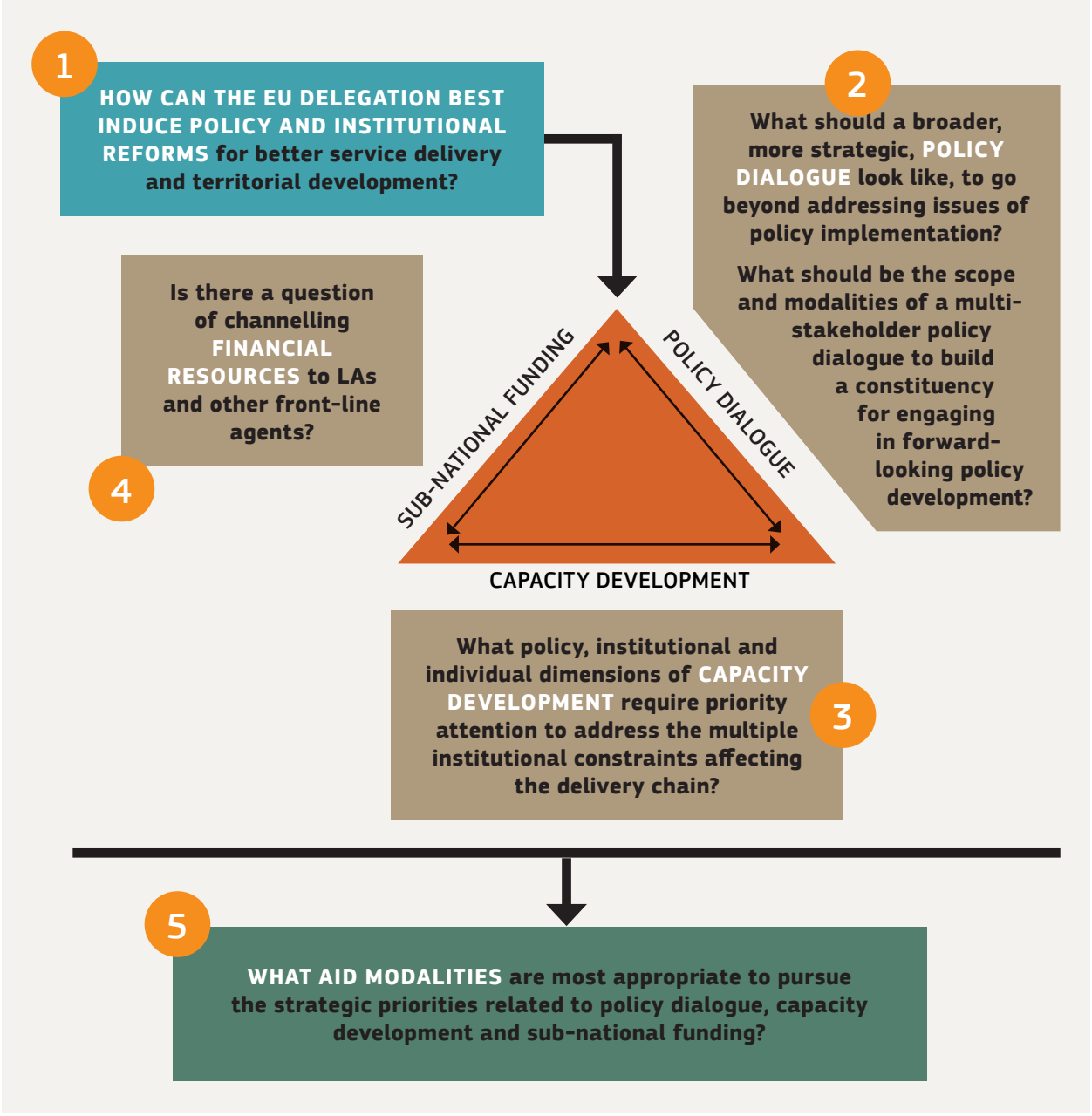
12.2 Scenarios in selecting and combining aid modalities

Depending on the context and intended outcomes, different situations may prevail.

[6] A review of German-funded budget support operations found that 'Drawing from an overall view of existing evaluations and research work it is clear that budget support has fulfilled its financing function relatively better than its function to strengthen reforms or governance' (DEval, 2015, p. viii). A study on the use of aid to address governance constraints in service delivery concluded that 'financial aid to public service delivery objectives is often best delivered through budget support-style modalities [but…] other ways of using aid may provide essential complements to standard financial assistance modalities, as they specifically target constraints to delivery while at the same time strengthening government functions' (Tavakoli et al., 2013, p. 13).

[7] Examples of such bottlenecks at the downstream implementation level include institutions that take care of the quality of services, the availability of sufficient front-line agencies and expertise for service delivery, proper accountability systems towards users, etc.

FIGURE 12.1 **Five key questions to consider when choosing suitable aid modalities**



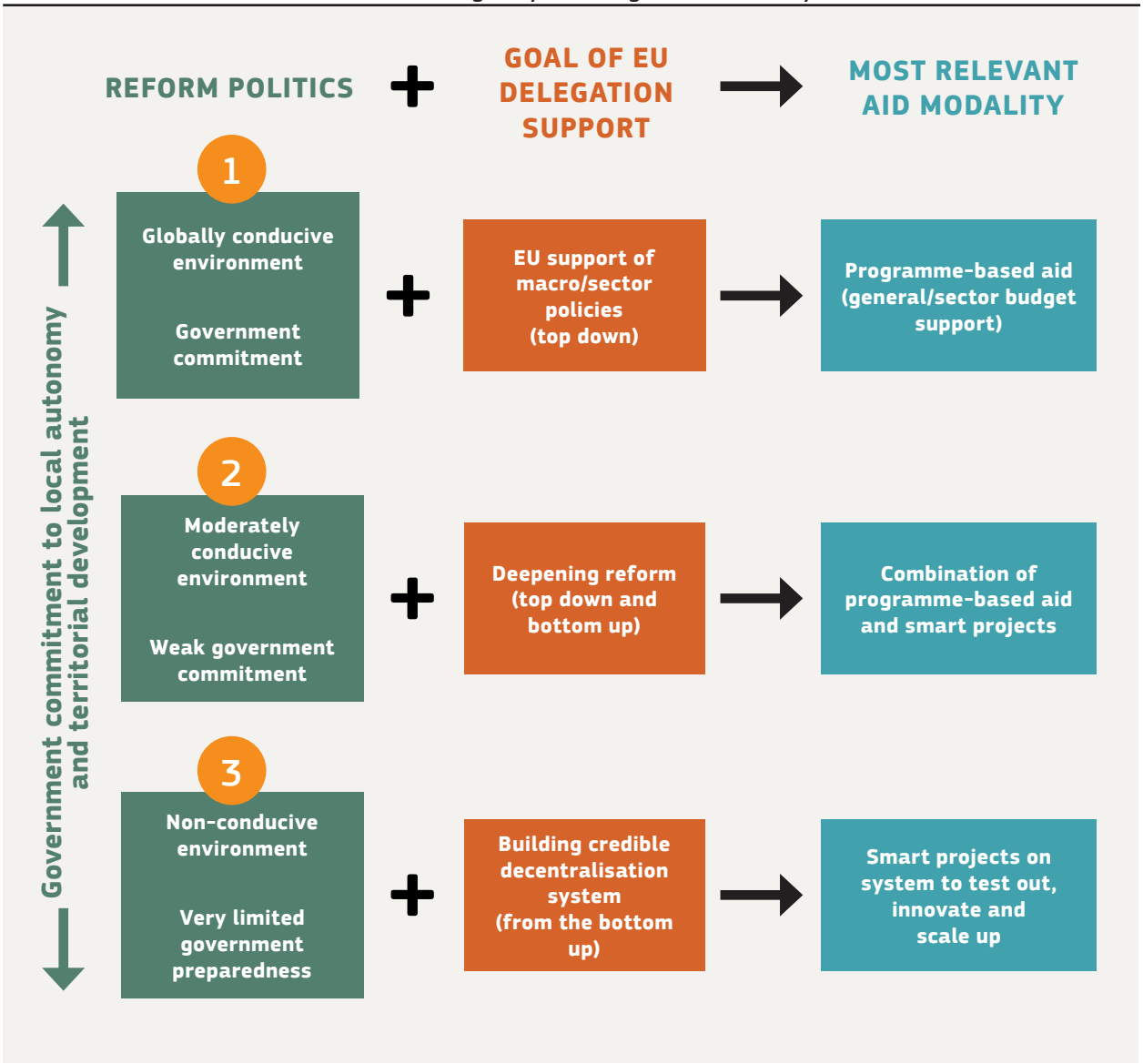
- **When the national commitment to decentralisation reforms and territorial development is strong enough, budget support might be considered the most relevant aid modality.** In some instances, the EU delegation analysis may suggest that this national commitment is sufficiently strong and shared by the whole of government and that — with some technical assistance and the incentives provided by disbursement conditionalities — national systems may be relied upon to translate the national DLGTD policy into local development results. Under such circumstances, the assumption that results are essentially constrained by a lack of financial resources and capacity bottlenecks could be legitimate. It may lead EU delegations to choose budget support, with its focus on financial transfers, as the most relevant aid modality — while reserving only limited scope for complementary measures.

- **When national commitment to decentralisation reforms and territorial development is partial and fragile, a project modality might be the more relevant**

for strategically targeted interventions. In most cases, there might be a serious gap between the proclaimed policy and the institutions needed to deliver it. This in turn may reflect deeper problems with the government policy and the extent to which it prevents LAs to function as development actors endowed with sufficient levels of autonomy and accountability. Under such conditions, the focus on EU support may have to shift, at least in part, from providing funding to addressing the more systemic policy and institutional problems. If this is the task at hand, relying solely on budget support may be a huge risk. EU delegations are invited to activate other aid modalities that allow for a strategic policy dialogue among domestic stakeholders on how to fix the system over time through localised institutional experimentation (in the form of projects) and policy development from the bottom up. The EU delegation can also seek to expand the domestic constituency for reform by providing project forms of assistance to critical players such as ALAs or civil society actors.

Figure 12.2 illustrates how EU delegations can strategically and pragmatically choose suitable aid modalities aligned to the specific conditions in a given country.

FIGURE 12.2 **Three scenarios for strategically choosing an aid modality**



12.3 A general framework for combining aid modalities

Based on the above, and noting that all solutions are ultimately context specific, it is possible to advance a general framework to combine different aid modalities to support DLGTD.

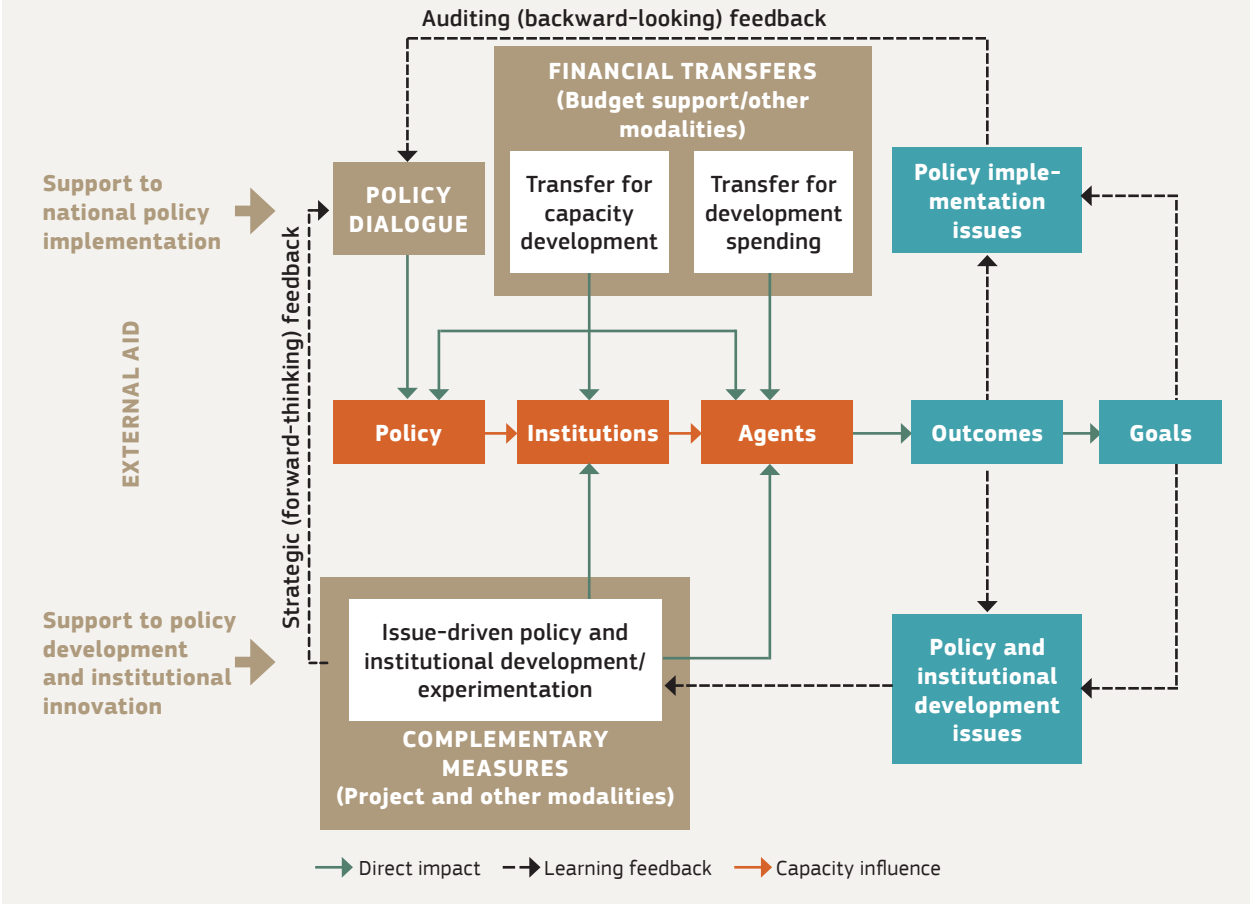
The starting point is to recognise that 'Decentralization policy is a moving target at both a de jure and a de facto level' (Smoke and Winters, 2011, p. 8). Because of their changing political drivers and of the intra-governmental tensions they generate, decentralisation reforms are often incomplete and subject to reversal. Moreover, the national policies underlying them are typically both not well defined and continuously evolving. This lack of policy definition and stability may be seen as both a threat and an opportunity. On the one hand, it may make it difficult for donors to align with a DLGTD policy whose objectives are unclear or that contradict other sector policies; on the other hand, it may provide critical space for external aid to contribute to DLGTD policy definition and development (Romeo, 2012).

Taking into account the often partial and evolving nature of the national commitment to decentralisation reforms, it is appropriate in DLGTD interventions to distinguish between:

- support to national DLGTD policy implementation;
- support to national DLGTD policy development and innovation.

These two processes may call for different aid modalities and would benefit from being viewed as both distinct and connected (see Figure 12.3).

FIGURE 12.3 **Support to policy development and institutional innovation**



Supporting national policy implementation in line with top-down policy dynamics

Supporting the implementation of an existing and sufficiently credible national DLGTD policy is often best accomplished through a budget support operation with its attendant package of financial transfers, capacity development and policy dialogue.

- **Financial transfers.** These transfers may expand the fiscal space of the partner government and enable it to channel increased resources to LA and other front-line service delivery agents.
- **Capacity development.** This may address system-wide issues that constrain effective implementation of the agreed policy and — beyond building the technical skills of individual agents — enhance the institutional environment within which such agents operate and strengthen the capacity of the agency leading DLGTD policy formulation and implementation.
- **Policy dialogue.** This dialogue will assess development results and expected outcomes against the performance assessment framework (PAF).

Supporting national policy development and innovation in line with bottom-up policy dynamics

All the above may effectively contribute to the implementation of the agreed policy. Disbursement conditionalities may create incentives for (i) translating the national DLGTD policy into detailed and implementable programmes; (ii) adopting greater discipline in monitoring such programmes and learning from them; or (iii) securing, through the involvement of the finance ministry, better sustainability prospects for the DLGTD policy.

In many cases, assessment of development results and expected outcomes against the PAF may reveal issues not only of implementation, but also limitations of the agreed policy itself and corresponding deeper institutional problems. Systemic constraints of the policy and institutional environment are often the root cause. DLGTD interventions should help identifying these constraints and in providing a framework for addressing them.

> **Don't fall into the trap of ascribing implementation issues and limited results to limited capacities of front-line service delivery agents. Look at institutional and policy constraints as well.**

Tackling these wider policy and institutional issues calls for a policy dialogue of a more strategic and forward-looking nature, instead of the operational dialogue associated with budget support. Experience unequivocally demonstrates that attempts to use disbursement conditionalities to induce governance reforms are not bound to succeed beyond perhaps some formal improvements in public financial management systems. It is also unlikely that they will deepen the national commitment to place-based policymaking or can be relied upon to induce fundamental changes in the sub-national system of governance and public administration.

Consequently, consideration should be given to a second stream of aid, one that explicitly focuses on supporting national policy development and institutional innovation from the

bottom up. Project approaches would be well used to support selected issue-driven operations that foster local experimentation of scalable institutional innovations first to make the most of existing policy frameworks and then to demonstrate the need, and build the constituency, for further policy reform.

This second aid stream should not be confused with the one focusing on policy implementation. If sustainable results are to be achieved, a safe space should be created where innovative policy and institutional solutions can be experimented with locally, with external aid bearing the costs of experimentation and acting as catalyst of local collective action[8]. In practice, EU delegation support to DLGTD stands to benefit from this dual track. The lessons learnt in the experimental work could be combined with those emerging from the agreed policy implementation and related budget support operation. Both sources would feed into a more realistic and strategic policy dialogue and contribute to feasible and incremental policy reforms from the bottom up.

With this framework in mind, Part IV looks at the various aid modalities and financing mechanisms the EU can activate to help implement and/or develop national policies for improved DLGTD.

[8] The term 'safe space' is here used in a double sense. First, in line with Andrews, Pritchett and Woolcock and their advocacy of a problem-driven iterative adaptation approach to aid, which is meant to designate 'an authorizing environment for decision-making that encourages positive deviance and experimentation (as opposed to designing projects and programs and then requiring agents to implement them exactly as designed)' (Andrews, Pritchett and Woolcock, 2012, abstract). Second, stressing the importance of distinguishing between operational and strategic policy dialogue, it is meant to underline the importance of keeping a spirit of true partnership, free from the pressures of the pre-defined indicators and targets of a budget support–related PAF.

PART IV

Implementing EU support for DLGTD — modalities and mechanisms

THIS PART:

- explores how EU delegations can select and combine aid modalities in support of decentralisation, local governance and territorial development;
- provides guidance on how to use budget support modalities to support territorial development and ensure that funding reaches the local level;
- describes and analyses the ingredients of a smart project approach aimed at policy and institutional experimentation;
- discusses the potential that innovative financial mechanisms such as blending and EU trust funds could bring to decentralisation, local governance and territorial development;
- explains how to make the most of the Civil Society Organisation–Local Authority Thematic Programme for promoting a territorial approach to local development.

SECTION 13: Budget support to DLGTD

13.1 Three types of budget support

According to the European Union's (EU's) revised budget support guidelines and a recent methodological note on 'Providing EU budget support in decentralised contexts' (EC, 2016) three types of budget support may be considered with regard to supporting decentralisation, local governance and territorial development (DLGTD):

- **type 1:** budget support to decentralisation reforms and local authority (LA) systems development;
- **type 2:** budget support to decentralised service delivery;
- **type 3:** budget support to place-based development/LA territorial development policies.

Real-world programmes may contain selected elements of any of these types, or may combine them with elements of the other two. EU country programmes that choose to support national decentralisation reforms (type 1) will have to engage with LAs and may also seek to translate this commitment consistently into their operations. EU delegations that limit themselves to factoring in a decentralisation dimension in their sector operations (type 2) will have to deal with the national decentralisation policy and the structural problems faced by LAs in delivering services or providing accountability to their local constituencies. EU delegations that are interested in empowering LAs (type 3) but do not seek to provide direct support to decentralisation will nonetheless be confronted with broader systemic issues linked to state reform and fiscal decentralisation, as determining factors in local autonomy. As a result, these three types of budget support operations may benefit from complementary project aid operations to ensure space for policy experimentation that can inspire the design of innovative programmes for local/territorial development.

Type 1: budget support to decentralisation reforms and local authority systems development

Budget support may be provided to help partner countries implement their national policy regarding decentralisation reform and strengthening developmental LA systems (see Table 13.1). The scope of these programmes is potentially the broadest of the three types of budget support to DLGTD, but in practice may vary greatly depending on:

- the political rationale behind the decentralisation reforms;
- the partner government's understanding of and commitment to territorial development;
- the existing and desired features of the intergovernmental system.

Considering their focus on broad reform and the strengthening of core government functions, good governance and development contracts and sector reform contracts seem a good fit for budget operations responding to Type 1 support. State building contracts could also be helpful when improved local governance and local development are seen to be critical for securing political stability and rebuilding the state from the bottom up.

TABLE 13.1 **Possible objectives of budget support to decentralisation reforms and local authority systems development**

PROGRAMME FEATURE	POSSIBLE OBJECTIVES AND OUTCOMES
Development of national strategy	■ Development and adoption of national decentralisation strategies ■ Related legislation
Introduction of systemic changes of varying scope and depth	■ Architecture of sub-national system of governance and public administration and related accountability relations ■ Functional assignments ■ Resource assignments across levels of government ■ Human resources, management systems and responsibilities
Critical financial assistance	■ Empower front-line service delivery agents ■ Set up an intergovernmental grant mechanism to enable LAs to function as developmental actors

Type 2: budget support to decentralised service delivery

Budget support may be provided to help partner countries design and implement sector policies and programmes that rely on decentralised, multi-level delivery systems. These programmes can seek to strengthen such systems as well as empower front-line service delivery agents across the whole spectrum of the sub-national public sector. They typically combine two sets of measures:

- deconcentration of programme management responsibilities to sub-national branches of central agencies;
- effective forms of contractual delegation of key planning and implementation tasks to LAs.

The latter measure operationalises the concept of multi-level governance and enables LAs to bring their comparative advantages (i.e. understanding of local priorities and mobilising of local resources) to bear in the achievement of national goals. Delegation arrangements might also be a most effective way to build local capacities and gradually evolve into full devolution of specific functions and tasks.

Sector reform contracts are the instrument of choice to support Type 2 operations, as they can help specific sectors in partner countries with varying degrees of decentralisation to gradually put in place a more effective system of front-line service delivery.

Type 3: budget support to local/territorial development policies

Budget support operations may also help design and implement place-based policies to promote local/territorial development[1]. They can directly support various categories of sub-national actors and enable them to plan, finance and implement their own strategic and integrated territorial development plans. This approach requires an adaptation in the way in which the interventions are designed (see Table 13.2).

Using budget support in supporting local/territorial development policies would be a major innovation. It would localise budget support and help partner governments operationalise their commitment to territorial development through innovative central-local contracts for the development and implementation of place-based development strategies. It would be particularly relevant in partner countries where increasing spatial and social inequalities are threatening social cohesion and political stability and require innovative regional/local development strategies to address them (see the case study on Peru in Annex 6). Its implementation would require that some key contextual conditions be met (see Table 13.2). Such budget support operations may therefore be easier to develop in relatively more advanced contexts and to benefit larger, more capable LAs (metropolitan and regional authorities or multi-jurisdictional consortia of LAs).

TABLE 13.2 **Adaptations in programme design when using budget support to support local authorities' territorial policies**

CONTEXT REQUIRED	OBJECTIVE	KEY PROGRAMME FEATURES
■ Strong national policy commitment to territorial development ■ High degree of local autonomy ■ Effective mechanisms of LA accountability ■ Well-developed institutions for financial compliance and effective controls	Directly support sub-national actors and enable them to plan their own territorial development	■ To be carried out jointly with the directly affected LAs, the ministry of finance and other relevant central agencies: — dialogue on policy — financial transfer — capacity development support measures — performance assessment framework (PAF) ■ To be managed by the selected individual or associated LAs: — overall implementation responsibility

13.2 Ensuring that budget support funding reaches the local level

The European Commission's 2013 communication invites EU delegations to 'support systems to monitor the extent to which funding is transferred through government treasury to the most appropriate level of local administration' (EC, 2013, p. 9).

[1] An independent report commissioned by the European Commission's Directorate-General for Regional and Urban Policy defines a place-based policy as 'a long-term strategy aimed at tackling persistent underutilisation of potential and reducing persistent social exclusion in specific places through external interventions and multi-level governance. It promotes the supply of integrated goods and services tailored to contexts, and it triggers institutional changes' (Barca, 2009, p. vii). The concept, originally advanced to help reform the EU cohesion policy, is equally relevant for developing countries as it underpins an approach to reducing territorial and social disparities (and the associated risks of social tensions and political unrest) through inclusive growth and enhanced productivity of territories rather than state redistributive policies.

From an operational point of view, this is a highly pertinent remark. Development partners are increasingly concerned that budget support modalities lack appropriate dialogue and accountability mechanisms related to the disbursement of funds to sub-national levels. There are recurrent problems with intergovernmental fiscal transfers, including a lack of predictability and transparency. In practice, this means that funding remains trapped at the central level and LAs are further disempowered to fulfil their mandate.

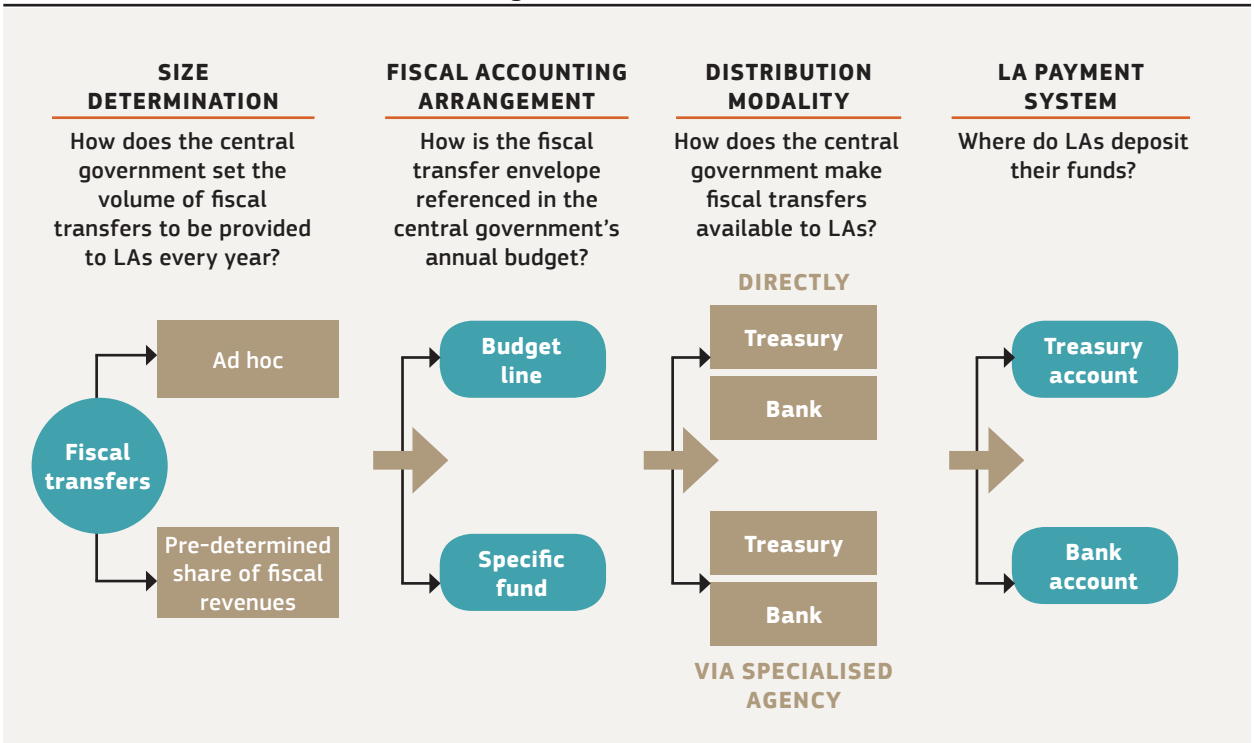
Figure 13.1 shows the sequenced process of fiscal transfers, from the determination of their amount until their final use by LAs. In order to track the extent to which funds effectively reach the local level when using the budget support modality, it is important to:

- undertake an informed mapping of the different arrangements used by host governments to channel fiscal transfers and other types of funding to their respective LAs;
- assess the main risks associated with each arrangement;
- identify any mitigation measures to minimise (if not eliminate) those risks.

When assessing whether the institutional and financial arrangements are in place to ensure that the central government's commitment will be fulfilled, the EU delegation should focus on three key issues, as further detailed in Annex 4:

- the position of transfers in the government's budget appropriation system;
- the disbursement modalities (or channels used) to get committed funding to the LAs;
- the payment systems used by the LAs to manage their fiscal transfers.

FIGURE 13.1 **Fiscal transfer flow arrangement**



SECTION 14: Promoting DLGTD through smart projects

14.1 What are 'smart' projects?

Projects have been a long-standing tool in international/EU development cooperation, and they may be a highly relevant aid modality to support DLGTD. But it is important to distinguish two specific rationales for using the project aid modality to support DLGTD.

- **Standard projects help operationalise an existing national development policy.** They provide financial or technical assistance to support the investments, institutional change and capacity development required to implement such a policy. Over the past decade, many projects of this type have been funded to support implementation of decentralisation reforms as they became increasingly common in the EU partner countries.

- **Smart projects have a broader and more ambitious remit and can be seen as a policy and institutional experiment.** This type of project starts from the premise that the relevant policy (e.g. decentralisation) may be incomplete or ill designed and/or that the institutions intended to implement it (e.g. the sub-national governance and development administration system) suffer from structural flaws that hamper the translation of policy goals into results on the ground. These structural flaws cannot be addressed simply by enacting new laws, formulating action plans or providing technical assistance and training inputs. Rather, the task at hand is to support a deeper process of institutional innovation and re-design aimed at fixing the existing policy/institutional system over time.

> **'Smart' projects offer a laboratory to pilot policy and institutional innovations on the ground so as to test out and scale up workable approaches from the bottom up.**

Experience suggests that this second category of projects has special relevance for aid to DLGTD, as it is well suited to address the issues of policy and institutional innovation and development that are at the core of most interventions supporting DLGTD.

In many partner countries, the decentralisation policy environment and the institutional reality at the local level make for a sobering picture. LAs emerging from over three decades of worldwide decentralisation reforms are often unable to play their expected developmental role, either because

- the reforms have not entrusted them with any meaningful autonomy vis-à-vis the central governments;

- the reforms, following normative blueprints, have unrealistically piled on mandatory responsibilities, regardless of their financial or administrative capacity to meet them;

- inadequate attention has been given to LAs' upward and downward accountability systems.

In all these cases, the result has been a lack of responsiveness to local needs and limited incentives and capacity for mobilising local resources.

In such contexts — characterised by decentralisation reforms driven by politics rather than by developmental goals — smart projects in support of DLGTD may be of great value. They can help demonstrate that, given improved autonomy and accountability conditions, LAs can make a real difference in the country's development. To achieve this goal, externally supported projects should seek to promote two types of partnerships between the various actors involved in DLGTD (i.e. state, LAs, local public sector, civil society, private sector).

- **Vertical partnerships between the central state and the LAs.** Such partnerships will allow both to operate as true associates in development. The piloting conducted through the project will mainly be concerned with improving the intergovernmental web of relations between state actors at various levels — relations that are crucial for effective delivery of public services and goods (and for sector budget support operations).

- **Horizontal partnerships between LAs and local private, non-profit and community-based organisations.** These partnerships will allow LAs to plan and finance their own local development policies, ensure the co-production of public services or leverage their own sources of revenue and unconditional transfers from central government. Experimental projects can thus help expand the *de facto* scope for local autonomy (even if *de jure* things may be restricted).

The development of such vertical and horizontal partnerships and their potential to lead to policy and institutional innovation provides the key rationale for project aid to DLGTD (see Figure 14.1).

FIGURE 14.1 **Vertical and horizontal partnerships in a smart project using a TALD**

14.2 The scope of project aid to DLGTD

Project aid to DLGTD may be delivered through:

- stand-alone projects;

- projects that are components of sector-wide programmes;

- projects that take the form of accompanying measures to budget support operations and seek to enhance country systems and address institutional bottlenecks that may affect the impact of the budget support operation[2].

Regardless of whether they are stand-alone operations, part of a sector-wide programme or accompanying measures within a budget support operation, projects supporting DLGTD tend to fall into three broad categories, as described in Table 14.1.

TABLE 14.1 **The three categories of smart projects supporting DLGTD**

CATEGORY	DESCRIPTION
1. Projects supporting DLGTD policy development and management	This category Includes projects providing policy and technical advisory services for the design of national decentralisation strategies and implementation programmes as well as the revision and development of the national constitutional, legal and regulatory frameworks within which a system of autonomous and accountable LAs may operate. An effective contribution to the development of a national policy to promote territorial development would also be made by projects that help design and implement the national urban agenda and rural development policy in ways that enhance the role of LAs. Also in this category are projects that provide policy and technical advisory services to ministries or other central agencies with overall responsibility for shaping the decentralisation reform process and guiding its implementation.
2. Projects supporting institutional change across a country's governance and administration system	This category, which is likely the largest, includes projects to strengthen country systems and build institutional and individual agents' capacity across them. They are typically mainly concerned with the public financial management system to ensure that fiscal decentralisation and local financial management institutions are consistent with the objectives of the decentralisation reform policy. Projects in this category may also help structure sub-national administrations, reform local human resource management, and build administrative and technical capacity for local development management. They may also help build an appropriate system of state support and supervision of the emerging LAs as well as effective mechanisms of social accountability.
3. Projects supporting cross-sector development and service delivery by sub-national agents	This category includes projects to build front-line agents' capacity to manage local development and deliver results. These projects may provide technical as well as some financial assistance to LAs to help them deliver specific services, promote local economic development and manage the local environment. Particularly important are sector-specific projects that help the relevant state agencies go through the process of functional reassignments across levels of governance, and move from direct delivery to financing, regulating and monitoring the performance of LAs and other front-line service delivery agents.

It must be stressed that, where necessary, project aid may serve the purpose of supporting the implementation and functioning of existing policies and institutional systems. Arguably, this is a purpose for which other aid modalities — particularly budget support — might generally be preferred. Indeed, the main comparative advantage of project aid lies in the possibility of designing projects as smart tools for policy and institutional experimentation.

[2] The importance of accompanying measures has grown substantially in the last decade, both in terms of the resources involved and the scope of issues covered, beyond the initial emphasis on public financial management and the management of fiduciary risks. For example a recent study of German-funded budget support operations in Sub-Saharan Africa reports that the ratio of accompanying measures to financial transfers grew between 2003 and 2013 from less than 5 per cent to over 60 per cent (DEval, 2015).

14.3 The main ingredients of smart projects

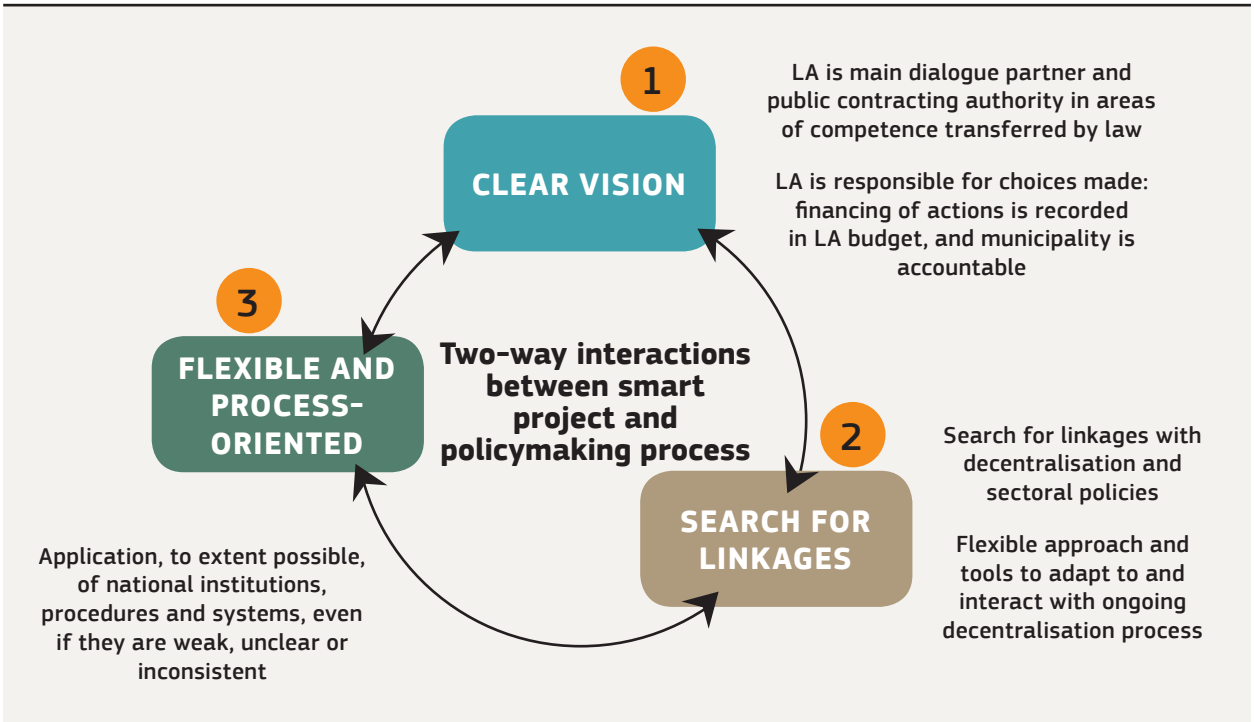
The distinguishing feature of smart projects in support of DLGTD is that they are conceived as inclusive processes of policy and institutional experimentation typically carried out within one or several LA jurisdictions, and involving an often complex network of actors on, above and below the local level. Their overall aim is to explore, in practice and from the bottom up, how the system can be made to work better, to generate lessons and adopt alternative approaches that can inform the policy dialogue and possibly become institutionalised over time at the national level.

Several documented experiences exist of smart projects that sought to construct an effective decentralisation system from the bottom up. Three features characterise these successful smart projects:

- a clear vision of the need to empower LAs as development actors by enhancing their autonomy and enlarging their operating space;
- a search for linkages with various system actors and levels;
- flexible and process-oriented implementation linked to national systems and procedures.

These features are illustrated in Figure 14.2 as they were applied in Madagascar in the EU-supported Appui aux communes et organisations rurales pour le développement du sud (ACORDS) programme — an example that is detailed in Box 14.1. For additional relevant examples of the value and feasibility of smart and experimental projects, see Annex 5.

FIGURE 14.2 **Smart project features as applied in Madagascar's ACORDS programme support for DLGTD**



BOX 14.1 **ACORDS: fostering collaboration between local authorities, communities, local administration and deconcentrated services in Madagascar**

The ACORDS programme (EUR 60 million) was conceived as a decentralisation policy experiment in a context where decentralisation reform had been legally adopted but not implemented. ACORDS put local governments at the centre of its approach in a country with a very weak and incomplete national decentralisation framework.

The programme's starting point was to support municipalities as the contracting authority. Its cornerstone was the provision of funding directly to LAs for a range of services devolved to them by national legislation and regulations. Direct financial support to LAs enabled provision of on-the-job, demand-driven capacity building, as well as support for deconcentrated services and local administration.

ACORDS allowed Madagascar to test on the ground and institutionalise over time (i) mechanisms and rules for central-to-local financial transfers; (ii) decentralised, participatory procedures for local-level planning, programming, budgeting and implementation of local development projects and public service delivery; and (iii) a sustainable mechanism for technical/administrative support to LAs and effective supervision of their performance.

The programme provided empirical evidence and analytical work on how decentralisation actually works on the ground. The knowledge thus generated informed and influenced the national policymaking process and policy dialogue.

The programme's two main features were:

- shifting the management team from a traditional programme implementation unit towards a 'facilitation unit' acting as convenor and facilitator of a bottom-up state-building process;
- decisions of assuring direct funding to 267 LAs in 9 regions through calls for proposals launched by the facilitation unit and managed through programme estimates.

Making creative use of donor procedures

A big challenge facing the ACORDS programme was the European Commission's decision not to green light its provision of direct grants to LAs as a way to ensure their empowerment and develop their capacity, but to instead require that the programme use the standard call for proposals procedure. For several reasons, this procedure was considered ill suited as a means to support system experimentation by fragile LAs.

- The tacit competition of this approach undercuts the promise of a more equitable distribution of public resources inherent in decentralisation processes.
- The call for proposals approach assumes the beneficiary already has the skills and capacities needed to propose and execute an action. This was not the case for the LAs targeted by ACORDS, so it made little sense to introduce competition before capacity development had taken place.
- Some of the selection criteria contradict the municipal legal framework and responsibilities. For instance, assessing whether a proposed action is relevant is the sole prerogative of the municipality, in accordance with its legally defined responsibilities. This is not the remit of an external agent, such as a donor.

The ACORDS management therefore found creative ways to reconcile European Commission procedures with the programme's innovative aims. The key solution was to embrace the call for proposals instrument but to adapt it to fit the programme's overall intervention philosophy. Eligibility criteria and selection processes were modified to respect the nature and identity of LAs as representatives of the local public sector and as part of the wider decentralisation system, as well as their limited capacities.

A learning by doing approach

Being experimental and adaptive and pursuing learning by doing had a profound impact on how the ACORDS programme was implemented. The core task was to systematically examine the relevance of the implementation strategies that were adopted. Such an approach greatly differs from the typical management culture of international development aid, nor is it aligned to the standard practices of Malagasy state authorities and the public sector.

The programme greatly challenged its implementers. It proved difficult to encourage experimental work while ensuring delivery. The ability of the Facilitation Unit to cope with this fluid situation, accept failures and reinvent new approaches is a major programme achievement. These revisions also meant continual relearning on the part of programme staff as systems were modified.

For more information and tools on the ACORDS experience, see http://labdec-mada.org/index.php/synthese.

14.4 Managing experimental smart projects

Supporting DLGTD is about facilitating policy and institutional changes that transform the sub-national system of governance and public administration and make it developmental. Successful smart projects have shown that the project aid modality may be particularly relevant in this regard, with comparative advantages over other aid modalities in supporting the emergence of feasible solutions through local experimentation by front-line development agents. But what kind of projects will ensure that such comparative advantages are realised?

The answer may lie in the design of a new generation of smart projects that support DLGTD by setting up policy and institutional innovation facilities (PIIFs). A PIIF is characterised by both:

- a management unit that, in contrast with a traditional project implementation unit, can actually accompany and facilitate the search for innovative solutions, rather than implement blueprint models;
- the ability to provide direct financial support to participating LAs to enlarge their fiscal space and stimulate bottom-up learning and capacity development.

Practice-driven institutional change and policy development do not follow predetermined, linear paths. They require the right type of agency with the ability to convene multiple actors and facilitate decision-making processes over an extended period of time — and with inevitable ups and downs. This is not a task for a project implementation unit narrowly concerned with the management of planned operations and the accounting of project financial resources, but instead requires a managing entity with a broader mandate.

Managing the PIIF

A PIIF has three main functions.

- **The PIIF acts as a convener and facilitator** of place-specific and problem-driven strategic dialogues between the relevant LAs, potential service providers from the private and non-profit sectors, representatives of user communities, as well as ministries and other central agencies.
- **The PIIF supports experimentation** by local actors of innovative institutional solutions to local governance and service delivery problems. To this end, the provision of direct funding to participating LAs should be understood as an incentive to experimentation for improved local development planning and delivery practices and to the promotion of civic engagement and local resource mobilisation around local priorities and the achievement of national objectives (such as the Sustainable Development Goals). Experimentation should be systemic in scope and include the improvement of practices and capacities for state oversight of LA systems (the vertical partnership link), as well as the development of forms of public-community-private partnerships for co-production of infrastructure and services and the promotion of active citizenship (the horizontal partnership link).
- **The PIIF develops and manages a learning platform**, drawing on policy-oriented monitoring and evaluation and other analytical efforts including technical studies and the drafting of policy papers by academia and national task forces. These efforts are aimed at (i) generating evidence about how limitations of current policy and institutions constrain

the ability of LAs to operate as developmental actors, and (ii) ensuring that the lessons learnt and good practices developed are effectively shared with policymakers. Such lessons should be discussed by a PIIF multi-stakeholder advisory board composed of key players including the national entity leading the decentralisation reform process as well as other core and line ministries, civil society organisations (CSOs) and LA associations[3].

Experience suggests the critical importance of the EU delegations carefully selecting the managing entity in charge of the PIIF. Knowledge of European Commission financial and administrative procedures is not sufficient; the team needs to have the right mix of process facilitation and programme management skills (see Box 14.2).

The EU delegation has several procedural options in establishing the facility and securing the services that will assure its effective management:

- international tender for the services of a private firm;
- a call for proposals open to international organisations, international CSOs, and international LA association;
- direct award to a national LA association, where it may be the sole provider of the required services;
- a delegation agreement with international organisations or Member States.

BOX 14.2 **The art of process facilitation in a PIIF**

The entity in charge of managing the Institutional and policy experimentation should be adequately funded and staffed, amongst other, by experts in process facilitation. The role of these process facilitators is quite different from that of managers of traditional project implementation units. The staff should have skills and experience in:

- listening to the various actors/stakeholders — seeking to understand their interests and incentives;
- advising local actors to search for best fit solutions;
- mediating, where mistrust exists or competing interests need to be reconciled;
- facilitating learning through local-level platforms and monitoring and evaluation systems;
- connecting actors and levels of governance to ensure that valuable lessons are scaled up and influence future policies and practices.

Mobilisation of independent local expertise is crucial to facilitate a clear understanding of deeper political/institutional realities and dynamics. External experts can add value by bringing in experiences from other countries and serving as neutral mediators between different groups of local actors.

Figure 14.3 visualises how such a PIIF would look in practice in terms of the various actors/entities involved, the roles each fulfils and the instruments used.

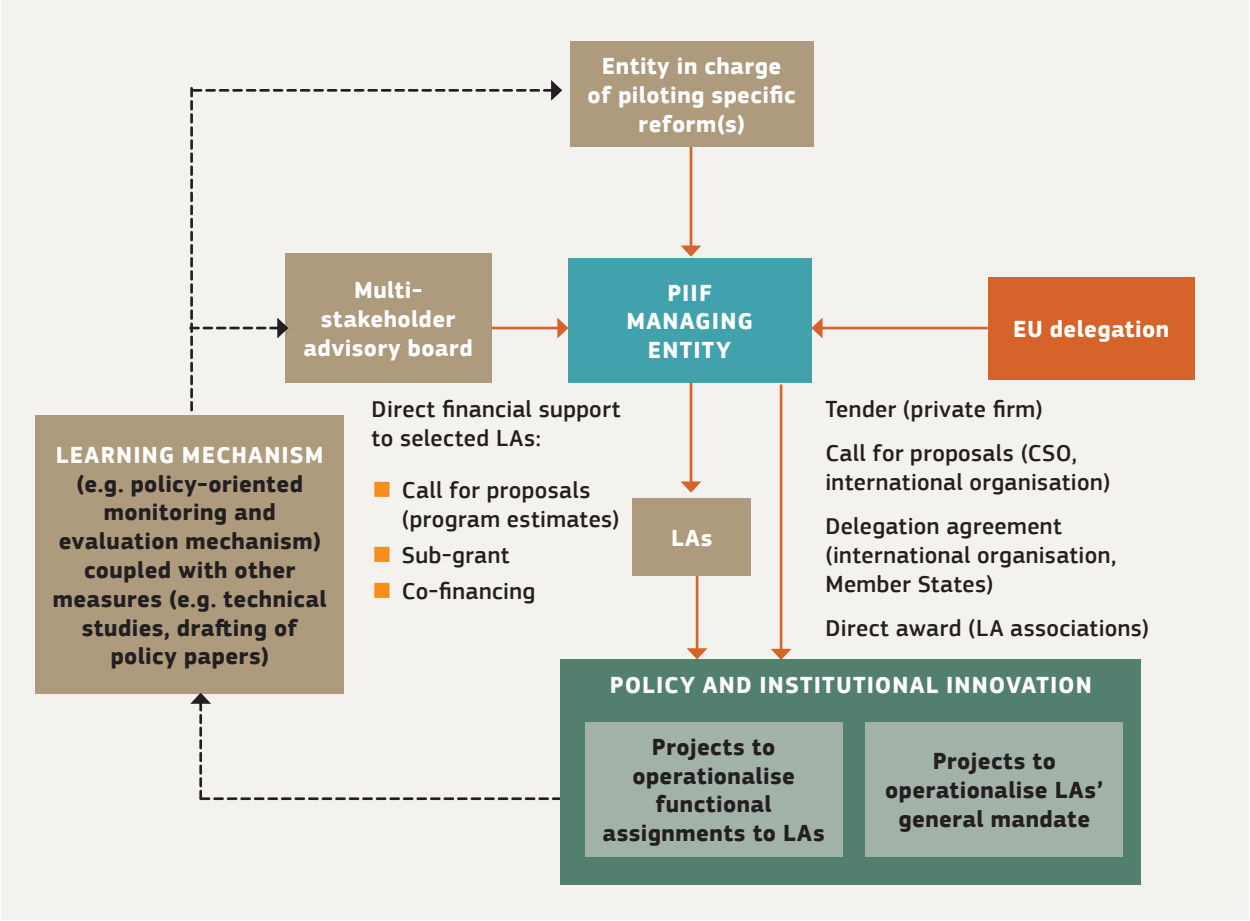
Importance of providing direct financial support to local authorities

There are three main reasons smart projects put direct funding of LAs at the centre of their intervention.

- **Direct financial support is the entry way for building the capacities of all actors at the sub-national level of governance.** Smart projects use the experimentation space in which they operate to reverse the classic fiscal decentralisation approach (i.e. funding is transferred after functions and when capacities exist) and consider direct seed funding as a prerequisite for real capacity development through learning on the job. On a day-to-day basis, the LAs will be confronted with myriad practical problems. Yet in the

[3] To ensure the participation of CSOs and LA associations on this advisory board, targeted support could be provided through the CSO-LA Thematic Programme.

FIGURE 14.3 **The PIIF in practice**



process of addressing these bottlenecks within the framework of the existing national system and laws, learning takes place, step by step.

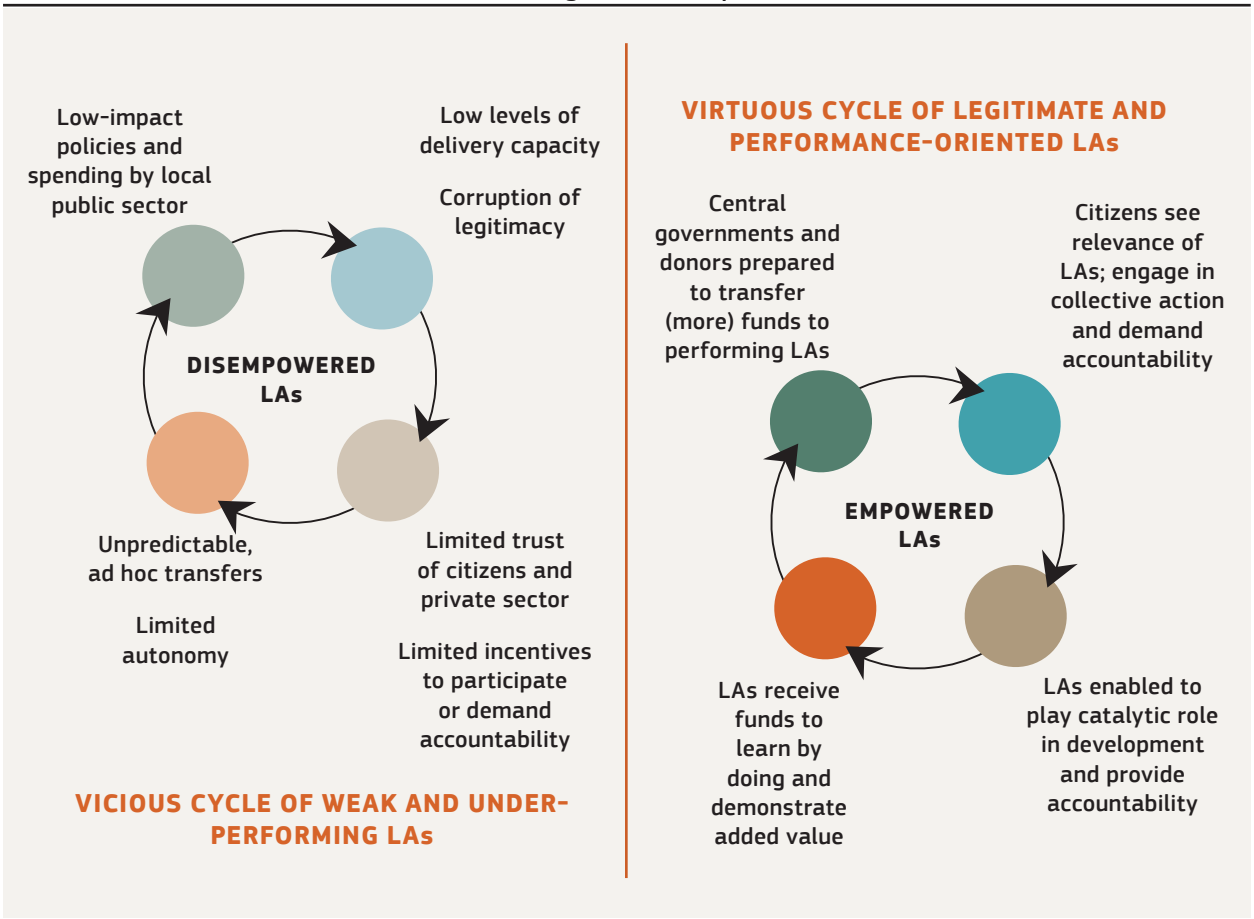
The importance of direct financial support applies to the whole local public sector as well, including deconcentrated services of the central administration and other public agencies operating in the locality. These actors need to come to grips with the practical implications of decentralisation reform and adapt their own roles and ways of working through learning-by-doing approaches. A case in point is the need for deconcentrated services to move away from a top-down command mode of operations that hampers the empowerment of LAs. Rather, deconcentrated services should be seen as a set of critical support and control functions oriented towards LAs so they can fulfil their developmental role. Smart projects can help the local public sector engage in processes of institutional adaptation and behavioural change.

- **Direct funding to LAs allows the project to serve as a laboratory for innovation.** To bring decentralisation reforms to life, smart projects can provide the seed money to experiment within existing national policies and systems in order to test out workable models — for local planning, investment, procurement, etc. — that could be institutionalised over time.

- **Direct funding to LAs may help restore the link between LA autonomous action and accountability.** By making LAs responsible for their own public policy choices, a different kind of local political process can start to emerge, involving citizens and geared at more transparent, accountable delivery/co-production of services. Over time, this may

change citizens' negative perceptions of LAs as well as promote a more positive attitude towards taxes. Evidence suggests that the willingness of local populations to pay taxes increases if LAs are seen to properly manage public affairs. Hence, a strategic use of the project approach may help address the vicious cycle of decreasing LA delivery capacity and legitimacy towards the more virtuous circle illustrated in Figure 14.4 (Zhou, 2007).

FIGURE 14.4 **Towards a virtuous circle of legitimate and performance-oriented local authorities**



Source: Adapted from Zhou, 2007.

Options for channelling direct funding to local authorities

There are three main options for directly channelling financial resources to LAs when using project approaches.

- **Call for proposals.** The call for proposals process is either managed directly by the EU delegation (which has the disadvantage of potentially high transaction costs) or by the private firm in charge of the PIIF, following an international tender and operating through programme estimates.

- **Direct grants to LAs.** These grants are coordinated through the managing entity receiving the EU grant — i.e. the international organisation, international or national CSO or LA association, etc., selected through a call for proposals — using a sub-grant system that allows for direct funding of LAs.

- **Co-financing (delegation agreement).** When the EU delegates management of its funds to an international organisation such as the World Bank, the United Nations Development Programme or the United Nations Capital Development Fund, that entity can use its own procedures to provide direct funding to LAs.

BOX 14.3 **Why direct awards hold more potential for projects supporting DLGTD**

The call for proposals is the tool usually used to channel resources to non-state actors. While it has some clear assets, experience clearly shows that this instrument is not appropriate for stimulating bottom-up learning processes and empowering LAs in a context characterised by major institutional weaknesses, as noted in the Madagascar case study presented in Box 14.1.

- The competition inherent to the call for proposals approach may counter the principle of a more equitable distribution of public resources envisaged by a country's national decentralisation policy.
- The call for proposals requires applicants to demonstrate they have the necessary capacities and know-how to be eligible for funding. In the proposed approach, capacities are the result of a learning by doing approach fuelled by the financing, and not the pre-condition for this financing.
- The selection criteria should respect the prerogatives of LAs, under the decentralisation legislative framework, to make their own public choices on the adequacy of proposed actions.

Direct awards provide a much more attractive mechanism when the explicit purpose is to put LAs in the driver's seat and promote bottom-up learning processes while respecting national decentralisation principles and norms. Direct grants avoid the limitations of the call for proposals approach and are consistent with the legal framework in place in most partner countries.

Each channel has pros and cons, but the latter two methods of direct award hold greater potential for supporting DLGTD than the call for proposals approach (see Box 14.3). Whatever channel is used, however, EU delegations need to avoid creating parallel systems. Direct funding to LAs should be coordinated to the greatest extent possible through the existing local public finance system.

Also, to allow for genuine experimentation and learning on the part of LAs and other relevant institutions, it is extremely important to reduce disbursement pressures. Experience suggests that if the project has too much pressure to spend its money within a certain period, innovation may quickly become a secondary objective. Local actors are likely to rely on template procedures to obtain access to the funds, rather than follow their own bumpy path of institutional development.

SECTION 15: Innovative financing mechanisms for local authorities

The 2013 EU communication on LAs asserts the need to explore the use of 'innovative funding modalities facilitating flexible, transparent and cost-effective access to resources' at the local level, including performance-based grants for service delivery (EC, 2013, p. 8). Thus, in addition to using budget support operations or smart projects to channel funds directly to LAs — as discussed in Sections 13 and 14, respectively — EU delegations may also consider the extent to which new financing mechanisms could be relevant for LAs. In this context, two innovative financial instruments may be of interest for EU delegations seeking to empower LAs:

- **blending** — the strategic use of a limited amount of grants to mobilise financing from partner financial institutions and the private sector to enhance the development impact of investment projects;
- **EU trust funds** — development tools that pool resources from different donors to enable a quick, flexible, collective EU response to the various dimensions of an emergency/post-emergency situation or of a thematic action.

15.1 Supporting local authority financing through blending

Blending refers to a mechanism that links a grant element provided through official development assistance with loans from publicly owned institutions or commercial lenders. While the grant element refers to a transfer made in cash, goods or services for which no repayment from the recipient country is required, the loan implies a repayment of principal and interest by the recipient.

- **The grant element is intended as a catalyst for leveraging additional financing (loans).** The existence of the grant element reduces exposure to risk in important investments in EU partner countries, generally for infrastructure, energy or private sector development projects. Grant aid can take different forms, most commonly direct investment grants, interest rate subsidies, technical assistance and financial risk mitigation (see Table 15.1).
- **The loan element comes from multilateral and bilateral financiers.** Participating financiers must be European development financing institutions, European financing institutions with a public sector mandate or development agencies. To be eligible for handling EU funds, they must undergo an assessment for accreditation by the European Commission.

EU institutions have thus far established eight facilities for blending loans and grants since 2007. These facilities are funded through contributions from the EU budget, the European Development Fund (EDF) and Member States. They cover all regions in which the EU provides development cooperation and relate to specific regional and country-level strategies and partnerships with the aim of supporting EU policy in those regions and countries.

Overall, current EU blending facilities focus on large-scale infrastructure investments and support to small and medium enterprises. All facilities target broadly defined sectors — i.e. transport, energy, social infrastructure mainly related to water and environment, and the private sector mainly through finance for small and medium enterprises (SMEs). Partners in

TABLE 15.1 **The different types of EU blending grants**

TYPE	DESCRIPTION
Technical assistance and feasibility studies	Intended to improve project preparation and implementation. Can be used to (i) enhance efficiency of a project and/or facilitate a transfer of know-how in certain areas; (ii) accelerate project start-up, implementation and management as well as investment sustainability; and (iii) help prepare an appropriate financial package, which may be a further grant and blended loan.
Investment grants	Can be used to (i) provide capital for local financial institutions to expand their lending to small and medium enterprises, and/or (ii) cover specific parts of a project (i.e. social or environmental aspects or to accelerate projects at start-up or closure.)
Interest rate subsidies	Reduce the costs of borrowing to make projects more bankable and less onerous. Such grants can make the financing terms of development options favoured by donors more attractive (e.g. in projects favouring clean energy or social development, which are usually less bankable than others).
Loan guarantees	Risk-sharing mechanism which provides protection for a lender in case of borrower default, with grant funding serving as the guarantee. Actual disbursements are only made in case of default. Loan guarantees are made at low or no cost to the lender and help increase the volume of development financing, by protecting lenders making lower-interest-rate loans. The effect of a loan guarantee is thus similar to that of an interest rate subsidy.
Risk capital grants	Equity or quasi-equity investments for high-risk projects, intended to incentivise participation by investors and financiers, lowering the project's risk level. Grants can be offered to cover particular risks in a project or proportionally for the whole project. This mechanism is particularly suitable for investments in small and medium enterprises and for infrastructure.

Source: Adapted from European Parliament, 2012.

the beneficiary country can be public, private or mixed; public partners predominate in current projects, aside from support to small and medium enterprises. Most projects are of a public sector nature (90 per cent); see Box 15.1 for an example of blending with an LA.

The most common way to implement blending involves the establishment of an investment facility. The list of current investment facilities illustrates the suitability of blending in continental and regional settings: the EU-Africa Infrastructure Trust Fund, the Asia Investment Facility, the Neighbourhood Investment Facility, the Caribbean Investment Facility, the Latin America Facility, the Investment Facility for Central Asia and the Investment Facility for the Pacific. Blending actions are in fact funded mainly from Regional Indicative Programme envelopes, but country and thematic actions are also possible.

15.2 Supporting local authority financing through trust funds

EU trust funds are implementing tools which allow the pooling of huge volumes of aid from different sources (EC, 2014). Each joins financial resources from the EU and other donors in a common account outside the EU budget/EDF. Aid delivery methods range from traditional budget support to the project modality (grants, procurements, blending mechanisms).

BOX 15.1 **Using blending with a local authority: capacity building for Dhaka's urban transport**

Dhaka, Bangladesh, is one of the most densely populated cities in the world, with 45 500 people per square kilometre. This high population density, combined with limited habitable land due to the city's topography, limited infrastructure, and a low level of public services, results in tremendous congestion and constrains the ability of the urban transport system to provide adequate mobility for all people.

The EU is providing technical assistance under the Asian Investment Facility aimed at reinforcing the capacity of Dhaka's urban transport sector — particularly the Dhaka Transport Coordination Authority (DTCA), whose mission is to plan, regulate and coordinate a sustainable and comprehensive multi-modal urban transport system.

The blending facility comprises an EU contribution of EUR 2.85 million, with loan co-financing provided by the Asian Development Bank, the Agence française de développement, the Global Environment Facility and the Bangladesh Government within the framework of the Greater Dhaka Sustainable Urban Transport Project Phase 1.

Four packages of capacity-building activities are being financed by the blending facility, each related to a specific area of infrastructure investment to be financed through the loan component:

- general capacity building to enable the DTCA to design and implement regulations, standards, procedures, guidelines and policy measures to be supplemented with comprehensive Information and communication technology infrastructure;
- traffic and parking management capacity building to specific units dealing with traffic and parking management, traffic police, intelligent transit system and traffic control, road safety and an accident database;
- public space and central area development capacity building to design an inner-city precinct development plan and prepare possible private-public partnership and self-financed projects;
- capacity building for bus network restructuring with technical assistance provided to the regulatory institution within the framework of implementation of the newly planned routes.

Each EU trust fund is governed by a specific legal arrangement between donors, which specifies governance procedures, financial and operational reporting requirements, and spending priorities (Hauck, Knoll and Herrero Cangas, 2015). The European Commission maintains the lead role in the respective trust fund board and operational board, and its actions are submitted to a peer review by the Quality Support Group. The creation of trust funds reflects the EU's desire to deliver more flexible, comprehensive and effective joint EU support. With this mechanism, the EU mobilises additional financial resources, increasing its visibility and coordination in crucial areas of development or in challenging contexts. As the EU trust funds are not subject to the EU's annuity rules, funds can be secured for the duration of an action.

EU trust funds are mainly designed to leverage the contributions of EU Member States, but they are also open to contributions from non-EU donors and private entities. The trust funds can be country specific, regional or global in their geographic scope, and respond to different thematic priorities or emergency and post-emergency actions.

Experience has shown that the weakness of national or local administrations combined with a sudden increase in the number of donors have led to disorganisation and a fragmentation of response on the part of the international community — thus hampering an effective and sustainable contribution to the reconstruction of a country. A joint approach is one possible answer to this problem. These various qualities and circumstances make EU trust funds a window of opportunity for LAs (see Box 15.2).

BOX 15.2 **Horizontal and vertical partnerships for financing urban rehabilitation through the Bêkou EU trust fund**

To respond to the 2013 crisis in the Central African Republic, a flexible, rapid-response tool was required to address the immediate needs of the population while ensuring the country's sustainable reconstruction. To this end, the first multi-donor EU trust fund was established on 15 July 2014 at the discretion of the EU and three Member States (France, Germany and the Netherlands). The fund was named *bêkou*, which means hope in Sango.

The Bêkou Trust Fund, currently endowed with EUR 74 million, aims to finance projects focused on emergency and development actions, while generally aiming to support reconciliation and coexistence.

The 2013 crisis resulted in the massive displacement of populations, degraded infrastructure, a lack of basic services and weakened public administration. The Bêkou Trust Fund seeks to direct the skills of development and humanitarian actors to establish projects which can provide immediate relief to the population, while strengthening the capacity of LAs and creating conditions for long-term development.

While trust fund actions are mainly implemented through the bilateral agencies which contribute to it and through non-governmental organisations, one of its selection criteria is that the implementing partner has an established and effective partnership with local actors, LAs and/or decentralised public services.

The Programme de reconstruction économique et social en milieu urbain (PRESU) seeks to rehabilitate public infrastructure in Bangui's poor neighbourhood that was particularly damaged during the crisis. PRESU phase 1 is planned over a 12-month implementation period with a budget of EUR 4.5 million. It will improve living conditions using a labour-intensive, participatory approach with the people of the districts and in close collaboration with local and national authorities, with a specific aim of improving water supply service. The effort's first phase will consist of strengthening social cohesion and preparing for a second phase through the development of complementary technical studies. Particular emphasis will be placed on the development of public infrastructure, such as providing these neighbourhoods with drinking water, the reconstruction of community facilities and the development of drainage. For its part, the Central African Republic will conduct feasibility studies towards the programme's second phase, which will involve local and national authorities including district authorities, the Bangui municipality and the Ministry of Economy, amongst others. This effort will allow for a better definition of priorities and a means of action for the rehabilitation of Bangui public infrastructure.

For more information, see http://capacity4dev.ec.europa.eu/trust-fund-bekou/.

SECTION 16: Promoting local/territorial development through the CSO-LA Thematic Programme

The 2013 communication on LAs commits the EU to promote territorial development. In response, the EU CSO-LA Thematic Programme has made testing pilot actions promoting local development through a territorial approach one of its three overarching goals[4]. The CSO-LA Thematic Programme is an actor-oriented instrument specifically designed to support inclusive partnerships for development through actions led by CSOs and LAs in partner countries. It focuses on innovative forms of CSO-LA interactions in local public policymaking, as well as the co-provision and co-production of good local governance and development outcomes. This section addresses four operational questions:

- How can the CSO-LA Thematic Programme be relevant for a territorial approach to local development (TALD)?
- What are the different forms of support that can be provided through the programme?
- How can the CSO-LA Thematic Programme be tailored to foster territorial dynamics?
- How can CSO-LA Thematic Programme support measures be used in DLGTD interventions?

16.1 Relevance of the CSO-LA Thematic Programme in TALD promotion

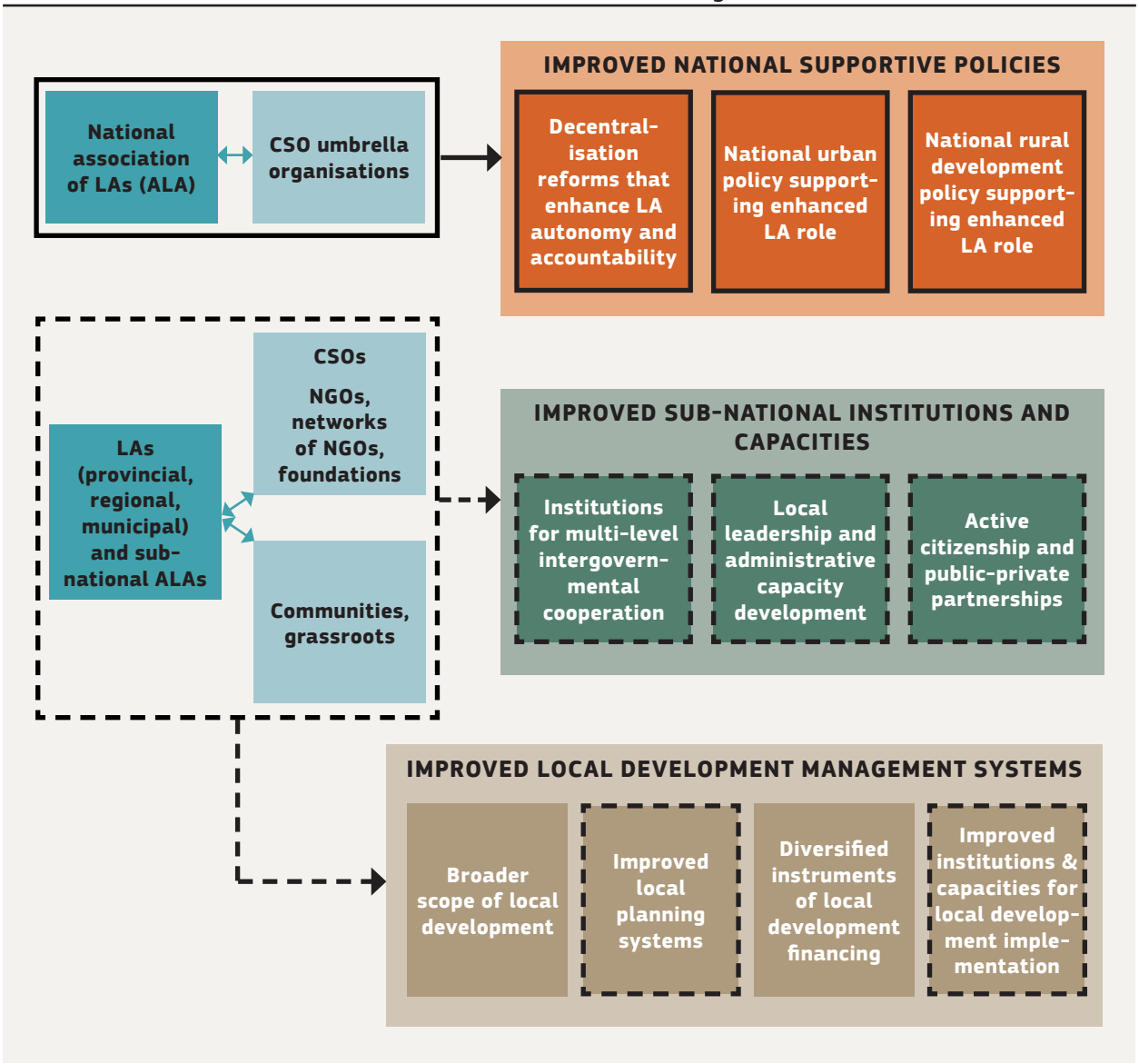
The projects financed by the CSO-LA Thematic Programme can make a major contribution to the policy and institutional changes critical to successful DLGTD interventions. Notably, they can help build horizontal and vertical partnerships for territorial development, as discussed in Section 14. In practice, two main lines of work can be envisaged that are closely linked to the various building blocks of the TALD (see Section 10), as shown in Figure 16.1. These two lines of action can be linked to the various building blocks of a TALD in order to illustrate how

FIGURE 16.1 **Two lines of action for using the CSO-LA Thematic Programme in a TALD**

[4] The programme's other two priorities at the country level are to enhance the contributions of, respectively, CSOs and LAs to governance and development processes.

EU delegations could mobilise the CSO-LA Thematic Programme to foster genuine territorial development (see Figure 16.2).

FIGURE 16.2 **Possible links between the CSO-LA Thematic Programme and TALD framework**



16.2 Types of support offered by the CSO-LA Thematic Programme

The CSO-LA Thematic Programme was designed as a tool to finance CSO and LA initiatives, but it can also be used strategically to promote pilot experimentation at the policy or institutional level needed to enhance the potential of joint CSO-LA actions. The thematic programme thus combines the following elements (see Figure 16.3):

- financial support to actions led by CSOs and/or LAs;
- support measures envisaged by the EU delegation to promote territorial dynamics through a wide range of soft activities, such as studies, identification missions, evaluation processes, information sessions, awareness-raising events, training activities, publications and documentaries.

FIGURE 16.3 **Strategic components of CSO-LA Thematic Programme**

16.3 How to use the CSO-LA Thematic Programme to tailor the call for proposals

If EU delegations have a clear idea about what they want to do, the call for proposals tool that activates the CSO-LA Thematic Programme offers significant flexibility. In preparing the guidelines for calls for proposals — which is completely within delegations' purview — they can target specific actors, territories, types of activities, etc., to orient future funding towards identified objectives. By so tailoring the calls, EU delegations can narrow the scope of actions supported and encourage the creation of territorial-based stakeholder coalitions.

There are different windows of opportunity to strategically and flexibly use the call for proposals in territorial development processes, as shown in Figure 16.4. Some of these options are detailed below, as they are particularly relevant in adapting this tool to fit DLGTD objectives[5]. These options are (i) the use of lots or ring fencing, (ii) grant size, (iii) combination of stakeholders and (iv) eligible actions.

FIGURE 16.4 **Opportunities for tailoring a call for proposals**

[5] For more information on the options to ensure flexibility in the CSO-LA Thematic Programme which are not covered in this guidance, see DG DEVCO, Unit B2 (2016), Annex 8.

Tailoring a call for proposal through lots and ring fencing

The Multi-Annual Action Plan (MAAP) 2015–2017 indicates that EU delegations may define specific eligibility criteria to ensure complementarity and subsidiarity with other programmes implemented in a country, as well as to better respond to local circumstances. In duly justified circumstances and for strategic reasons, the delegation can decide to target:

- a geographical area (poorest regions, most isolated areas, upland territories, peri-urban villages);
- a type or level of LA (metropolis, districts, village councils, provinces);
- a type of CSO (cooperative, community-based organisation, research institute, non-governmental organisation);
- a sector, public service or activity (in line with bilateral support or not, when appropriate);
- a scope of partnership (formal involvement of communities, inclusion of the private sector);
- nationality of applicants (EU versus local).

The CSO-LA MAAP 2015–2017 specifies the CSO and/or LA financial envelopes allocated to each targeted country, defining two separate budget lines to fund activities for CSOs and LAs, respectively. Although a transfer of funds is not possible between CSO and LA allocations, a single call for proposals can be launched under the condition of establishing two separate lots for CSOs and LAs.

If the EU delegation has defined several priorities, then different lots or a ring-fencing mechanism can be introduced to narrow the scope of the call for proposals. Table 16.1 summarises the comparative advantages of using lots versus applying ring fencing.

TABLE 16.1 **Comparative advantages of lots and ring fencing**

FEATURE	LOTS	RING FENCING
Actions targeted	Different actions with their own purpose, activities, actors, duration, etc.	Actions have the same characteristics, but only one criterion differs, i.e. the explicit choice for a positive discrimination mechanism (e.g. foresee quota funds for a specific territory)
Evaluation and selection process	Having separate lots, with dedicated amounts per lot; each project within a lot is evaluated against the same set of criteria and a ranking established within each lot	Each project is evaluated against the same set of criteria and a ranking established; the order is then artificially set by putting projects at the top of the list that fall into the percentage needed
Lessons learnt	Easier and more transparent way to introduce differentiation	Quota system usually not favoured by contract and finance units; in practice, evaluation committees have often found the system difficult to use, especially if the ring-fenced projects are of notably inferior quality

Tailoring a call for proposals through grant size

The minimum grant size for the MAAP 2015–2017 is EUR 300 000. In some situations, this amount can prevent the mobilisation of relevant local actors in territorial development processes. However, the rules allow EU delegations to lower this threshold[6]. For example, a lower minimum grant can be accepted if (i) the average size of grants awarded under the previous programme was below EUR 300 000, (ii) it has been established that the local CSOs are unable to co-finance 10 per cent of such a budget or (iii) it is justified by the specific context in the country (crisis situation, etc.).

Tailoring a call for proposals through a combination of stakeholders

The CSO-LA Thematic Programme offers various options to ensure the right mix of stakeholders can be effectively engaged in a TALD, depending on the objectives of the call for proposals. For DLGTD interventions, it is particularly important to foster horizontal partnerships between local actors (see Box 16.1). Hence, a call can be tailored to promote joint action between LAs and CSOs while involving the private sector. To achieve this mix, EU delegations will have to fine-tune who should play what role (i.e. main applicant, co-applicants, affiliated entities, associates, beneficiaries of financial support to third parties, target groups, etc.). The EU delegation can impose a type of partnership through a specific lot explaining the coalition sought, and then specify this with appropriate eligibility criteria. The delegation can even use direct award grants to certain pre-identified stakeholders in particular contexts (see Box 16.2).

BOX 16.1 **Bringing together the right stakeholders to create territorial coalitions**

The ability to engage multiple stakeholders is particularly relevant in fragile or sensitive contexts. For example, in a country where the technical and human resource capacities of LAs are not sufficient to manage funds, it might be harmful to award a grant to an LA. In such cases, EU delegations can support other arrangements to promote territorial coalitions, such as encouraging decentralised or triangular cooperation arrangements, with projects led by CSOs as the main applicants and LAs as co-applicants or beneficiaries. Alternatively, delegations can support stronger and more capable LAs to provide sub-grants to smaller LAs.

BOX 16.2 **Latitude in using direct award grants**

Direct award grants can potentially be used in regions and countries declared by the EU Headquarters to be in crisis. In such settings, flexible procedures may be invoked with regard to the rules on competitive tender or grant award. The legal basis for making direct awards in a crisis situation is contained in Article 190(1) Rules of Application for grant contracts and in Articles 266(1), 268(2) and 270(1) for procurement contracts. In a non-crisis context, the MAAP 2015–2017 foresees direct award as an implementation modality if justified by the local context and in line with achievement of the objectives of this action. Priority targets are representative national platforms or national associations of LAs. In both cases, grants could be awarded through — amongst other mechanisms — a framework partnership agreement.

Tailoring a call for proposals through eligible actions

Once the objectives and priorities have been established through lots, the type of actions and activities supported need to be detailed. Other than the conventional

[6] Prior approval by the head of Unit B2 of the European Commission's Directorate-General for International Cooperation and Development is required, with due justification and upon written request from the head of the delegation. The EU delegation also needs to clearly state that it will take responsibility for the resulting increased workload.

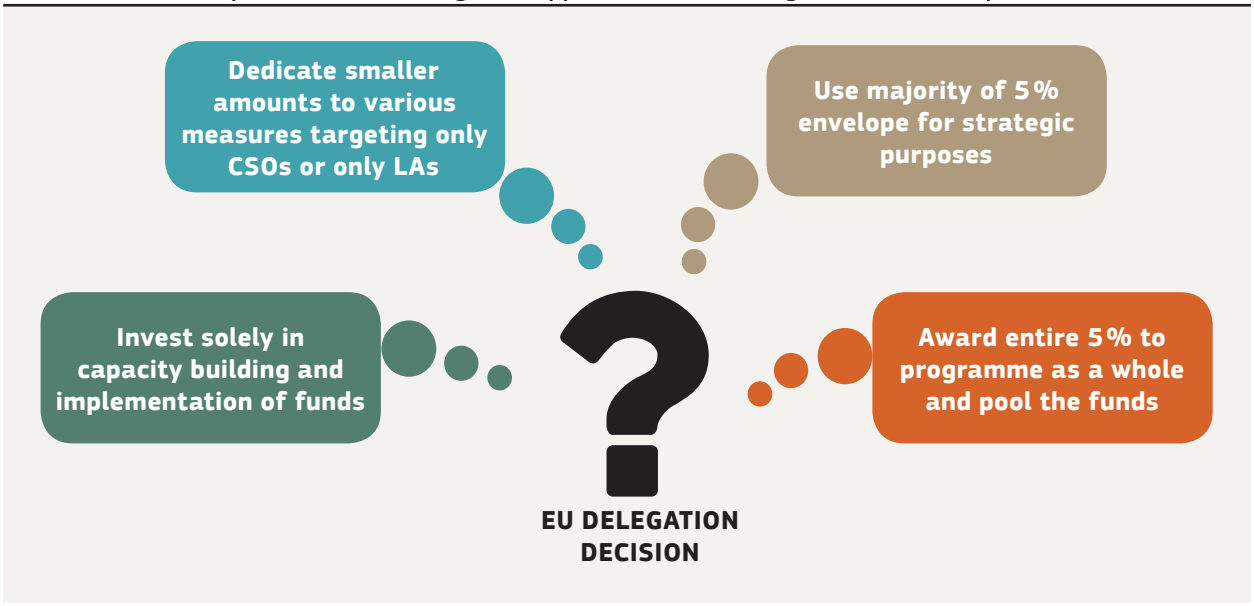
activities targeted by the delegations, some strategic activities can be made compulsory in a call for proposals. For instance, it is possible to mandate that the first activity of an action be a mapping, a stakeholder consultation or an update of a stakeholder analysis (especially if the period between the writing of the proposal and the beginning of the action is long). Or the call can specify that the action and budget need to include per diem and travel costs for a seminar or a meeting with other beneficiaries once a year in the capital to foster learning and the construction of alliances.

Financial support to third parties can be made compulsory, optional or excluded. The location of the action(s) can be adapted to the country's situation or to the delegation's strategy — e.g. to specific districts or regions or to types of towns.

16.4 How to use CSO-LA Thematic Programme support measures at the country level

When EU delegations receive funds from both the CSO and LA budget lines, they can envisage all types of support measures to accompany the actions for a maximum of 5 per cent of each allocation. This provides tremendous flexibility to EU delegations in putting in place a variety of supporting measures that can trigger positive territorial dynamics in their DLGTD interventions. Figure 16.5 provides an overview of the various options for using support measures in such a strategic manner.

FIGURE 16.5 **Options for allocating the support measures budget at the country level**



The implementation instructions related to these support measures at the country level provide room for activities that directly benefit the organisations/partners targeted by the country programme or mobilise other actors beyond the thematic programme (local, national and international) to influence public opinion, establish alliances with other development partners, create visibility for issues of high importance for the EU, etc.

While the scope is wide, experience suggests that support measures are often used in a conventional, quite narrow manner. In many cases, they are devoted to capacity-building measures targeting potential applicants to improve their ability in presenting quality proposals and ensuring proper use of and reporting on funds. Other conventional uses are related to the identification phase — including commissioning research and studies on central government/

LA-CSO dynamics, decentralisation processes, local mapping, analysing a specific territory/topic — or conducting preparatory consultations.

Emerging practices show that non-conventional uses of support measures can add countless opportunities to create an adequate environment for the implementation of DLGTD interventions promoted through the thematic programme. Following are some concrete examples of how EU delegations have made smart use of support measures to give an additional boost to their DLGTD interventions.

Connect local experiences with national platforms engaged in advocacy

When acting in concert at the local level, CSOs and LAs may gain useful insights on how reform could succeed and could therefore inform the adjustment of national policies oriented to promoting territorial development. Such a feedback loop is not possible unless a connection is made with policymaking processes at the national level. Support measures can be mobilised to engineer such critical linkages between the two levels so as to enhance the chances of cross-fertilisation and scaling up. See Box 16.3 for an example.

BOX 16.3 **Using support measures to facilitate the scaling up of good practices**

In Ecuador, the EU delegation — through support measures — has been supporting the organisation and operation of the Mesa Temática de Residuos Solidos.

Based on experiences gained at the local level, where the delegation has been promoting environmental programmes through improved management of solid waste implemented by municipalities and CSOs, local actors realised that the consolidation of these local efforts required a set of supportive national policies and regulations. The idea of organising a national round table on solid waste management emerged as a necessary step forward.

The EU delegation saw in this concept an opportunity to mobilise local and national environmental actors. With a small amount of support from the EU delegation, the principal stakeholders were able to meet regularly and establish a permanent consultation body with the participation of the national government, LAs, CSOs and development partners.

The support catalysed this initiative, and the future operations of this forum are ensured via the financial support of the participants. The forum's recommendations are taken to the highest level of political decision-making and are creating a favourable environment for the sector as a whole.

Visibility of the EU and fundamental themes for territorial development

EU delegations have initiated visibility actions through support measures with the broader objective of demonstrating the importance of territorial dynamics. Typically, these activities sought to:

- foster partnerships with other development partners/embassies to generate visibility for specific development topics (e.g. supporting associations of LAs in their advocacy activities);
- ensure EU participation in national and international events (e.g. annual conference of elected mayors) to present the European Commission's vision on the country roadmap.

While the contribution of the EU delegations can be considered more of a symbolic and political gesture given the small amount of budget allocated to such support measures, the events supported have provided the delegations with excellent platforms to introduce the European perspective of LAs and local development.

Supporting the emergence of better national DLGTD policies

EU delegations can use support measures to provide some backing — albeit modest — to national initiatives related to decentralisation reforms (e.g. drafting a new law for land use and property taxes allowing for incremental local tax collection by LAs) or national agendas regarding urban and rural development. Because national actors sometimes have regulatory constraints that limit their capacity to contract external expertise, EU delegations can use support measures to finance some specialised consultancy or technical assistance for national initiatives; over time, these may help create a more conducive environment for territorial dynamics.

Dissemination of learning and experiences gained through the CSO-LA Thematic Programme

With support measures, EU delegations have developed some knowledge-sharing materials for both LAs and CSOs — including short videos, films and a photo exhibition — on experiences gained through implementation of projects from calls for proposals. The objectives of this type of initiative financed as a support measure are twofold:

- to document experiences and lessons learnt and share these practices with potential applicants of future calls for proposals of the thematic programme;
- to increase the EU's visibility.

Innovative CSO-LA partnerships for project implementation

Because of public sector laws, regulations and timing, LAs sometimes face major capacity and other limitations in administering donor grants, particularly in challenging institutional contexts. To ensure their effective engagement in DLGTD interventions, EU delegations can resort to creative solutions such as:

- passing support through LA associations so as to facilitate access to LAs;
- forging partnerships between LAs and international/national non-governmental organisations to obtain the needed administrative support and thus avoid the legal complications (especially regarding procurement and accounting) and political problems (elections and subsequent changes) inherent in the public sector;
- using support measure financing to create ad hoc management units at the LA level to efficiently implement a project using their available staff and means (including processes, procedures and regulations).

ANNEXES

CONTENTS:

ANNEX 1: Glossary

Administrative decentralisation. Comprises the systems, processes and policies that transfer administration of public functions to sub-national governments. Administrative decentralisation does not necessarily involve autonomous authority over revenues and expenditures or formal mechanisms of accountability to local citizens.

Autonomy. Ability of local authorities to adopt policies, implement programmes and issue regulations on their own initiative (i.e. without being directed by any other authority), limited only by the legality of their actions.

Blending. An instrument for achieving external policy objectives of the European Union (EU), complementary to other aid modalities and pursuing the relevant regional, national and overarching policy priorities. Blending enables the strategic use of a limited amount of grants to mobilise financing from partner financial institutions and the private sector to enhance the development impact of investment projects. The grant element can take different forms, including interest rate subsidies, technical assistance, risk capital and guarantees.

Budget support. An aid modality that involves dialogue, financial transfers, performance assessment and capacity development. Transfers are made to the national treasury of the partner country, in accordance with agreed conditions for payment. The resources received become part of the global resources of the partner country, to be used with its public financial management system.

Civil society organisation (CSO). The concept of CSOs embraces a wide range of actors with different roles and mandates. Definitions vary over time and across institutions and countries. The European Union (EU) considers CSOs to include all non-state, not-for-profit structures, non-partisan and non–violent, through which people organise to pursue shared objectives and ideals, whether political, cultural, social or economic. Operating from the local to the national, regional and international levels, they comprise urban and rural, formal and informal organisations. The EU values CSOs' diversity and specificities; it engages with accountable and transparent CSOs which share its commitment to social progress and to the fundamental values of peace, freedom, equal rights and human dignity. For more details, refer to the 2012 communication, 'The roots of democracy and sustainable development: Europe's engagement with civil society in external relations' (EC, 2012).

Competence. Legally mandated responsibility/power of local government in a particular area of activity. Competences may encompass both provision and production responsibilities, including regulating, delivering, financing, monitoring and evaluating, sanctioning or otherwise intervening in the way in which functions are carried out. General competence refers to a constitutionally or legally recognised general mandate for the welfare of the constituencies of local authorities. Specific competences are those related to specific service delivery and other functions which might be devolved or delegated to local authorities by national governments.

Decentralised cooperation. There is no unique definition for decentralised cooperation. The World Bank refers to it as a formal partnership between local authorities in different countries which engage in a programme of exchange and collaboration aimed at improving the social and economic circumstances of their respective communities and enhancing the skills and competence of the partners involved. The European Union defines decentralised cooperation as publicly and privately funded aid provided by and through local authorities, networks and other local actors (EC, 2008). The Organisation for Economic Co-operation and Development measures decentralised cooperation through the contribution of local authorities to Development Assistance Committee member countries' foreign assistance. Common denominators of decentralised cooperation are (i) the lead actors (local authorities), (ii) an overarching objective (e.g. sustainable local development) and (iii) the nature of the activities carried out (e.g. exchanges and support).

Deconcentration. Refers to decentralising central agencies and adoption arrangements by which local actors perform functions as central agents. These actors may have the authority to make some independent decisions, but usually within central guidelines and subject to considerable central control/oversight.

Delegation. An arrangement by which local governmental or non-governmental entities deliver services which are formally central government responsibilities. Specific arrangements vary, but the entity always acts on behalf of the centre.

Devolution. An arrangement by which fully or partially independent and typically elected local authorities are legally responsible for specific functions and empowered to receive or raise certain revenues. Under genuine devolution, local authorities have a general mandate to develop their territories and promote citizen well-being.

European Union trust funds. Recent addition to the European Union's (EU's) external action instruments, development tools that pool resources from different donors to enable a quick, flexible, collective EU response to the various dimensions of an emergency/post-emergency situation or of a thematic action. Trust funds allow contributions from Member States (and other private and public donors) to be leveraged and to pool large amounts of funds. They are designed to increase the EU's global political visibility and to enhance control over risks and disbursements. Trust funds are to be directly managed by the European Commission, or in the case of emergency trust funds, through delegated cooperation to third parties such as partner countries, international organisations or EU development agencies.

Fiscal decentralisation. Formal assignment of expenditure functions and revenues (including intergovernmental transfers and own tax and non-tax sources) to local authorities. Fiscal decentralisation does not in and of itself entail formal mechanisms of accountability to local citizens.

International organisation. Public sector entity established by intergovernmental agreements, and specialised agencies set up by such organisations. These organisations may have worldwide (e.g. the United Nations, the World Trade Organisation) or regional/sub-regional scope (e.g. the African Union, the European Union, MERCOSUR, the Association of Southeast Asian Nations, the Southern African Development Community, the West African Economic and Monetary Union). (Implementing Rules of the European Union Financial Regulation, Article 43)

Local authority (LA). Public institution with a legal identity; component of the state structure below the level of the central government and accountable to its citizens. LAs are usually

composed of a deliberative or policymaking body (council or assembly) and an executive body (mayor or other executive officer), directly or indirectly elected or selected at the local level.

Official development assistance (ODA). According to the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), 'flows to countries and territories on the DAC List of ODA recipients and to multilateral institutions which are provided by official agencies, including state and local governments, or by their executive agencies; and each transation of which: a) is administered with the promtion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)'. (http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm)

Place-based policy. 'Long-term strategy aimed at tackling persistent underutilization of potential and reducing persistent social exclusion in specific places through external interventions and multi-level governance. It promotes the supply of integrated goods and services tailored to contexts, and it triggers institutional changes' (Barca, 2009, p. vii). The concept, originally advanced to help reform the European Union's cohesion policy, is equally relevant in developing countries as it underpins an approach to reducing territorial and social disparities (and the associated risks of social tension and political unrest) through inclusive growth and enhanced productivity of territories rather than state redistributive policies.

Policy and institutional innovation facility (PIIF). A management unit which, unlike a traditional project implementation unit, can actually accompany and facilitate the search for innovative solutions, rather than implement blueprint models. A PIIF has the ability to provide direct financial support to participating local authorities.

Political decentralisation. Set of provisions designed to devolve political authority to local authorities and enhance their accountability to the residents of their jurisdictions. Examples include the popular election of mayors and councils, which previously may have been appointed or did not exist. In effect, political decentralisation adds democratisation to the more technical mechanisms of administrative and fiscal decentralisation.

Public-private partnership (PPP). The Organisation for Economic Co-operation and Development defines a PPP as a long-term agreement between the government and a private partner whereby the latter delivers and funds public services using a capital asset, sharing the associated risks. PPPs may deliver public services with regard to both infrastructure assets (e.g. bridges, roads) and social assets (e.g. hospitals, utilities, prisons).

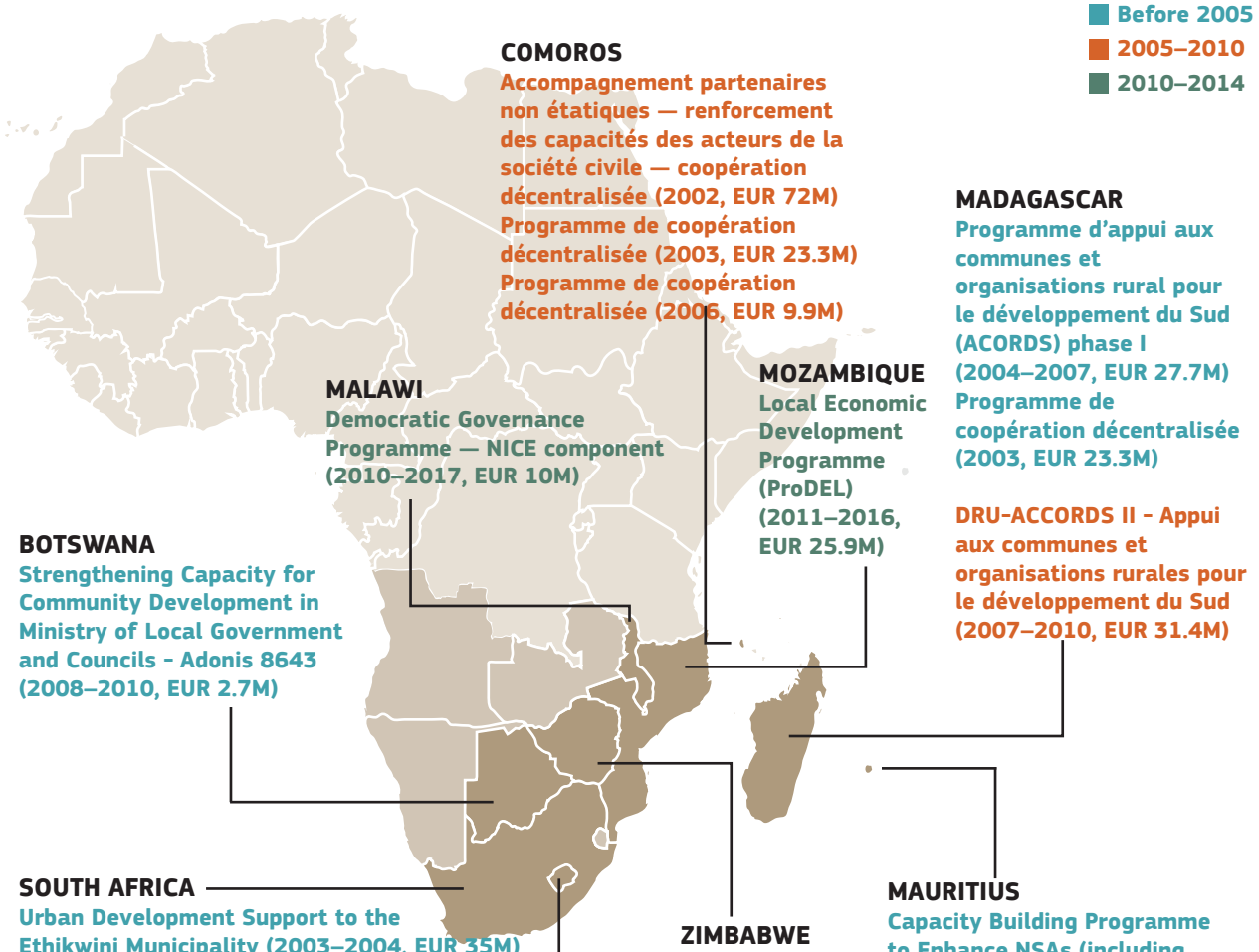
Special treasury account. Legally established fund distinct from the regular national budget. It is used in fiscal transfers from the central to the local level to prevent the funds from being used for another purpose or changed by the central government during the fiscal year.

Territorial development. Development that is endogenous and spatially integrated, leverages the contribution of actors operating at multiple scales and brings incremental value to national development efforts.

ANNEX 2: EU support for DLGTD, by region

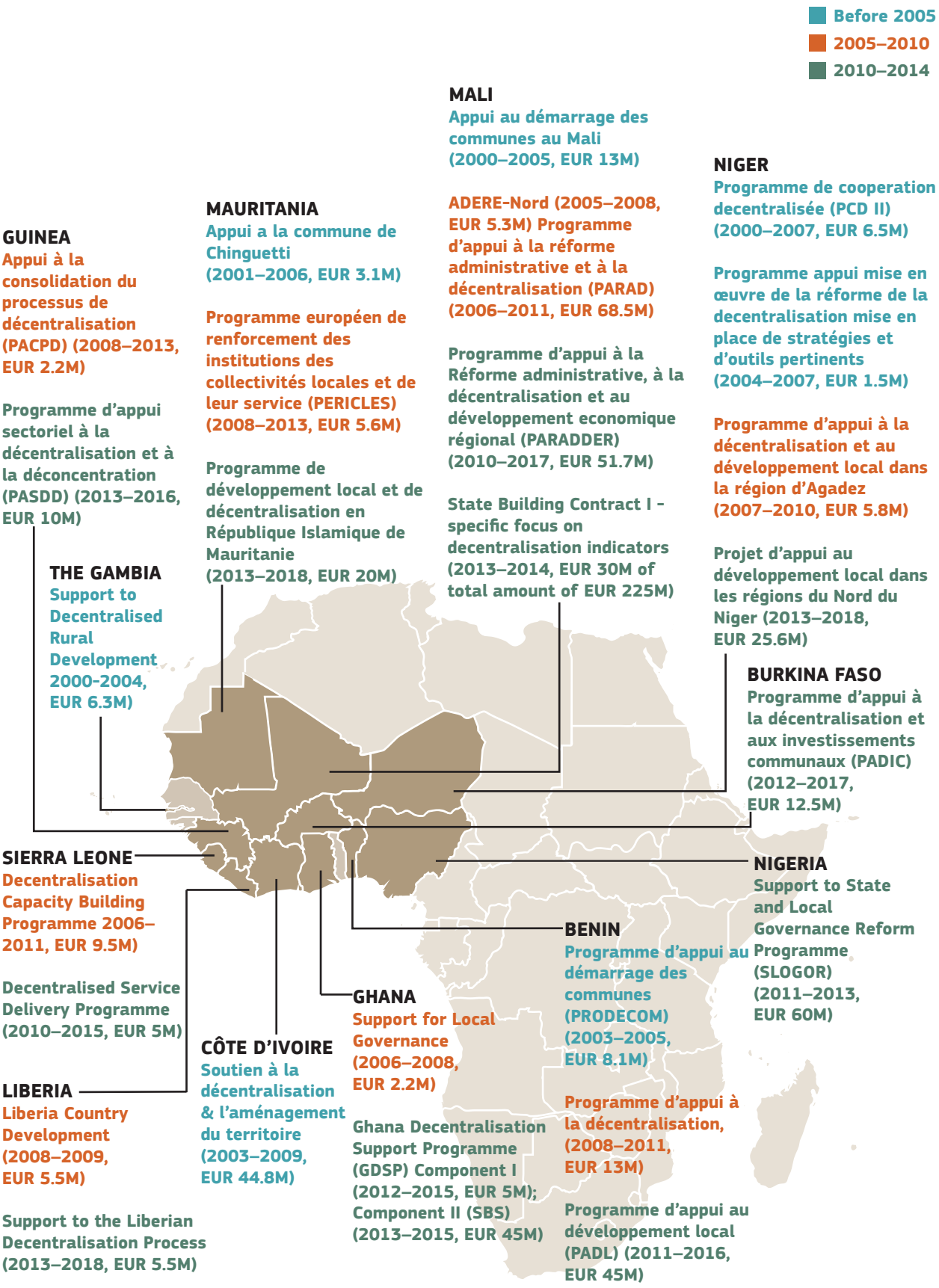
A2.1 Southern Africa

Total EU support 2002–2014: EUR 230 million (10 %)



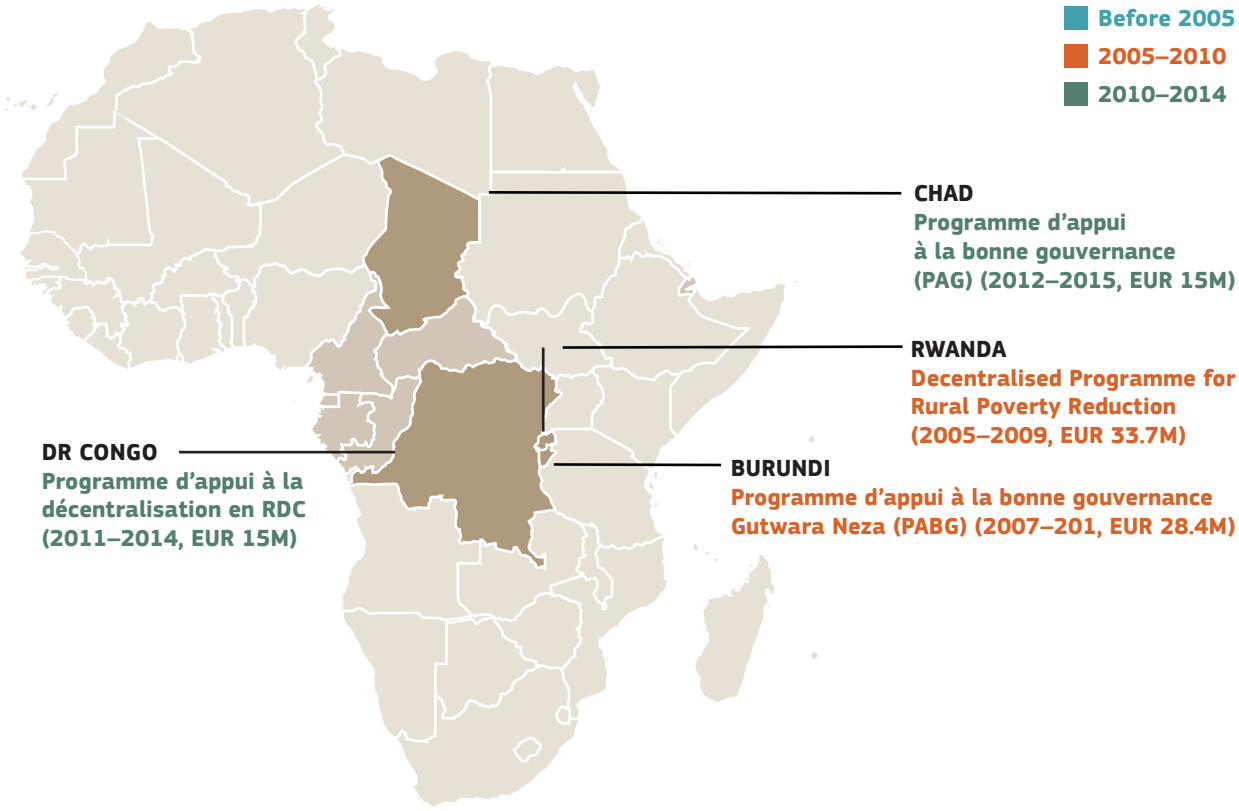
A2.2 West Africa

Total EU support 2002–2014: EUR 539 million (28 %)



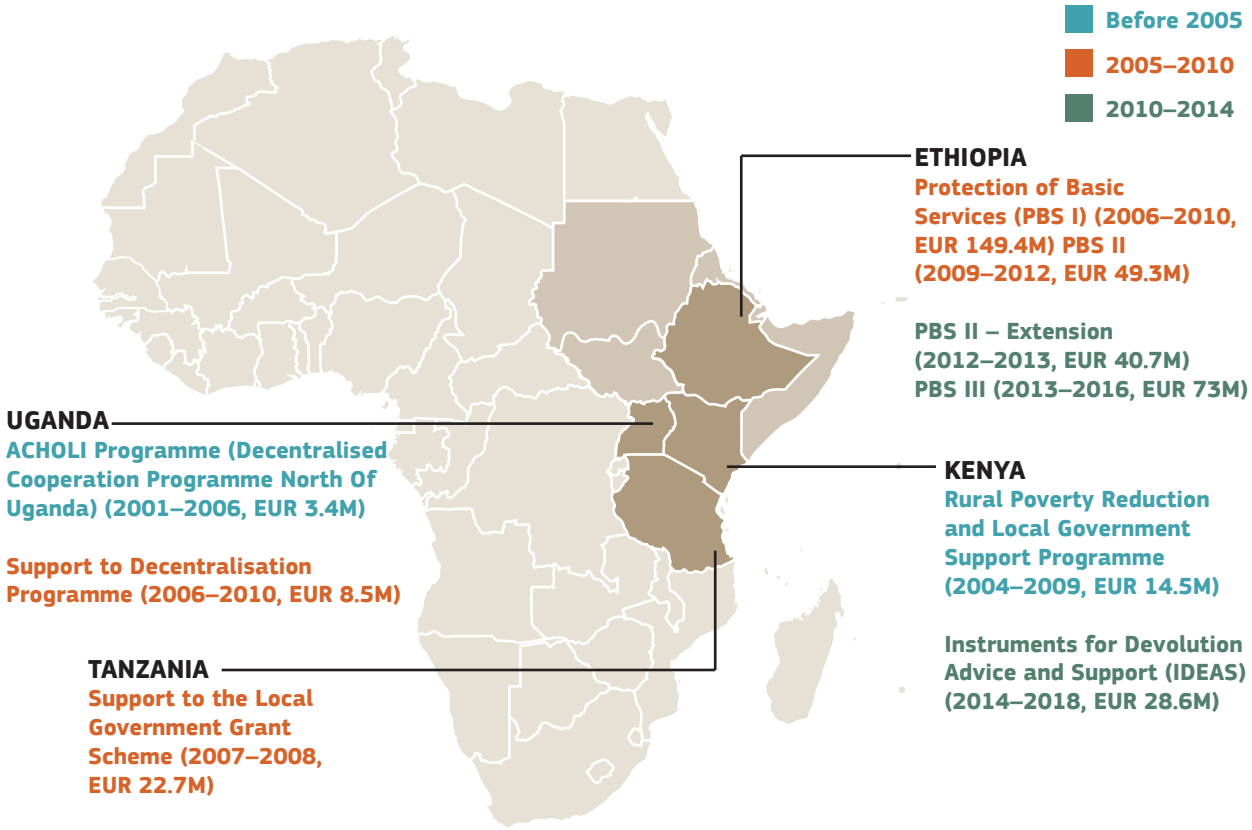
A2.3 Central Africa

Total EU support 2002–2014: EUR 92 million (5 %)



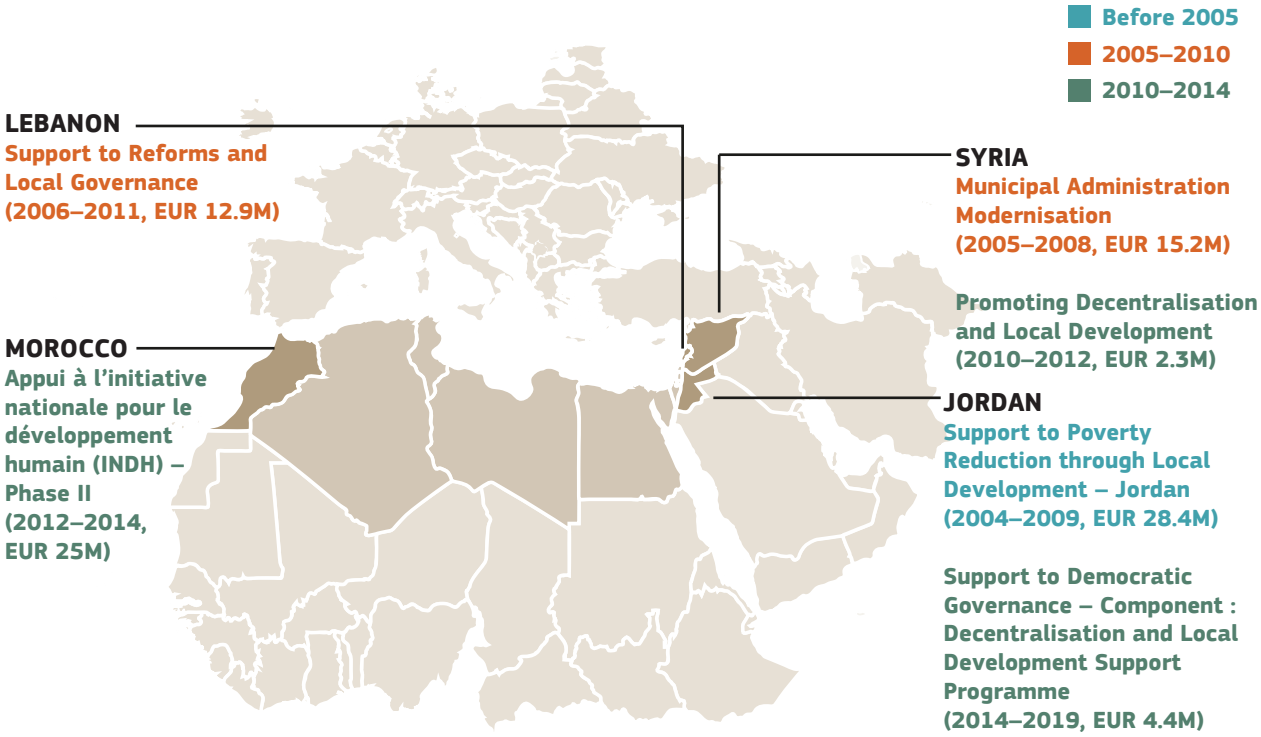
A2.4 Eastern Africa

Total EU support 2002–2014: EUR 533 million (28 %)



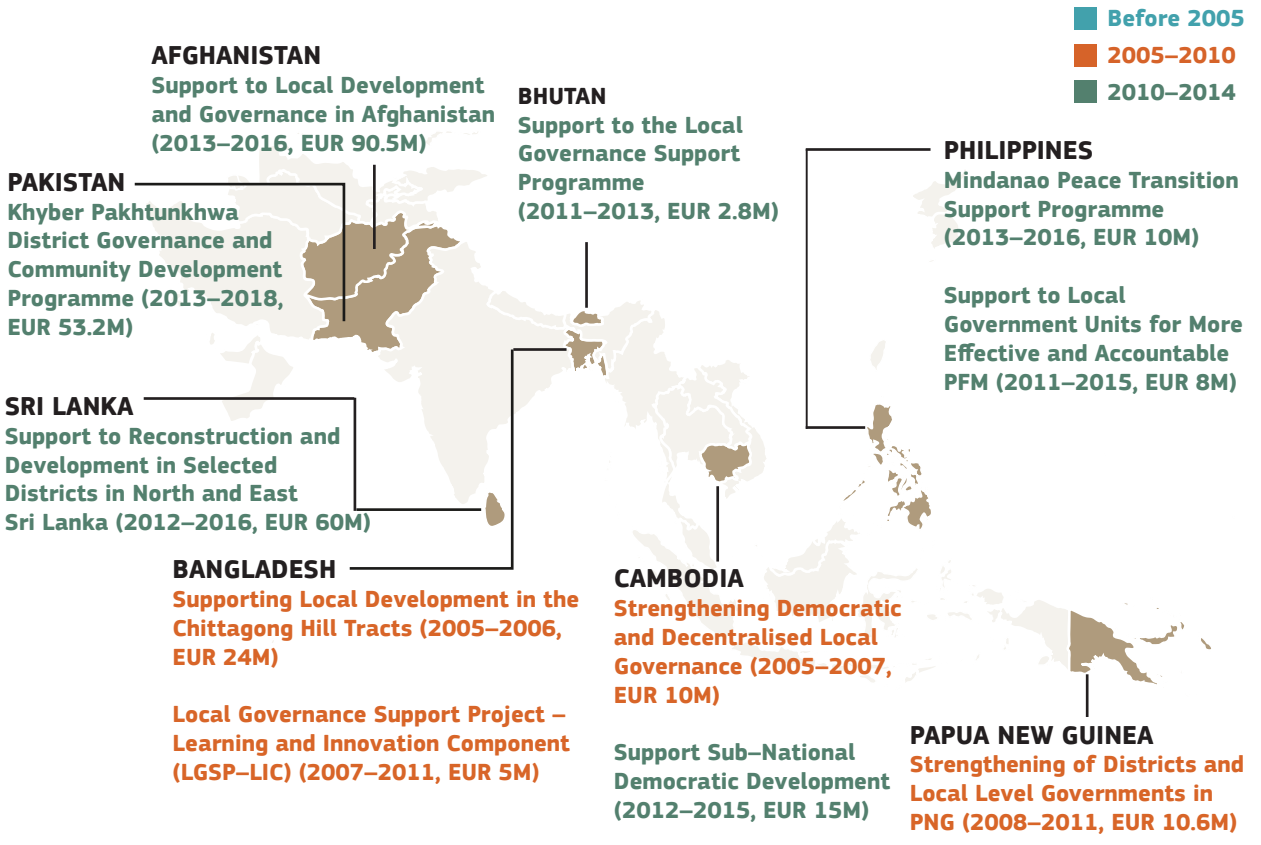
A2.5 Neighbourhood South

Total EU support 2002–2014: EUR 88 million (4 %)



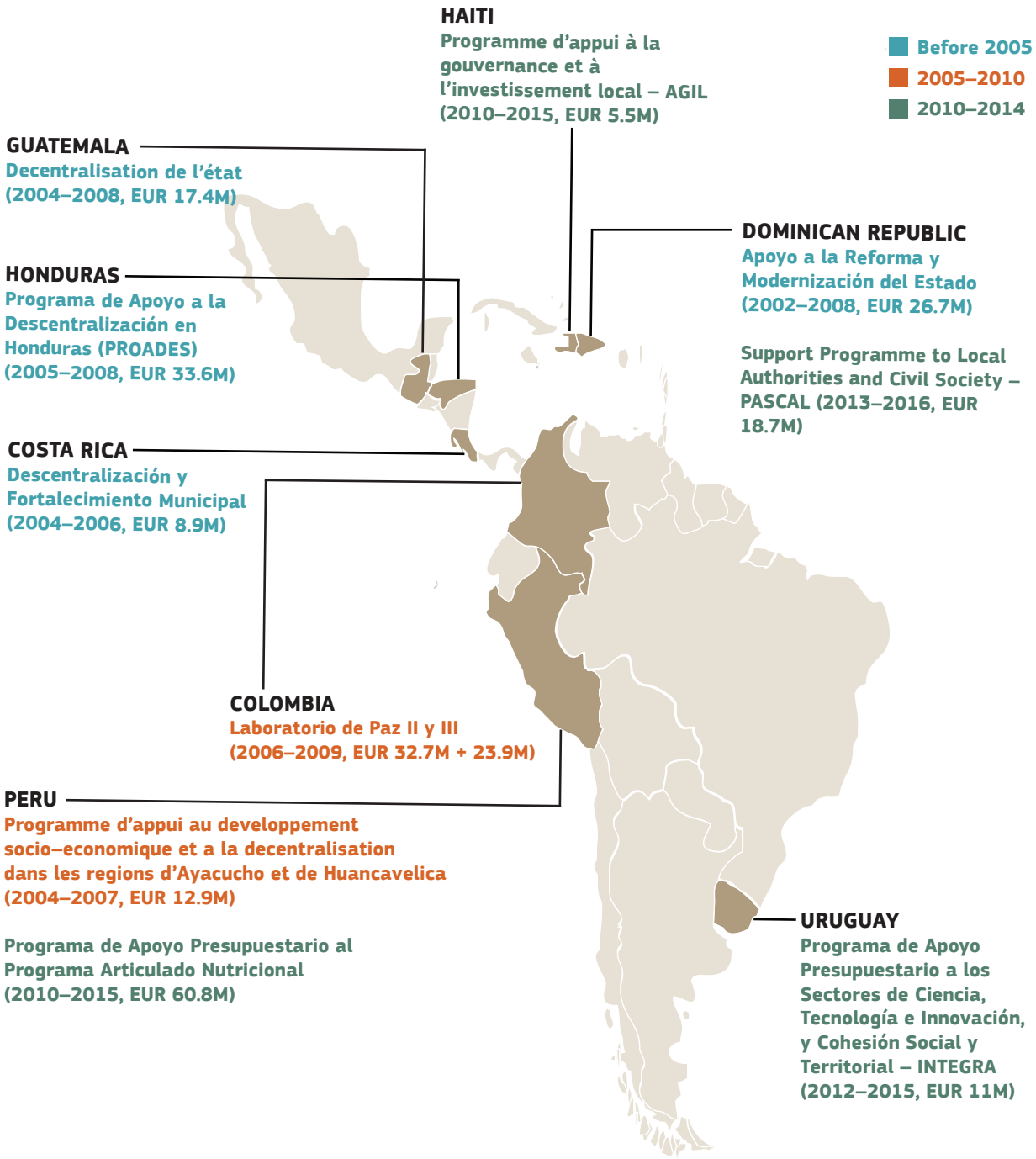
A2.6 Asia and Pacific

Total EU support 2002–2014: EUR 289 million (14 %)



A2.7 Central America and South America

Total EU support 2002–2014: EUR 252 million (13 %)



ANNEX 3: Approaches of selected international organisations and donors to territorial development

Several institutions and donors have developed innovative approaches that underline the need for a change of scale to the territory level in order to secure the involvement of various stakeholders — from local authorities to community-based or non-governmental organisations — and for other means of implementation in order to promote comprehensive and sustainable local development.

Some of these approaches select the community as an entry point; other consider the territory as the main framework to take into account. Similarly, some approaches focus on economic development issues, while others concentrate on governance. But despite these differences, a consensus is emerging on a set of conditions to be taken into consideration: the local/territorial dimension, the participatory and inclusive definition and implementation of projects and policies, the need for experimentation and flexibility, and the need to take — and give — time for results.

A3.1 United Nations Agencies

- **International Labour Organization (ILO): local economic development.** The ILO maintains that local economic development

  > ...means more than just economic growth. It is promoting participation and local dialogue, connecting people and their resources for better employment and a higher quality of life for both men and women.
  >
  > The ILO's goal of Decent Work for All is reflected in LED [local economic development] strategies through its focus on growth, poverty reduction and social inclusion. The organisation's social partners increasingly adopt LED in Decent Work Country Programmes, which are developed and agreed upon by Governments, Workers' and Employers' Organizations. LED strategies are also deployed in countries affected by the global jobs crisis, increasing the coherence and effectiveness between national policy packages and local realities. (http://www.ilo.org/global/topics/employment-promotion/local-economic-development/lang--en/index.htm)

  Even though the need to involve and empower local societies is recognised, the democratisation and good governance agenda are less strategic. The priority is to promote endogenous development, help territories cope with growing inequalities and competition, and generate decent jobs. The ILO emphasises the importance of tailoring long-term programmes built on a thorough knowledge of the territory (Rodríguez-Pose, 2001).

- **Food and Agriculture Organization of the United Nations (FAO): territorial approach to food security and nutrition policies.** Even though this approach clearly focuses on

a sectoral dimension of local development, the FAO promotes an integrated approach, based on a territory's capital and development potential. The approach supports a tailored response to local challenges to avoid a one-size-fits-all solution. Local institutions are considered to be at the core of the process, but the importance of multi-level articulation and a multi-actor dimension is stressed (FAO, 2013).

- **United Nations Development Programme (UNDP), United Nations Capital Development Fund (UNCDF) and the ART Initiative.** UNDP has no specific guidance on territorial approaches to local development, but mainstreams these issues into its three main focus areas: sustainable development, democratic governance and peace building, climate and disaster resilience. Moreover, its strategic plan recognises local and regional governments as key actors for promoting local government — local development and proposes a multidisciplinary territorial approach and multi-level governance systems as the foundation for successful promotion of sustainable human development at the local level. By its mandate, the UNCDF is more responsible for implementing these positions through local government financing; as is UNDP's ART (Articulation of Territorial Networks) Initiative, which encourages decentralised cooperation. These latter recognise that while that a local, place-based approach may not be the solution to economic, social and environmental challenges, it can certainly be part of the solution and overcome the limitations of top-down, sector-specific policies (UNCDF, 2010; UNDP, 2014).

- **United Nations Human Settlements Programme (UN-Habitat): local economic development; urban and territorial planning.** UN-Habitat defines local economic development as 'a participatory process in which local people from all sectors work together to stimulate local commercial activity, resulting in a resilient and sustainable economy' (UN-Habitat, 2005). This strategy suggests that, in order to pursue local economic development, governments must promote legitimate local institutions and good governance, and establish clear procedures and rules, while providing a safe political environment and an enabling environment for the private sector. The agency has also recently issued 'International Guidelines on Urban and Territorial Planning' (UN-Habitat, 2015). These rely on four main pillars that provide a transversal and comprehensive approach: urban policy and governance (planning as an integrative decision-making process that must address competing interests, renewed urban governance paradigm with local democracy), sustainable development (promotion of equitable and inclusive development at all territorial levels), planning components (multidimensional interventions, iterative process, political decisions based on different scenarios and broad consultation), and implementation (strengthened institutional framework, consensus-building approaches).

A3.2 Organisation for Economic Co-operation and Development

Rural-urban partnerships: an integrated approach to economic development. In this approach, the Organisation for Economic Co-operation and Development (OECD) suggests moving beyond the urban/rural dichotomy to encourage a multi-purpose partnership with a wider scope of activity, in which a specific entity manages initiatives on several issues, using an integrated approach and a more holistic vision of the territory. The OECD uses a general concept of a functional region that identifies a space — usually different from the administrative boundary — in which a specific territorial interdependence (or function) occurs, and may need to be governed (OECD, 2013).

A3.3 World Bank

Rather than focusing on territory — space — the World Bank position emphasises community-driven development — i.e. actors. The aim is to localise aid using local communities and an inclusive approach. Numerous Bank projects have been implemented using this community-driven development approach, which has nonetheless been the subject of much criticism and internal debate. While the participatory and local dimensions of the approach have not been questioned, the means of implementation have. For the success of these projects, the World Bank cites the importance of understanding the context, designing policies and strategies with extreme care, allowing sufficient time and flexibility, and ongoing monitoring and evaluation. The approach has been mainly adopted to promote rural development; the Bank is currently conducting research and reflecting on how to promote it in urban contexts (Mansuri and Rao, 2013).

A3.4 European Union Institutions

- **Directorate-General for Agriculture and Rural Development: LEADER approach.** Introduced in 1991, the LEADER — Links between actions of rural development — approach maintains that, given the diversity of European rural areas, development strategies are more effective and efficient if decided and implemented at the local level by local actors. These strategies should be accompanied with clear and transparent procedures, the support of relevant public administrations, and the necessary technical assistance to transfer good practice. The LEADER approach is area-based, bottom-up, innovative, integrated and multi-sectoral. It is led by local action groups — i.e. public-private partnerships (EC, 2006).

- **Directorate-General for Regional and Urban Policy: 'Territorial Agenda 2020 put in practice: enhancing the efficiency and effectiveness of Cohesion Policy by a place-based approach'.** This policy can be defined as a long-term development strategy whose objective is to reduce persistent inefficiency and inequality in specific places through the production of bundles of integrated, place-tailored public goods and services. These goods and services should be designed and implemented by eliciting and aggregating local preferences and knowledge through participatory political institutions, and by establishing linkages with other places. They are promoted from outside the place by a system of multi-level governance where grants — subject to conditionalities on both objectives and institutions — are transferred from higher to lower levels of government (CSIL, 2015).

- **Community-led local development.** A common guidance on community-led local development, largely built on the LEADER and place-based approaches noted above, was elaborated in a document issued by four directorates-general of the European Commission — Agriculture and Rural Development; Employment, Social Affairs and Inclusion; Maritime Affairs and Fisheries; and Regional and Urban Policy (DG AGRI, EMPL, MARE and REGIO, 2013).

ANNEX 4: Key considerations in ensuring local authority financing in budget support operations

A4.1 Position of transfers in the government's budget appropriation system

Two arrangements are commonly used in this regard.

- **Separate budget line.** This practice refers to recording the amount committed by the central government in the recurrent section of the national budget under a separate budget line. The manager of such a budget line is usually the minister of finance, or sometimes the minister in charge of decentralisation.

- **Special treasury account.** A special treasury account is a fund established by law as distinct from the standard budget. It is normally used when fiscal transfers are determined as a share of specific sources of the central government's revenue, which helps to insulate the funds from being used for another purpose or changed by the central government during the fiscal year. Unused special treasury account resources can be carried over in perpetuity to subsequent fiscal years.

A4.2 Disbursement modalities used to get committed funding to local authorities

Again, two types of arrangements can be distinguished.

- **Direct transfer to the local authority via the national treasury payment system.** The central government may use the national treasury payment system to disburse fiscal transfers to local authorities. In this case, the national treasury, as instructed by the relevant authority (the minister of finance or the manager of the special treasury account), releases the transfers to the local authorities either through its sub-national/deconcentrated branches or through the banking network.

- **Disbursement through a specialised agency.** The central government can establish a specialised institution or agency to handle disbursement of fiscal transfers to recipient local authorities and monitor their performance. To make the disbursements, the agency may use the national treasury system or the banking payment system, depending on the country's public financial management structure. (See Box A4.1 for examples.)

BOX A4.1 **Examples of external funding flows in Benin and Mali**

Benin

Fiscal transfers to local authorities are organised on an annual basis through two budget lines. The first covers transfers linked to the general mandate of local authorities; the second deals with earmarked grants. Both lines are managed through the Fonds d'appui au développement des communes (FADeC). The system has the following features.

- It is funded by the central government (national resources) and external development partners.
- It provides separate funding for recurring operational costs and investment grants to all local authorities at the commune level.
- Funds are made available to local authorities via the national treasury payment system under the oversight of the Ministry of Finance in three instalments (March, June and September), although with recurring delays.
- European Union contributions to the fiscal transfer system (FADeC) are easily traceable and can be monitored by annual audits carried out by the Ministry of Finance to ensure that the funds are actually transferred to the local authorities and are properly used by them.

Mali

Fiscal transfers are disbursed to local authorities through three channels using the national treasury system.

- **The national budget.** Resources for local authorities are secured from both the government's revenue system and contributions by external partners — including the European Union, through general and sector budget support. Transfers for operational costs are channelled directly to local authorities, while transfers for investments are disbursed through the Fonds national d'appui aux collectivités territoriales (FNACT), controlled by the Agence nationale d'investissement des collectivités territoriales (ANICT). The European Union already uses the sector budget support modality to facilitate direct transfers to local authorities in two decentralisation initiatives — the Programme d'appui à la réforme administrative et à la décentralisation (PARAD) and the Programme d'appui à la réforme administrative, à la décentralisation et au développement économique régional (PARADDER).
- **Line ministries.** Transfers to line ministries such as health and education are essentially funded by external development partners (sector budget support) and disbursed through the FNACT/ANICT.
- **The FNACT/ANICT mechanism.** Resources are provided by several development partners and are not reflected in the national budget. In addition to the above, some external development partners provide direct capital grants to selected local authorities in accordance with the project modality. Such funds are disbursed directly to the local authority's bank account.

A4.3 Payment systems used by local authorities to manage their fiscal transfers

Depending on the country's public finance system, local authorities may deposit and manage their funds — including fiscal transfers — using either the national treasury payment system or the commercial banking system. (See Box A4.2 for an example.)

BOX A4.2 EU support to decentralisation reform in Burkina Faso

The European Union is supporting the decentralisation sector in Burkina Faso (total grant: EUR 25 million) through the Programme d'appui à la décentralisation et aux investissements communaux. The programme includes two phases.

The first phase (to be completed by 2017) is focused on: (i) institutional development of all public agencies involved in the decentralisation process at both the central and sub-national levels and (ii) improving the local governance system through targeted capacity development of 140 local authorities (programming and managing investment in public service delivery facilities).

The second phase (from 2018 onwards) will consist of financing through general budget support of the national fiscal transfer mechanism (up to EUR 12.5 million) via the Fonds permanent pour le développement des collectivités territoriales (FPDCT).

The FPDCT is an autonomous public institution, operating under the dual oversight of the minister in charge of decentralisation and the minister of finance. Its mission is to contribute to the financing of local authorities' development programmes as well as local capacity building. Its functions include the following:

- resource mobilisation and providing capital grants to local authorities on an equitable basis
- reinforcing local authority capacity to manage capital investment
- providing guarantees to allow local authorities to borrow to finance their investment needs
- (eventually) extending loans to local authorities for investment purposes

ANNEX 5: Key ingredients of smart projects

A5.1 A clear vision of the need to empower local authorities as development actors by enhancing their autonomy and enlarging their operating space

Local authorities (LAs) need to be at the centre of the territorial development process — even if their current levels of legitimacy and capacity are low (see Box A5.1). Providing direct financial support to LAs ensures a process of learning by doing and related capacity development at the individual, organisational and institutional levels. The message for aid providers is clear. If the purpose is to empower LAs for better development and governance outcomes, the leading role must revert to LAs as the main dialogue partner and contractual authority. Direct funding is key to enabling LAs to test out ways and means of delivering on

BOX A5.1 The Municipal Development Programme in Mozambique

Since the mid-1990s, donors to Mozambique — including the United Nations Development Programme, the World Bank and the German Agency for International Cooperation (GIZ) — began supporting financial planning and management in rural districts through different projects. In line with the Paris Declaration and Accra Agenda, donors took the initiative to turn the projects into a sector support programme managed by the Ministry of Planning and Development.

This solution proved less than optimal. While previously districts and provinces had been used as entry points for support, the central ministry now concentrated resources and decision-making. Districts felt disenfranchised by the change, and the move to a centrally based sector programme provided limited opportunities to empower the local level.

In response, three donors (Swiss, Danish and Austrian) joined forces by transforming their individual projects into a common initiative in support of sustainable municipal financing. The essential question was how to support decentralisation in a highly centralised environment? In their vision, this could not be achieved through a sector or programme support modality, because these schemes would be managed by a top-down, control-oriented national government. A project approach was seen as a much better way to channel support directly through the LAs.

Empowering local-level institutions was the core of the programme. Ministries of State Administration and Environment and the national association of municipalities were programme partners/beneficiaries, but received less support than the LAs. The Ministry of State Administration chairs the steering committee made up of the 13 beneficiaries, the national partners and the three donors. The funding is managed by a project management unit that operates under the auspices of the Danish Embassy (basket fund). This set-up has made it possible to streamline and scale up technical challenges. Above all, it has become a platform where 13 of Mozambique's 43 municipalities can jointly voice concerns to central institutions. The project has also helped in comparing performance between municipalities as well as fostering joint learning opportunities.

their general mandate for the welfare of their constituencies and enacting local development policies that both mobilise and benefit their citizens.

Providing trust, operating space and resources are also preconditions for making LAs accountable for the political choices made as an emanation of the local public sector and the political representative of the community (see Box A5.2).

BOX A5.2 **Trusting local authorities: the PAMED project in Niger**

The Belgian-supported Programme d'appui à la mise en place des entités décentralisées (PAMED) in Niger made, at the outset, a strategic decision to not bypass or replace existing structures because of their dysfunctional nature. Instead, PAMED adopted a responsibility approach, putting a premium on trusting LAs (*le pari de la confiance*) to sort out local priorities and how best to address them.

The project sought to scale up by organising and facilitating synergies between local and national levels. Eligible communes receive direct funding provided they manage resources according to Niger's public financial management rules. The municipalities subscribe to annual objective contracts, whose implementation is supervised by a multi-actor committee.

High-quality technical assistance forms part of the non-financial support package, and includes a local development management advisor (rather than a financial controller) with a view to build trust, develop a common language and facilitate effective implementation.

Evaluation of the first phase of the project was on the whole highly positive in terms of the results achieved, both regarding local-level innovation/delivery and building constructive relations with authorities at higher levels.

A5.2 Search for linkages with the various actors and levels of the system

Empowering LAs is a necessary but not sufficient condition. While LAs need a meaningful degree of autonomy to function as a distinct sphere of government and foster territorial development, they also interact with multiple other actors and stakeholders within a wider intergovernmental system. The quality of these interactions determines the ability to obtain services for citizens. For instance, in many countries the LA is responsible for planning, executing and maintaining the infrastructure needed for education and health. Yet deconcentrated services should ensure the provision of personnel (teachers, doctors) as required by under national standards. Smart projects can help connect the various actors and layers of governance, which often tend to operate in silos (see Box A5.3). They can facilitate direct and reciprocal interactions between those involved in the project and policymakers so that mutual learning can take place and opportunities are created for scaling up workable solutions and influencing future policy development.

BOX A5.3 **Linking local authorities to deconcentrated administrations for better service delivery**

The European Union–supported Appui aux communes et organisations rurales pour le développement du sud (ACORDS) was initiated in 2004 in a decentralisation context characterised by a policy and system vacuum. While a good decentralisation policy existed on paper, it was not implemented. There was limited societal debate about reform, sector ministries neglected LAs, and various actors at different levels were confused about their institutional mandates. At the end of the chain, LAs were largely left on their own, disconnected from mainstream policy and institutional processes.

Within this political economy reality, ACORDS was designed to serve as a decentralisation laboratory. The programme put the weak and inexperienced LAs firmly in the driver's seat, including in terms of accessing funds. The financial transfers to LAs were seen as an entry point to test out, from the bottom up, new ways of local governance, including (i) decentralised systems for planning, budgeting and implementing local policies as well as (ii) the structures and procedures by which the state supports and supervises LAs.

This latter point brings various deconcentrated services into the picture which are often neglected in decentralisation, local governance and territorial development projects. For ACORDS, ensuring their involvement was a strategic priority — both from the perspective of building the state from the bottom up and in terms of ensuring the delivery of better public services. The programme therefore sought to create incentives for deconcentrated services to engage in the process, help to co-produce more appropriate and effective local governance approaches (e.g. on local procurement) and — last but not least — provide crucial technical support to LAs (e.g. on national norms regarding the quality of local infrastructure).

Source: www.labdec-mada.org.

A5.3 Flexible and process-oriented implementation linked to national systems and procedures

Smart projects are essentially exercises in social and institutional change. This orientation requires the adoption of an open-ended, iterative and flexible approach to implementation. The whole philosophy of smart projects is to develop capacity by testing out new ways of doing things, looking for best fits to local conditions, dealing with problems as they arise and adapting initial plans throughout the implementation cycle. This approach also means accepting failures as a critical part of learning processes aimed at fostering policy and institutional change over time (see Box A5.4). Local monitoring and evaluation mechanisms need to be put in place to accompany the collective learning process and ensure gradual adaptation of national policies and systems.

BOX A5.4 Failures are part of the learning process: the experience of SEILA in Cambodia

SEILA, which means 'foundation stone' in Khmer Sanskrit, is a donor-supported national initiative in Cambodia that began in 1996 in a difficult context of post-conflict reconstruction. The project emerged as a response to a lack of policies and systems in the Cambodian public sector, particularly at the local level. Its overall aim was to improve local governance and institute decentralised development planning and financing systems for poverty reduction. This objective entailed empowering provincial and communal authorities and generating lessons for the development of national decentralisation policies.

SEILA opted for a learning by doing approach to promote local development and service delivery. The focus was on testing relevant and workable systems for attracting funding, planning, managing capacity development and ensuring monitoring and evaluation at the local level. Starting in five provinces, it successfully expanded to cover the whole national territory, attracting increasing amounts of coordinated donor funding.

The experimental, adaptive, learning by doing approach adopted by SEILA greatly affected project implementation. At times, the project management had to call to a halt certain policies and practices which did not deliver on expectations or did not prove to be cost-efficient. There was also a certain degree of 'change fatigue' evident. But the experimental approach would not have been credible — and probably not successful — without this ongoing change.

ANNEX 6: Case studies

A6.1 Benin: the move from decentralisation to territorial development

Context — challenges and opportunities

In the early 1990s, Benin was one of the first countries to respond to the democratic wave that swept across Africa. Decentralisation featured prominently on the agenda. Reflecting the political nature of such reforms, it took almost a decade before an appropriate legal and institutional framework was put in place. The first local elections of 2002 heralded the effective start of the decentralisation process. In 2009, an ambitious policy framework for territorial development and administrative reform was formulated — Politique nationale de décentralisation et de déconcentration (PONADEC). The policy emphasises the need to (i) break with the tradition of centralised, vertical approaches to sector policies; (ii) promote effective forms of participatory local governance; and (iii) use contractual arrangements between the state and local authorities (LAs) to foster local development.

Benin is a young democracy, still confronted with major governance challenges — including corruption — and institutional weaknesses, particularly at the sub-national level[1]. Not surprisingly, the success of the decentralisation process has been mixed. With long-standing support from several donors, particularly the European Union (EU), successive governments have put in place a relatively coherent legal, policy and institutional framework. This includes a national mechanism, the Fonds d'appui au développement des communes (FADeC), which provides financial support to the communes in planning and carrying out investments at the local level.

THE CASE IN A NUTSHELL

Following a long gestation period, implementation of decentralisation started in Benin in 2002–2003. Over time, substantial progress has been made in refining the policy framework, building commune capacity, promoting citizen participation, and providing public goods and services to local populations. In 2009, the government sought to deepen the decentralisation process with a comprehensive territorial development policy. However, implementation has lagged as communes lack autonomy and central structures resist change. The European Union has been supporting decentralisation reform from the outset via the 8th European Development Fund (EDF) through an evolving set of programmes and aid modalities. Under the 11th EDF, the European Union seeks to put decentralisation at the service of genuine territorial development. This will be accomplished through a balanced mix of budget support (to help the central government implement its national policy) and complementary measures (to provide institutional support and facilitate policy experimentation regarding territorial development).

[1] Two sub-national levels exist in Benin: (i) a deconcentrated level consisting of 12 departments grouped under 6 *préfectures* (representing the state at the local level) and (ii) a single level of decentralisation comprising 77 elected communes with three sets of competences (own, shared and delegated).

The broader PONADEC agenda of territorial development as a bottom-up process driven by local actors based on additional resource mobilisation has not made significant advances. This is primarily due to the lack of a shared vision and ownership of the territorial development policy. It has resulted in an intergovernmental system characterised by limited opportunities for dialogue and an unclear division of tasks among the various actors. The mandates of central institutions supporting decentralisation are not oriented to foster territorial development. Other major institutional bottlenecks include the lack of tested contractual arrangements between the state and LAs, weak inter-municipal associations, and a lack of expertise in operationalising a territorial approach to local development. While FADeC has enabled a constant flow of resources to the local level, the limited degree of sectoral deconcentration reduces the effectiveness of the funds allocated. Furthermore, the communes are not yet in a position to mobilise their own resources with a view to stimulating genuine local development from the bottom up.

Despite this sobering track record, windows of opportunity exist to promote territorial development. Additionally, there is a growing political and societal recognition that the territory should be at the centre of efforts to address pervasive poverty and developmental, demographic and urbanisation challenges. This recognition implies a process of empowering the local public sector through a bottom-up process, progressively allowing the various actors (LAs, deconcentrated services, front-line service providers) to assume a catalytic role in local development.

Actions taken

Building on its long-standing engagement in the decentralisation process, the EU has decided to put territorial development at the centre of its response strategy for the 11th European Development Fund (EDF). An amount of EUR 70 million has been reserved for the Programme d'appui au développement territorial (PADT). In order to stimulate locally led, inclusive and sustainable territorial development, three key results will be pursued: (i) effective steering of the territorial administrative reform process and sectoral deconcentration, (ii) empowerment of both communes and citizens for inclusive local governance and (iii) better planning and implementation of territorial development through balanced contractual arrangements between the state and LAs.

Two factors explain the EU policy shift towards territorial development. First, the new PADT is the logical continuation of earlier EU support strategies. Notably, the EU provided critical support to the nascent communes through the Programme d'appui au démarrage des communes (PRODECOM) from 2003–2006 (8th EDF). The EU then moved into more sophisticated support focusing on enhancing the *maîtrise d'ouvrage* of LAs (PACTE, 2007–2011, 9th EDF) and the promotion of local development (PADL, 2012–2016, 10th EDF). Under the 10th EDF, the budget support component became dominant (EUR 45 million as compared to EUR 3.8 million for complementary measures), partly to ensure sufficient funding for FADeC. The currently envisaged PADT embraces the wider goal of territorial development with an adapted set of aid modalities.

Second, the evolution in the EU delegation's support coincided with new thinking at the EU level on the instrumental role of decentralisation, as encapsulated by the 2013 communication on LAs (EC, 2013). This makes Benin an interesting laboratory to test decentralisation at the service of territorial development. It is a perilous move — the action document identifies no fewer than seven risks — but has real potential to produce better governance and development outcomes over time.

Lessons learnt

- **Accompanying domestic change processes through evolving response strategies.** It is difficult to explain the decentralisation process in Benin without looking at the critical role played by the successive EU support programmes. From the outset, the EU has acted as a strategic partner and change agent, tailoring its support to the political dynamics and evolving needs of the reform. PRODECOM was catalytic in laying the foundations for the effective emergence of communes. The EU could then focus on consolidating decentralisation as a state reform process and on improving local development outcomes through FADeC. PADT demonstrates the EU's recognition that the decentralisation process is 'running out of steam' and that a focus on territorial development might give it a new drive and legitimacy.

- **Providing the right incentives to reform.** Both PRODECOM and PACTE primarily focused on bringing decentralisation to life by investing in the new communes. The incentives were therefore geared at building LA capacity, making a project approach appropriate for PRODECOM, while PACTE used a mix of aid modalities with a small budget support component to test out FADeC. When the time was ripe to consolidate the decentralisation process, the incentives shifted to the central government (PADL) with substantial budget support. The aim was to build trust amongst others by equating the fixed and variable tranches and by defining feasible performance indicators. In PADT, the variable tranches gain importance, reflecting a willingness on the part of the EU to progressively disengage (e.g. in the level of contributions to FADeC) while incentivising the government to perform and facilitate mobilisation of their own resources by the communes.

- **Distinguishing between support to policy implementation and to policy experimentation.** In the PADT, a rebalancing can be observed between the parts reserved for budget support and complementary measures. It reflects a recognition that in decentralisation reforms it is crucial to distinguish between (i) support for implementing national policy, primarily through the action of central governments (hence justifying budget support); and (ii) support for experimenting and developing mechanisms, processes and tools to make a territorial approach to local development a practical reality by testing things on the spot (therefore requiring more flexible project support).

- **Involving all relevant actors.** Over time, EU support has embraced a wider set of policy stakeholders. Thus, under the 11th EDF, a direct grant is foreseen to the Beninese Association of LAs to fully participate in the promotion of territorial development. To prepare the association for this task, the CSO-LA Thematic Programme has been mobilised, in a complementary manner, through a partnership with the Association of Francophone Mayors.

A6.2 Brazil and Ecuador: creatively using the support measures of the CSO-LA Thematic Programme for promoting a TALD

Context — challenges and opportunities

The Civil Society Organisation–Local Authority (CSO-LA) Thematic Programme provides financial support to actions led by CSOs and/or LAs through calls for proposals (the most common procedure) and direct awards (primarily to national associations of LAs). By tailoring their calls for proposals, European Union (EU) delegations can encourage the creation of territorial-based coalitions of stakeholders.

Such actions are consistent with the endogenous nature of territorial development. Yet experience suggests that local dynamics are a necessary but not sufficient condition to trigger change. The effectiveness and sustainability of local innovations depend heavily on the existence of an enabling environment at the national level, reflected in the laws and regulations that support and institutionalise promising local experiments. In the absence of meaningful connections between local-level actions and national policies, there is a huge risk that territorial development remains stranded in hyper-localised processes with marginal impact.

That is where the support measures come in as a strategic tool that can be used by EU delegations to promote linkages between projects based on a territorial approach to local development (funded by the EU) and wider processes of institutional change (fostered by key domestic players). In principle, EU delegations can mobilise up to 5 per cent of the allocation for the thematic programme for such purposes. In many partner countries, this adds up to a significant amount of 'free' resources that can be strategically deployed to reinforce CSO/LA actions funded through the budget line. The key challenge is to make EU delegations more aware of the broader potential of the support measures. Examples of innovative EU delegation approaches — such as in Brazil and Ecuador — may provide a source of inspiration.

THE CASE IN A NUTSHELL

One of the three priorities of the Civil Society Organisation–Local Authority Thematic Programme (2014–2020) is to foster territorial approaches to local development. European Union (EU) delegations can promote this by financing concrete actions led by civil society organisations and/or local authorities. They can also take up their own initiatives to foster a territorial approach to local development by making creative use of the accompanying support measures (for up to 5 per cent of the country allocation). In practice, this possibility is not yet optimally exploited. All too often, the reserve is not mobilised or is confined to fairly traditional capacity development support to potential applicants. However, in recent years, several EU delegations have explored non-conventional ways to put these support measures at the service of territorial approaches to local development. They have done so by mobilising a broader range of actors, enhancing the visibility of promising local experiments or ensuring the scaling up of innovative practices to the national level. This case study examines how the EU delegations in Brazil and Ecuador strategically used the support measures to trigger wider institutional change processes.

Actions taken

The EU delegations in Brazil and Ecuador proactively used the support measures to enhance the overall impact of projects funded through the CSO-LA Thematic Programme. They mobilised available funds in the reserve (5 per cent) for a variety of non-conventional purposes, as highlighted below.

- **Connecting local experiences with national platforms for lobbying and advocacy.** In Ecuador, the thematic line funded several projects aimed at improving the management of solid waste through enhanced cooperation between LAs and CSOs. Many useful experiences were gained in the process and positive results achieved. Local stakeholders also came to realise that their own efforts need to be backed by national policies and regulations. To foster this link, the EU delegation used support measures to facilitate the organisation of a National Table for Management of Solid Waste, bringing together various stakeholders (national actors, LAs, CSOs and development partners). The funds involved were small, but the initiative acted as a trigger to foster institutional change. The recommendations of this multi-actor forum integrated lessons learnt at the local level and sought to reach out to relevant national decision-makers — thus ensuring an effective scaling-up and institutionalisation of local innovations. Support measures were also used to organise regional meetings so as to stimulate other municipalities to review their approaches regarding solid waste management. A national award has been established for good environmental practices, with five EU-funded municipalities being among those honoured. The National Table is now a permanent organ, funded by the participants themselves.

- **Building capacity at the local level while supporting national reforms.** The EU delegation in Ecuador also used the thematic line to support provincial governments for improved management of local finances, including multi-annual budgeting, improved tax collection, procurement and accountancy. It identified a sub-national government association (*mancomunidad*) to provide the required capacity services in a flexible manner (as a CSO, the association could operate more freely than if the contract were awarded to a public sector agency). The EU delegation was eager to exploit any opportunity to complement this local-level project work. The opportunity came when the Parliament requested the EU delegation to help the Commission for Decentralisation and Territorial Development Matters draft a new law on land use and property taxes. The EU delegation mobilised funds from the 5 per cent reserve to contract national experts to support the commission. Despite the initial resistance of some members of Congress, the support proved critical in passing on new legislation directly connected to the financing of local development. In a major speech, the president acknowledged the central importance of the law in enhancing local tax collection and regularising property.

- **Sharing EU experiences on local development while enhancing visibility.** In countries that have graduated out of aid, it is not always easy to show the added value of EU cooperation efforts. Conscious of this, the EU delegation in Brazil sought to maximise the visibility of the CSO-LA Thematic Programme. To this end, the support measures proved a most useful strategic tool. Even if the amounts deployed were small, they allowed the EU delegation to link projects funded under the thematic line to broader domestic policy processes. This was the case with the support provided to three local government associations engaged in lobbying/advocacy activities for development-friendly decentralisation reforms. When one of the grant beneficiaries organised its annual conference with all its members and key national actors (including the president), the EU delegation saw a window of opportunity. It mobilised EUR 20 000 through the support measures to help organise this high-level domestic gathering with three major aims in mind: (i) ensuring that LAs could voice specific requests for improved laws and regulations for genuine local development and governance, (ii) sharing experiences on how EU local governments deal with similar challenges and (iii) enhancing the visibility of EU cooperation efforts.

Lessons learnt

Three lessons stand out.

- **Proactive role of the EU delegation.** In both cases, the EU delegation saw its role as being more than the mere funding of projects under the thematic programme. The perspective adopted was to extend, complement and scale up the results achieved by the projects. The EU delegation acted as an agent of change rather than as just a banker.

- **Detecting windows of opportunities.** At the outset, it was not always easy to plan how the support measures would be concretely used. The key was to ensure that 5 per cent was kept aside and that the funds reserved could be activated for opportunities that arose during implementation. No one could have predicted that the EU delegation would receive a request from the Ecuadorian Parliament for technical support on new laws closely connected to the support the EU was providing through the thematic programme. When the demand came, the support measures provided a flexible tool to quickly mobilise funds in a strategic manner to link the projects with broader national reform processes.

- **Territorial development as a multi-actor and multi-level process.** The EU delegations in Brazil and Ecuador understood that territorial development is not confined to local dynamics and projects. Connections with national-level actors are key to ensuring impact and sustainability. The support measures allowed them to make these vital connections.

A6.3 Dominican Republic: strengthening the developmental role of local authorities through multi-actor policy dialogue and a sound monitoring system at the local level

Context — challenges and opportunities

In the Dominican Republic, there is a huge gap between the per capita gross domestic product and selected social indicators. According to official figures, more than one-third of Dominicans still in poverty, with a considerably higher proportion in rural areas. There are consequently frequent calls for a changed economic model to make growth sustainable, more socially equitable and more conducive to the creation of decent jobs. The low level of social expenditure is closely related to the low quality of public social services. In terms of institutional governance, the reform of the civil service at both the central and local levels has been recognised by the government as an important benchmark for a stronger, more professional public administration — and vital in an effective fight against corruption and a bid for improved effectiveness of the state.

The National Development Strategy recognises that civil service reform is also essential in moving towards greater decentralisation of power and resources. In the Dominican Republic, this brings a dual challenge of (i) strengthening the autonomy of local authorities (which are generally small and weak players confronted with highly centralised decision-making and patronage practices) and (ii) enhancing the responsiveness of civil society to monitor public policies at the local level, as anticipated in national plans and regulations. Without an increase in technical, managerial and oversight capacities, greater decentralisation in the Dominican Republic may just increase the room for failure and worsen public service delivery. This circumstance has led the government to formulate a clear sector policy of municipal administrative reform, focused particularly on the Civil Service Law, which establishes the organisational structure, recruitment procedures, working conditions, salary scales, etc. in public institutions at the central and municipal levels.

THE CASE IN A NUTSHELL

The PASCAL Programme (2012–2017) was initially designed as a sector reform contract (EUR 14 million) to support a national policy aimed at reforming municipal administration in the Dominican Republic, particularly with regard to human resource management. The creative way in which the various budget support inputs were used — performance assessment framework (PAF), policy dialogue, capacity development, complementary measures — made it possible to unleash much broader change dynamics. It transformed support for managerial improvements into a domestic dialogue, reviewing inclusively and iteratively the overall performance of municipalities in the wider intergovernmental system. This, in turn, has stimulated a bottom-up state reform process with the potential to empower local authorities as effective and accountable development actors. The European Union delegation has played an effective role in facilitating this multi-actor dialogue.

Actions taken

The Programa de Apoyo a la Sociedad Civil y Autoridades Locales (PASCAL) was initially conceived as a budget support programme related to municipal administrative reform, focusing on the implementation of the Civil Service Law at the local level in 40 pilot municipalities. The main programme partner was the Ministry of Public Administration; the target groups were local authorities and civil society organisations (CSOs).

To foster an effective process of change involving all relevant actors, the choice was made for a strategic mix of programme components. Alongside the budget support component (EUR 14.1 million), a set of complementary measures were designed including: (i) technical assistance (EUR 2 million) to support the Ministry of Public Administration's capacities for steering the reform, (ii) capacity support for the Dominican Federation of Municipalities (EUR 1 million grant), (iii) capacity support to a network of CSOs involved in monitoring the public administration reform and (iv) resources for visibility and communication-related activities (EUR 0.2 million).

Lessons learnt

Evidence suggests that PASCAL has made a positive contribution to the objectives agreed upon with the government. More than that, it has triggered a genuine and endogenous dynamic, laying the foundation for a much broader institutional reform aimed at strengthening the developmental role of local authorities.

Five factors explain this broader impact.

- **Multi-actor dialogue.** From the outset, policy dialogue was embedded in the programme, specifically in domestic policy and dialogue processes involving both supply-side organisations (the Ministry of Public Administration, directorates providing technical backstopping) and the demand side (i.e. a network of CSOs and an association of local authorities, supported through the above-mentioned complementary measures).

- **SISMAP Municipal: catalyst of a radical transformation in the programme's nature and scope.** The policy dialogue is nurtured with empirical evidence provided by SISMAP Municipal, a software tool for monitoring the performance of municipalities (see box). Within the PASCAL framework, the European Union supported the formulation and validation of SISMAP Municipal, in a process involving all stakeholders in municipal reform. This inclusive approach was crucial in creating trust amongst the different stakeholders as well as a shared understanding of the mandate and responsibility of each actor with regard to implementation of the municipal reform. Empirical data provided by SISMAP revealed that many weaknesses at the municipal level have their origin in the wider intergovernmental system or in inadequate central procedures (e.g. regarding procurement). It also helped identify suitable institutional support and capacity-building measures.

PUTTING TOOLS AT THE SERVICE OF INSTITUTIONAL CHANGE PROCESSES

SISMAP was initially conceived by the Ministry of Public Administration as a software tool for monitoring implementation of the Civil Service Law, particularly human resource issues. PASCAL seized the strategic opportunity to turn this tool into an instrument for deeper municipal reform. Using the various components of the sector reform contract in a dynamic and iterative way, it ensured that SISMAP was ultimately owned by stakeholders at various levels. A new set of indicators emerged in the process, seeking to capture the overall performance of local authorities in different areas, including planning and budgeting, efficiency in the use of public resources, procurement, transparency and citizen participation. SISMAP Municipal now provides a ranking of pilot municipality performance in the above-mentioned areas — an innovation that was not planned nor expected at the start of the programme.

- **Incentives.** Findings from SISMAP Municipal allowed the government to strategically use the financial support provided by PASCAL. Part of the resources is channelled to the concerned entities at the national level in charge of providing technical support and capacity building in the relevant areas. Additionally, financial support provided by PASCAL has allowed the Ministry of Public Administration to set up, in collaboration with the Ministry of Finance, a performance grant-based system (EUR 4 million) conceived of as a financial facility to reward well-performing local authorities.

- **EU delegation as broker.** The EU delegation did not merely provide financial support but proactively sought to play (a much-appreciated) role as trusted facilitator to help move forward the domestic policy process. In doing so, the EU delegation has exercised a wide range of attitudes and skills including (i) patience in building relations and establishing trust, (ii) receptiveness to the views of others and the capacity to reach realistic compromises and (iii) transparent management of information.

- **Reaching out to citizens.** PASCAL invested in innovative communication methods to disseminate information on the content and potential impact of reform on the day-to-day lives of citizens. The scores produced by SISMAP Municipal are publicly available. All key sector policy actors have direct access to SISMAP through an institutional code, which allows the uploading of municipal performance sources of verification directly to SISMAP.

A6.4 Ethiopia: widening the democratic space for local authorities in restricted political environments

Context — challenges and opportunities

Reflecting the intrinsic political nature of decentralisation reforms, the alliance of opposition forces that took power from the Ethiopia's communist military government in 1991 opted for the compromise of federalism to accommodate the country's huge ethnic diversity. Under the Ethiopian constitution, each ethnic group is entitled to form its own regional state; the constitution does not specify the role of the lower tiers of elected local authority, i.e. the *woredas* (districts) and *kebeles* (wards). In principle, the regions enjoy substantial political, fiscal and administrative autonomy, including expenditure responsibilities for education, health, water, roads and sanitation.

THE CASE IN A NUTSHELL

Following its long civil war, Ethiopia was constitutionally transformed from a centralised unitary state into a federation. On paper, this post-conflict settlement created a highly decentralised system with nine ethnic-based regional state governments along with districts (*woredas*). In practice, centralism prevails, reflected in the dominance of the ruling party, top-down state administration and limited own revenues at the sub-national level. This system has brought benefits (e.g. stability, economic development) but has also reduced the scope for local democracy, sub-national policy experimentation and downward accountability to citizens. It is possible, however, even within such a restricted political environment, to create space for improved local governance — as demonstrated by the Ethiopia Social Accountability Programme supported by the European Union. The delegation seeks to use the Civil Society Organisation–Local Authority Thematic Programme to scale up the process of social accountability by reaching out to regional governments and bringing the elected local authorities into the process as a direct entry point for citizen engagement.

Conditions in Ethiopia are such that political, administrative and fiscal centralisation remains the norm. In terms of political decentralisation, the ruling party dominates all aspects of public life and has, over time, extended its control to regional and sub-national levels. Because of the lack of competition at the local level, most council members belong to the ruling party, and are therefore loyal to the party leaders rather than to their constituencies. Legal constraints on civil society further hinder the ability to hold local governments accountable. These conditions create a huge gap between citizens and state, including at the local level.

As far as administrative decentralisation is concerned, top-down approaches prevail, reflected in (i) the predominance of deconcentrated units of the central government (at the *woreda* level) in providing services, (ii) central control over expenditures and (iii) upward accountability towards sectoral ministries. This situation is compounded by limited fiscal decentralisation, as regions have only a narrow tax base and largely depend on central government transfers; these tend to be heavily controlled from an expenditure side in terms of earmarks, standards and other administrative restrictions.

This system of centralised federalism has proved to be largely effective in mitigating conflict and fostering national unity. It has provided a means for dealing with ethnic diversity and related aspirations to self-rule. Political stability and the choice of an authoritarian developmental state model have led to impressive economic growth, progress on key Millennium Development Goals and decent public financial management (down to the lower levels). The flip side is that the system does not create much room for genuine local democracy and policy experimentation at the sub-national level. The omnipresence of the central government in areas that formally belong to regional/local authorities means that the latter have very

limited space and capacity to define their own development policies, determine their budgetary allocations and ensure downward accountability.

Even in closed environments there are windows of opportunity to make progress on governance. As a development state, the government has an interest to ensure 'buy-in' from the people for its national policies. While control remains the main preoccupation, there is also an interest in ensuring enhanced service delivery at the local level — amongst others, through adequate mechanisms for citizen participation, transparency and accountability. The recent protest movements on the lack of liberty and inclusive policies that affected several regions put additional pressure on central-level authorities to relax their grip on society and allow for more responsive systems of local governance.

Proposed innovations

From a geopolitical and security perspective, Ethiopia is an important European Union (EU) partner and ally in a complex region. It receives substantial amounts of aid, reflecting both the country's needs and the government's overall good performance in development. Ethiopia's track record on democracy and human rights is a major concern, yet the EU has to reconcile action on this front with its wider interests. In practice, the political environment is highly restrictive and windows of opportunity to promote a governance agenda — including at the local level — have to be carefully explored and put to use.

An interesting example is the Ethiopia Social Accountability Programme (ESAP-2). As part of a wider programme aimed at supporting decentralised service provision, the programme has managed to align the interests of the federal government (better service delivery and extended control over the local level) with the enhancement of local governance through citizen participation and multi-actor dialogue. This process of developing more constructive state-society relations has been facilitated by VNG International — the International Cooperation Agency of the Association of Netherlands Municipalities — and local civil society organisations (CSOs). It has yielded important results in terms of creating dialogue and feedback mechanisms for communities as well as enhancing social accountability, particularly between service providers (i.e. the deconcentrated units) and citizens.

The EU delegation is now considering how best to mainstream concerns with decentralisation and local governance in its focal sectors of health, agriculture/food security and roads/energy, where achieving development outcomes largely depends on an effective intergovernmental system and a functioning local public sector. The EU delegation also seeks to make strategic use of the local authority (LA) component of the CSO-LA Thematic Programme, which has been awarded EUR 5 million (combined 2015–2016 allocation). However, it quickly became clear that the political environment in Ethiopia does not lend itself to an open and competitive call for proposals directly oriented towards enhancing the developmental role of LAs. Instead, the thematic line could better be used for deepening the processes, tools and achievements of ESAP-2, which is due to end in June 2016, in terms of social accountability.

The added value of such support would be threefold:

- extend the mechanisms tested by ESAP-2 to the *woreda* councils in order to work on the critical dimension of downward accountability towards citizens;
- scale up the ESAP experience to the regional state governments as essential governance actors;

- promote better multi-level planning and coordination between regions and *woredas*.

To keep the programme manageable, the idea is to select a limited number of regions with promising dynamics through a restricted call for proposals. The support measures attached to the thematic programme could be used to facilitate dialogue with the national government on this programme concept, to engage with interested regions and to support elaboration of the proposals. The presence and experience gained by VNG International and local CSOs is an additional asset in preparing for and launching the programme.

Lessons learnt

- **Support democratisation from the bottom up.** In closed political systems, it makes little sense to adopt normative approaches to promoting governance. The way forward is to 'go with the grain', to invest in understanding societal dynamics and to exploit windows of opportunity to make progress. This approach has been the key to ESAP's success. The EU delegation's choice to build on this accomplishment through the CSO-LA Thematic Programme follows the same logic. It may help empower regional and local authorities to assume a stronger developmental role while nurturing a broader culture of accountability at the local level.

- **Accept that institutional change takes time.** Ensuring an effective chain of accountability in a centralised federal system like Ethiopia's is inevitably a long-term process. It involves changes in attitudes; opportunities to experiment and learn; and new processes, tools and capacities at various levels. The institutionalisation of the ESAP-2 mechanisms will take several years. In this context, the thematic programme can contribute, together with other EU initiatives in focal sectors, to maintain the momentum created by ESAP-2 and lay the foundations for downward accountability in the long run.

- **Recognise the critical role of knowledge and process facilitation.** Supporting social change in restricted environments depends on local knowledge (e.g. on the different accountability dimensions in decentralised service provision) as well as on the active involvement of process facilitators that can broker workable solutions for all parties involved.

A6.5 Pakistan: empowering communities through accountable local authorities acting as catalysts for local development

Context — challenges and opportunities

Pakistan's political economy is underpinned by a wide variety of factors — including its geographic location, multi-ethnic and religious composition, and formal and informal rules — that has led to an opaque, patrimonial governance system. Shifts in leadership between democratically elected and military governments have weakened public administration both at the federal level and in the provinces. Development policies have been overly biased towards public sector projects and arbitrary incentives impeding competitiveness and sustainable economic growth — which explains the continuing prevalence of high levels of poverty and inequality, particularly in the western border regions.

The pressing development and security challenges affecting the country led the federal government to adopt in May 2014 Vision 2025 as its key policy framework. Major themes include modernisation of infrastructure, mobilisation of indigenous resources, institutional reforms and governance, value addition in productive sectors, export and private sector–led growth and exploitation of social capital. In parallel, the 18th constitutional amendment paved the way for devolution of power, competences and fiscal resources to provinces and lower sub-national levels.

A sense of urgency for reform prevails in the province of Balochistan. This huge, scarcely populated yet richly endowed territory, finds itself in a state of crisis fuelled by nationalist and religious insurgencies, public sector failures, poor socio-economic development[2], climate change, successive calamities, refugee flows and above all a sense of neglect and isolation. In response, provincial authorities are trying to formulate a medium-term development vision and launch a set of governance reforms. Balochistan was the first province to put in place the elected local government structures envisaged by the above-mentioned amendment. The aim is to strengthen community institutions, stimulate citizen participation in public affairs and gradually turn local authorities (LAs) into more responsive and accountable development actors. The Balochistan government has committed itself to define a comprehensive local development policy and to drastically improve

THE CASE IN A NUTSHELL

Pakistan continues to struggle with pervasive development challenges, reflecting a history characterised by political turmoil, poor economic governance and a host of negative externalities. These factors have affected public sector legitimacy and performance, particularly local governance institutions. In recent years, the federal state has elaborated a more ambitious vision for inclusive development. A constitutional amendment pushed for devolution of power to sub-national levels. The poverty-stricken province of Balochistan was the first to move in this direction by creating different tiers of elected local authorities with the aim of stimulating citizen participation and local development. Since 2014, the European Union has worked in the area through a community development programme. Now a successor programme is planned focusing on rural development, community empowerment and support to the provincial government in defining a local development policy. The main implementation challenge will be to avoid relying too much on community dynamics. Rather, the way forward is to foster empowerment of communities through the establishment of a viable system of local governance (with local authorities as prime movers) supported by a coherent local development policy.

[2] Fifty-two per cent of the households in Balochistan are classified as poor, and rural poverty reaches 75 per cent. Of the 20 most poverty-stricken districts in Pakistan, 16 are in Balochistan.

public financial management systems. These are promising development, yet the formulation of these reforms will be an uphill struggle, given existing political economy conditions and capacity constraints.

Actions taken

Rural development is one of focal sectors under the European Union's (EU's) 2014–2020 Multi-annual Indicative Programme. This priority was included to integrate the structurally poor and backward regions into the mainstream national development agenda. The EU began working in Balochistan in 2014, through, amongst other efforts, a Community Development Programme (EUR 7 million). Considering the ineffectiveness of provincial and local authorities in terms of delivering development, the theory of change underlying this programme is to take local communities as an alternative venue. Building on the World Bank model of community-driven development, the idea is to put people's participation and empowerment first through direct engagement with local communities. This is expected to deliver tangible development outcomes while strengthening community organisations.

Initial lessons learnt with this approach (which has also been used in EU programmes in other regions) indicate that community development can have a great impact on strengthening the social cohesion and resilience of community organisations. The focus on achieving local results directly benefiting people is key to mobilising communities. A context-sensitive, flexible, bottom-up approach has the potential to restore trust, broaden participation (especially of women), increase the number of beneficiaries of public services and improve linkages with local government agencies. However, experience also suggests that while programme acceptance by LAs and security forces is critical to making this scheme work, a deeper engagement of local governance institutions is required to ensure sustainability.

Taking inspiration from this, a new EU support effort is in the pipeline, the Balochistan Rural Development and Community Empowerment Programme (EUR 45 million). This new initiative puts community mobilisation at its centre, but also seeks to help LAs/governments to partner with communities and to assist the provincial government with the development of a strategic local development policy framework and improved public financial management.

The catalytic role of local authorities

In a context like Pakistan's and Balochistan's, characterised by policy and institutional failures to provide development and security to citizens, there is much to say for the adoption of a community-driven approach as an alternative pathway to change. However, such an approach can over-emphasise the role of communities in local development at the expense of elected LAs. The latter may be fragile, non-responsive and with poor capacities. Yet experience in many countries clearly shows that sustainable development results cannot be achieved through community-driven initiatives without ensuring political leadership and support from the local public sector. A central tenet of territorial approaches to local development is the critical role played by LAs in facilitating such a process by elaborating local public policies, empowering communities and mobilising additional resources.

Adopting this broader institutional perspective on local development has major implications for the EU programme in Balochistan.

- It will be necessary to work on both the demand and supply sides of the service delivery equation, as recognised in the programme's intervention logic. On the demand side, this implies social mobilisation, capacity building, mechanisms for accountability and civic oversight, as well as a greater voice for the poor. On the supply side, the focus is on empowerment of the newly elected local governments in terms of engagement with citizen institutions, capacity building for effective public administration and accountability.

- LAs will need to be given a more explicit and central role in the local development process as well as in the policy experimentation the programme aims to support in order to help the Balochistan government formulate a local development policy. This would be consistent with recent changes in the constitutional and legal framework regarding LAs and the decision of provincial authorities to devolve power. It would also respond to the urgent need — for both developmental and security/state-building reasons — to put in place legitimate, effective and accountable LAs that are trusted by the citizens. It may indeed prove very difficult to restore confidence if LAs remain largely an empty shell with limited autonomy and resources. The way forward is to invest in a process of community empowerment through local governments, creating incentives for LAs to become development actors. The planned grants to communities (through a call for proposals) should be carefully designed in order to reflect this broader vision of LAs as the prime drivers of local development.

- The focus on empowering communities through the establishment of legitimate and accountable LAs should also inspire formulation of an envisaged strategic policy framework on local development by the Balochistan government. This approach is fully in line with the 2013 EU communication on the developmental role of LAs.

A6.6 Peru: addressing territorial inequalities by regionalising budget support and localising indicator measurement

Context — challenges and opportunities

While Peru displays positive trends in terms of social indicators, the disparity of wealth remains huge between urban and rural sectors and between the major geographic regions of the country, i.e. the coast, Andes and Amazonia. In the latter two areas, the levels of rural poverty exceed 40 per cent, compared to 16 per cent at the national level. In response, the current government, in power since 2011, has put social inclusion at the centre of its political agenda, developing a set of dedicated public policies (notably the 2013 National Strategy for Social Development and Inclusion — ENDIS) and allocating significant resources to this end. Peru has focused on five features of inequality: child nutrition, maternal health, comprehensive development of children, economic inclusion, and protection for the elderly. The Ministry of Development and Social Inclusion was created in 2011 to articulate the efforts made in the various sectors and optimise potential policy impacts.

Since 2007, Peru's national budget has been elaborated and executed with a strong focus on results-based management. ENDIS provides an important window of opportunity in this regard, as it seeks to promote an integrated, multi-sectoral approach to the fight against poverty and inequality, including cross-cutting issues such as gender and culture. Furthermore, the strategy recognises the need to strengthen the overall capacity of the public sector — particularly in public financial management — as well as to decentralise implementation to the regional governments and local authorities.

THE CASE IN A NUTSHELL

Since 2009, the EUROPAN programme has provided sector budget support for the implementation of national strategies promoting social inclusion. Recognising the huge territorial inequalities in Peru and the need to work closely with the country's regions to address them, the Ministry of Economy and Finance and the EU delegation sought to creatively integrate a territorial dimension into the budget support process, while adhering strictly to support guidelines. It was decided to regionalise the budget support and localise the measurement of indicators. This approach made it possible to adapt indicators to diverging territorial realities and to actively engage with regional authorities and other stakeholders to achieve programme objectives in a spirit of mutual accountability. EUROPAN's positive results have led the government to take over on the budget support modality and create its own mechanisms of performance-oriented financial incentives in national budget processes.

Actions taken

EUROPAN (programming cycle 2007–2013) was launched in 2009 as a sector budget support programme, co-existing with two other budget support operations. It was targeted to help the government implement its national policy on social inclusion with a focus on child malnutrition and maternal health. The main purpose was to improve social cohesion in the 54 poorest districts of three regions in the Andes. This territorial approach to addressing inequality was reflected in the localisation of measurement of performance indicators.

To underpin this, the Ministry of Economy and Finance concluded specific contractual arrangements with the three regions to include them as partners in implementation of the national policy. The central government augmented and enhanced the budget support tool

by integrating a local dimension and triggering regional processes to take responsibility for improving services.

The regionalised budget support included complementary measures that focused on strengthening local public expenditure and financial accountability, as well as supporting the involvement of other agencies with a critical role to play in the delivery of social inclusion benefits. These agencies most notably included the Integrated Health Insurance (SIS), which is responsible for registering and monitoring health interventions and is therefore key to improving information flows and accountability requirements linked to the credibility of performance indicators; and the National Registry of Identification and Civil Status (RENIEC) that delivers identity cards for newborns, thus ensuring they are included in national insurance systems and do not become vulnerable. These institutional arrangements triggered by the budget support operation increased the number of identity cards provided to children under three months of age, with coverage rising from 17 per cent to 85 per cent in rural Peru between 2012 and 2014. This indicator has subsequently been applied across the country.

Lessons learnt

The positive results achieved by EUROPAN go beyond traditional development outcomes such as reduction of child malnutrition and enhancement of maternal health. Rather, the budget support operation has produced important institutional and policy outcomes as well, creating a more conducive, level playing field to address territorial inequalities in close partnership with regional and local governments. The incentive mechanism of EU budget support (with a fixed tranche and a performance-related variable tranche) was adopted by the national government to transform the way in which it works with regions to meet shared objectives in a mutually accountable way. To further mainstream and institutionalise this approach, a successor programme (EURO-ENDIS; EUR 40 million) was agreed upon (Indicative Programme Peru, 2014–2017) to support implementation of the national policy on social inclusion in a territorially sensitive way.

Four factors explain this wider impact.

- **Recognition of territorial inequalities.** The Government of Peru has developed solid policies and reserved substantial resources to promote social inclusion. Yet implementation was not based on spatially blind, top-down approaches. Both the Ministry of Economy and Finance and the Ministry of Development and Social Inclusion took the existence of huge territorial inequalities as a starting point in rethinking the institutional set-up and overall approach to ensure results in territories. The EU delegation was able to respond flexibly to this window of opportunity by adapting the budget support instrument for use at a regional level.

- **Localisation of performance indicators.** Territorial logic was also applied at the financial transfer mechanism level. Both budget support and performance measurement were 'regionalised' through specific conventions, aimed at respecting the specific realities and challenges of the territories involved. This approach enhanced the sense of ownership over the process, particularly among local stakeholders, while creating space to ensure mutual accountability for the results achieved.

- **Targeted capacity development efforts.** The adoption of a territorial approach to implementing the national policy triggered a deeper understanding of the capacity development agenda involved in achieving impact. Both results and disbursements depended on

regional performance, not only on that of the central government. Consequently, particular attention was given to building the required institutional systems at the sub-national level, including improved local public financial management. The EU contributed to this through a smart use of complementary measures linked to its budget support.

- **Incentives.** The existence of a financial incentive encouraged the various actors, each with their own agenda and priorities, to work out a coordinated approach to promoting social inclusion in a large country with huge territorial inequalities. The government was eager to pursue results-oriented management of public policies on social inclusion and to find new ways to bring the regions in on service delivery. The EU delegation sought to focus limited resources and ensure tangible results on the ground. Meanwhile, Peru's regions and local authorities looked to respond to the specific demands of their constituencies. The transformation of the EU budget support mechanism to fit national and regional policymaking thus provided a positive incentive for all actors, enabling them to focus on performance, to collaborate and to ensure mutual accountability — all while addressing territorial realities rather than abstract goals formulated at the central level.

A6.7 Tunisia: gradually putting regional and local authorities at the centre of territorial development

Context — challenges and opportunities

Before the 2011 revolution, Tunisia was widely regarded as a model of integration in the global economy with sustained growth levels over time. Yet behind the façade, increasing socio-economic disparities, inequalities and unemployment levels prevailed, creating a huge divide within society, particularly at the intraregional level. Above a certain threshold, this type of gap amounts to a break in the social contract between state and citizen and is a direct threat to both political stability and further growth — as Tunisia experienced in 2011.

Before the Arab Spring, the government had undertaken steps to address territorial imbalances, including through targeted public investments, fiscal transfers and social programmes. Yet these actions were generally conceived and implemented in a highly centralised, top-down manner. They followed a narrow sectoral logic (e.g. a focus on infrastructure) and were promoted through myriad disconnected institutions and financing instruments. Above all, they left limited space for regional and local authorities to be part of the process and gradually build capacity to assume a developmental role. In the absence of meaningful decentralisation, their role was confined to being passive recipients of initiatives coming from above. Not surprisingly, the resulting programmes and public investments in the territories proved largely ineffective. They often did not match real needs and largely failed to optimally mobilise existing resources at the sub-national level (including from the private sector).

THE CASE IN A NUTSHELL

The growing inequalities and lack of opportunities in marginalised territories were key triggers of the 2011 revolution in Tunisia. Political stability, as well as the success of the democratic transition, hinges largely on ensuring greater spatial equity. In recognition of this, Tunisia's 2014 constitution proposes a fundamental break with the highly centralised organisation of the state. It heralds decentralisation as a political project aimed at redistributing power and enabling regional and local authorities to function as autonomous development actors. However, genuine territorial development will require a coherent set of national policies as well as governance reforms that effectively empower regional and local authorities to assume such a role. Since 2011, the European Union has fully incorporated a regional/local dimension in its overall cooperation strategy. Several complementary European Union support programmes now seek to foster both economic activities in the regions and decentralisation reforms promoting locally driven sustainable territorial development. Change will not happen overnight, given existing structural impediments. Gradual, sequenced implementation approaches will be key to ensuring success.

The 2014 constitution creates, in principle, a favourable political environment for a far-reaching, development-friendly decentralisation. Yet the structural impediments to such a change are huge, including a lack of leadership, an inability to reform the administration and the weakness of sub-national levels of government to act as development entrepreneurs. Funding sources for territorial development also remain largely centrally controlled. Considering all these obstacles, the success of the new generation of policies and programmes may first require profound governance reforms that create meaningful space for local-level action. To achieve sustainable results, territorial development needs to go beyond mere localisation of national/sectoral policies and instead be seen as the product of autonomous initiatives by empowered regional and local authorities.

Actions taken

In order to strategically support the transition process, the European Union (EU) deepened its privileged political partnership with Tunisia under the Neighbourhood Policy — a commitment further reflected in growing amounts of funding. From the outset, the EU identified regional and local authorities as key institutional players in addressing Tunisia's manifold challenges. Consequently, territorial development was included as a priority area in the Cadre unique d'appui (2014–2015). In an initial phase of this programme, the EU used its state-building contract with the central government to upgrade the most vulnerable neighbourhoods as well as help local authorities improve their financial situation.

As of the end of 2015, several new EU support programmes have been agreed upon, including (i) a regional Initiative for sustainable economic development (EUR 32 million) focusing on competitive enterprises, employment creation and vocational training; (ii) a programme on local institutional development (EUR 43 million), Cap vers la décentralisation et le développement intégré des territoires (CAP2D; 2016–2019). The aim of CAP2D is to strengthen the capacity of all relevant authorities — at the local, regional and national levels — to elaborate integrated regional strategies in eight pilot regions for incorporation in a national development scheme. The programme intends to focus on the weakest link in the chain — the regional and local institutional architecture and the quality of local governance. This is seen as a precondition for locally led territorial development.

In addition to CAP2D, the EU delegation has concluded its formulation of an integrated local development pilot initiative (EUR 60 million) that will start in 2017. In many ways, both programmes should be seen as two sides of the same coin. CAD2D provides support from above to implement policy and institutional changes linked to government decentralisation reform. The pilot initiative works from the bottom up. Its support will be geared at (i) empowering local authorities to assume leadership in the local development process and (ii) experimenting with innovative approaches to local governance that could be institutionalised over time. Managing the complementarity between the two schemes constitutes a critical success factor of the whole reform process.

Strategy potential and risks

Taking these various initiatives into account, Tunisia could turn out to be a true laboratory for implementing a territorial approach to local development. Yet effectively applying such an approach in Tunisia will be a complex process, requiring time and experimentation as well as proper management of a number of risks, including the following.

- **The articulation of national policymaking on decentralisation and territorial development.** Both sets of national policies are crucial to unleash the potential of territories. Hence, they need to be pursued in an articulated and coherent manner. In practice, such a linkage will not be evident. The government has not yet made public its plans for both policies, and it is unclear how much real debate will be possible on fundamental policy choices. Other risks include the absence of a clear authority in charge of territorial development, the lack of an inter-ministerial framework for coordination as well as fragmented budgetary responsibilities. The EU could play a key role at this critical stage by using political dialogue and CAP2D to help develop these policies in a truly inclusive manner and to create more adequate frameworks for policy coordination and financing. This will take smart use of complementary measures linked to budget support beyond operations and aside from technical assistance. It would also be highly opportune to link the provision

of budget support to a crucial indicator, such as progress achieved in empowering local authorities as agents of territorial development (e.g. measured by the degree of public investment expenditures that can be programmed regionally/locally).

- **A multi-actor approach to capacity development.** Instead of traditional centralised approaches, the task at hand is to shift towards a truly multi-level system of governance, whereby all entities play their legitimate role (in line with the principle of subsidiarity) while contributing to a smooth functioning of the inter-governmental system. The most critical challenge will likely be the gradual empowerment of regional authorities as genuine development actors enjoying sufficient levels of economic and administrative autonomy.

- **Support to place-based territorial policies led by local authorities.** The EU response strategy to territorial development (as reflected in CAP2D and other programmes) focused on putting regions/local authorities in charge of determining their own strategies for inclusive development. In light of this overarching objective, the EU may explore the conditions under which budget support could be provided to facilitate the design and implementation of place-based policies led by local authorities. This option would localise budget support through the promotion of central-local contracts for the planning, financing and implementation of integrated territorial strategies. If smartly conceived, it may help to construct a truly inter-governmental system to co-produce public goods and services, while avoiding the risk of setting up parallel processes through donor schemes.

A6.8 Uganda: using a territorial approach to re-frame a planned integrated development programme

Context — challenges and opportunities

During the 1970s–1980s, Uganda was trapped in a vicious cycle of poor governance, conflict and political instability. With the advent of peace, a far-reaching decentralisation process was launched in the early 1990s. It aimed to restore trust between state and citizens, rebuild public sector capacities and create local governments to respond to pressing development needs. Over time, the constitutional, legal and institutional framework was further refined. Local authorities (LAs) at various levels sought to build their capacity, interact with citizens and deliver public services, supported through a wide range of donor initiatives.

THE CASE IN A NUTSHELL

In the early 1990s, decentralisation was seen as an adequate post-conflict policy response to rebuilding state institutions in Uganda, particularly at the local level. More than two decades later, the reforms have a mixed track record. While the decentralisation framework recognises local authorities as development actors with both a general and specific mandate, several structural impediments limit overall performance — a situation aggravated by recent recentralisation trends. In this context, the European Union plans to provide support for an integrated development programme for Uganda's Northern Province under the 11th European Development Fund. Rather than using traditional, centralised (and often ineffective) approaches to managing integrated schemes, the EU delegation has decided to apply a territorial approach to local development framework in designing the programme. This is expected to create space for genuine place-based strategies driven by local authorities, stimulate capacity development through learning by doing, and test more effective intergovernmental modes of cooperation that could be scaled up and institutionalised over time. This innovative approach will require experimentation, iterative planning, a new style of partnership and much facilitation to succeed.

While decentralisation is a reality in Uganda's public sector landscape, the overall system displays a set of political economy features that make it difficult for LAs to effectively deliver on their general mandate (as development actors) as well as on their specific mandate (as reliable partners of central government). This difficulty has been compounded by central government attempts to recentralise power — including through (i) the abolition of a core tax for LAs, which reduced their own sources of revenues while increasing their dependency on conditional grants by up to 90 per cent; and (ii) reinforcing national control over district planning processes, turning the district development plan into a tool for localizing sector priorities determined at the national level. The result has been that LAs do not have sufficient space and autonomy to pursue their general mandate and act as a catalyst for local development.

There are windows of opportunity in the Ugandan context that may foster change. The deepening of territorial inequalities, with related risks of conflict and instability, may create incentives for central policymakers to test new ways to tap the development potential of LAs. Adding to this incentive is the poor track record of vertical attempts to implement sector policies. Further, there is a critical mass of local institutions — including the Uganda Local Government Association — donor agencies and support organisations which seek to overcome the policy and institutional constraints imposed on LA performance by the current decentralisation system.

Actions taken

Through its development initiative for Northern Uganda targeting nutrition and food security, transport infrastructure and local governance (EUR 150 million) planned under the 11th European Development Fund (EDF), the European Union can promote LAs' developmental role. Acknowledging the limited success of top-down, sector-driven approaches to integrated development, the EU delegation opted to design the new support programme using a territorial approach to local development. Instead of seeing LAs as passive recipients and mere implementing agencies of sectoral policies, the delegation seeks to empower LAs so they can participate in the process as development actors in their own right. This decision is based on two assumptions: (i) that the programme depends on a well-functioning multi-level delivery system to achieve results; and (ii) that empowered districts can contribute to national efforts either by implementing their own district development plans, based on local priorities and territory resources, or by fulfilling the specific functions devolved or delegated by sector ministries.

Critical conditions for effective implementation

The adoption of a territorial approach to local development implies three major changes:

- a move away from sector-oriented support towards an integrated territorial approach, which relies on place-based strategies;
- a strong focus on building multi-actor partnerships so as to ensure optimal synergies between all relevant players at the various levels;
- the decision to put LAs in the driver's seat as facilitators while using the programme to develop the requisite local government systems and capacities.

This approach is reflected in the three components of the EU support programme.

- The development of value chains will be central in the first component of the programme, which deals with nutrition and food security. Incentives will be provided to private operators to work with small-scale farmers. Support to agriculture will be complemented by a set of nutrition-specific interventions implemented at the community level.
- The transport infrastructure component aims to create opportunities for farmers to access regional, national and international markets while facilitating the import of agricultural inputs and consumer goods.
- The third component focuses on local governance with a view to empowering LAs to act as facilitators of territorial development.

This third component is crucial. The purpose is to put in place the required software to provide effective delivery and sustainability to the actions undertaken through the other two components. To this end, the programme will test, develop and (where possible) institutionalise innovative local systems and processes. These include horizontal partnerships — between LAs, civil society organisations, community-based organisations and the local private sector — as well as vertical partnerships — e.g. between central state agencies and LAs — to improve co-production of public services. The programme will provide direct funding to districts in order to enable them to undertake a genuine process of learning by doing and capacity development. A mechanism for policy and institutional innovation will be

established, including the identification of qualified process facilitators. A key challenge will be to document experiences gained as well as emerging good practices. This local evidence can then be used to feed into a national-level, multi-actor policy dialogue — involving the relevant ministries, the Uganda Local Government Association, district councillors and staff, other potential service providers from the private and non-profit sectors and representatives from user communities — on the changes needed to transform LAs into effective development actors.

To ensure that LAs are in control from the outset, the implementation strategy should be refined through a set of additional assessments.

- During programme formulation, the European Union applied the Integrated Decentralisation Development Framework (IDDF), a tool created by the Directorate-General for International Cooperation and Development, to better understand the factors affecting LA performance in a given context. This initial assessment will be refined through a political economy analysis with a view to identifying the scope for feasible reforms in the current decentralisation set-up benefiting LAs.

- The analysis will also look at the institutional arrangements for coordinating the various components of the programme by assessing how the current systems works, what interfaces are used with the local level, etc.

- It is important to assess the readiness of the relevant LAs to facilitate an integrated territorial approach, the willingness of the relevant economic sector ministries to work through a consolidated territorial framework at the district level, and the positive effect adoption of a territorial approach to local development might have on eliminating sector silos.

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