**3. HOW TO SET-UP PROJECTS IN SUPPORT OF LOCAL DEVELOPMENT AND DECENTRALISATION?**

This guidance started with recognizing the positive development dynamics that can be observed at local level in many partner countries. These are partly fuelled by local authorities, created by the new decentralisation wave that swept across the world from the mid-1980s onwards. This document then sought to explore the role of donor agencies in the highly political arenas of local development and decentralisation (Chapter 1). The need was stressed for EU Delegations to acquire a sound understanding of the political economy of local development and decentralization reforms in a given context and to provide clarity on the different types of outcomes it seeks to achieve. The choice of the most suitable (mix of) aid modalities should not be seen as a purely technical matter, to be led by the professed belief in programme-based approaches.. In particular contexts, characterised by weak policies and limited elite commitment to reform, projects could also be a relevant option, possibly in combination with budget support. They provide opportunities to test out workable decentralisation arrangements from below’. The lessons learnt could subsequently be used to promote the elaboration of more credible national policy frameworks. Chapter 2 focused on a selected number of ***projects” that have been successful in local system experimentation and scaling-up.*** Their “DNA” was carefully examined in order draw lessons that could inspire EU practitioners confronted with similar challenges.

Based on this, the present chapter seeks to propose a practical tool to support EU practitioners dealing with the concrete implementation challenges and dilemmas during the cycle of operations when using project approaches in support of local development and decentralization.

***This chapter: 12 critical questions for EUDs considering support through projects***

The remainder of this document seeks to provide further operational guidance on how to concretely use project approaches in support of local development and decentralisation. In order to respond as much as possible to the real challenges encountered by EUDs when setting up new interventions, the chapter is structured as follows:

* The starting point is the cycle of operations, with its different phases (programming, identification, formulation, implementation and M&E).
* The focus is on 12 practical questions that EU practitioners will have to face as they move along the cycle.
* These questions are closely interlinked and to some extent sequenced. For instance, the first three questions address the broader strategic issues that EUDs first have to address *before* they opt for suitable aid modalities.
* Concrete operational tips are provided for addressing these various questions.

Visual 7 below offers an overview of the ***12 strategic and operational questions*** (covering the various phases of the cycle) that form the basis of this guidance.

**Programming**

1. **What opportunities does your (new) country strategy provide?**

**Identification**

1. **What are promising “entry points” for EC support?**
2. **What outcomes do you seek to achieve?**
3. **What (mix) of aid modalities are suitable?**
4. **How to ensure direct funding to local authorities?**
5. **How to involve all relevant stakeholders?**

**Formulation**

1. **How to support the demand side for local governance?**
2. **How to ensure relevant capacity development?**
3. **How to organise an effective policy dialogue?**
4. **How to scale-up local experimentation?**

**Implementation**

1. **How to facilitate implementation?**

**Monitoring and Evaluation**

1. **How to monitor, evaluate and learn from projects?**

***Engaging with the local level: a matter of interest for different EU practitioners***

The new policy orientations regarding, local development, local authorities and decentralisation are not only targeted at the ‘usual suspects’, i.e. EU staff *directly* involved in decentralisation or local governance processes. Other categories of EU staff and related technical advisors may have an interest in these matters in order to enhance the relevance and impact of their interventions:

* *EU staff involved in budget support operations* (in the areas of health, agriculture, environment, etc.). They stand to gain from listening more to local needs, extending collaboration with the local public sector, checking how the funds trickle down (or not) to the local level, etc.
* *Staff involved in state building and democratisation processes in fragile states.* This type of work often requires starting at the local level in terms of restoring trust, fostering social capital, addressing urgent needs and rebuilding core functions of governments.
* *Focal points involved in the management of thematic instruments*. This holds particularly true for the budget line targeted at CSOs and Local Authorities. Till now, this instrument has been targeting these two groups of actors –both active at local level- in a rather separate manner. Recent EU Communications on civil society and local authorities, call for a different approach. Future projects under this thematic instrument could be used as a ‘laboratory’ to foster more constructive partnerships between the two sets of actors, based on their respective roles and comparative advantages. It could facilitate the empowerment of both local authorities (as catalysts of development) and civil society organisations (as governance actors, demanding better services and accountability from the local public sector).

**3.1. Programming**

The programming process is the main instrument used by the EU to decide on strategic cooperation priorities with a given country or region. During this process, EU Delegations need to translate overarching EU policies and principles (such as the Agenda for Change) into concrete programme choices while ensuring alignment with the national and sectoral plans of the partner country.

A new programming cycle of EU cooperation, based on a revised and simplified format, started in 2012. It takes place in the context of the EU’s Multiannual Financial Framework (MFF) for the period 2014-2020. It covers both the programming of the 11th European Development Fund (EDF) for the ACP countries and the Development Cooperation Instrument (DCI) for Asia, the Middle East and Latin America. In the new procedure, the ‘Multiannual Indicative Programme’ (MIP) is the central programming document. It defines the strategic objectives of the EU’s relationship with the partner country/region and the sectors identified for EU assistance.

The programming process also offers an ***opportunity*** for EUDs to consider ***“where the local level fits” into the overall EU cooperation strategy***. In practice, this implies addressing issues such as: How important is the ‘local dimension’ to achieve the grand objectives of the Agenda for Change (i.e. human rights, democracy, governance as well as inclusive and sustainable growth)? What role should the ‘local public sector’ play to ensure results, particularly in the sectors of concentration? Is there a need to ‘empower’ local authorities with a view to unlock the development potential at local level? Should the EU seek to influence ‘upstream’ decentralisation reforms to help creating a more enabling local environment for development?

The more detailed operational guidance provided in this chapter, starts at this critical juncture in the programming process. Hence the first question (out of the 12 to be covered) invites EUDs to focus on the wider picture and on the possible connections between grand policy objectives and local level dynamics.

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| **QUESTION 1**  **What opportunities does your (new) COUNTRY PROGRAMME provide to**  **integrate the local level, engage with local authorities and/or support decentralisation?** |

***Why is it important and what does it entail?***

There will undoubtedly be (a rather limited number of) future country programmes that explicitly opt for ‘local development’ and/or ‘decentralisation’ as focal sector. In those cases, the EUDs involved can directly embrace the key policy areas that concern this guidance. Yet in most cases, things will not be so clear. One will rather be confronted with country programmes that focus primarily on traditional development sectors or on the new thematic priorities of the Agenda for Change (e.g. employment, energy, climate change). Governance is also likely to remain a popular sector of concentration. Yet as this is a huge and ever expanding agenda, country programmes are likely to focus on a limited set of governance dimensions. Decentralisation may therefore not be formally retained as a priority concern under this heading.

The ***absence of explicit references*** to words like ***‘local development’ or ‘decentralisation’ should not condemn EUDs to inaction at local level*** or restrict their support to the mere use of thematic instruments. Indeed, a more profound reading of the country programme, using a local lens, may reveal several windows of opportunities within the geographic instruments. It could help to uncover the often *hidden presence* of important local/decentralisation agendas in the various sectors of concentration. These may need to be addressed (directly or indirectly) by EUDs in order to achieve expected results.

How to carry out such a ‘local reading’ of the country programme? ***Table 3*** below provides some guidance.

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| E**xamples of possible sectors of concentration**  **(without explicit mention to local development or decentralisation)** | **‘Hidden’ local or decentralisation dimensions**  **(that may need to tackled by EUD to get results)** |
| 1) Social sectors (health, education, water and sanitation) | * Need for consistency between sector support and ongoing decentralisation reforms * Local inputs may improve design national policies * The local public sector is mainly in charge of implementation * Accountability towards citizens is difficult if local authorities lack autonomy * Need to monitor whether the budget support funds reach the local level * The sector budget support policy dialogue needs local evidence to be meaningful |
| 2) Rural development, agriculture, food security | * Their ‘general mandate’ gives local authorities a key role in local economic development * Local authorities have ‘convening power’ to bring together the various actors and stakeholders (e.g. in value chains) * Need to integrate the ‘territorial approach’ to development (e.g. link with local/regional markets) * Tackling food security requires proximity and active collaboration local authorities |
| 3) Productive investments, private sector development and employment creation | * Their ‘general mandate’ gives local authorities a key role in local economic development * Local authorities have ‘convening power’ to bring together the various actors (e.g. facilitation public-private partnerships) * Need to integrate the ‘territorial approach’ to private sector development * Local authorities are well-placed to map the economic/employment opportunities * Decentralisation reforms can promote spatial equity through investment and fiscal measures |
| 4) Energy | * Lack of access to energy sources mainly affect rural people * Huge impact of poor access to energy for local human development and wealth creation * Strong links between poor energy infrastructure at local level and food insecurity/migration to urban centres * Their ‘general mandate’ gives local authorities a key role in planning relevant energy projects |
| 5) Governance, justice sector reform and rule of law | * Rural, marginalised and poor people in local communities tend to be (even) less protected against governance/justice failures * Need to base governance systems on solid local foundations * In problematic governance environments, the   local level may provide more windows of opportunities (e.g. proximity, direct state-society relations, alert citizens and greater pressures on local governments)   * Need to balance the ‘supply-side’ of governance with the ‘demand side’. * Local authorities will not gain credibility and legitimacy if they do not abide to the rule of law and fail to have a qualitative dialogue with local constituencies * Current decentralisation reforms systematically include a dimension of ‘local governance’. Yet for this agenda to move forward, central governments need to create an enabling environment at local level, including sufficient levels of autonomy for local authorities. |

These are just a few examples of possible sectors of concentration in future country programmes. At first sight, it is difficult to relate the various sectors to stated EU policy objectives in the area of local development and decentralisation. On second analysis, it appears that the ***majority of these sectors are quite dependent on local level dynamics to move forward and to translate EU aid into actual results*** on the ground. Hence, it might be interesting for EUDs to carry out this ‘local’ proof reading of their country programme as the first step to plan a strategic engagement with local level dynamics and actors. When opportunities are detected to enhance the relevance and impact of envisaged EU support in priority areas by adding a “local dimension”, EU staff could then analyse how best to ensure the integration of local actors in the process (either through the geographic or thematic programmes). They could also consider how progress in fiscal decentralisation may help to bring the required level of resources into the local public sector with a view to ensuring better development outcomes.

**3.2. Identification**

The purpose of this second phase of the cycle is to further concretise the broad political orientations of the country programmes (MIPs). This process should generate the information needed to answer the main questions raised in the EC ‘identification fiche’.

For EUDs interesting to better integrate the local development and decentralisation agendas in their future interventions, the identification phase raises a number of critical issues, including:

* What are the most promising entry points for EC support?
* What different types of outcomes are sought?
* What (mix of) aid modalities are suitable to achieve intended outcomes?
* How to ensure direct funding to local authorities –as a precondition for their empowerment?
* How to involve all relevant actors and stakeholders in the EU-supported intervention?

Below each of these questions, linked to the identification phase, will be considered in more detail.

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| **QUESTION 2**  **What are the most promising “entry points” for EC support?** |

***Why is it important and what does it entail?***

Once EUDs have analysed *all* the various windows of opportunities in their country programme to address local development and decentralisation issues (see step 1 above), the next logical step is to address the question: “in the given country context, what is the best entry door to push forward these agendas”? Building on EC policy documents, there are basically ***three possible entry points*** EUDs could consider:

1. Supporting national decentralisation reforms pushed forward by central governments (i.e. the top-down approach).
2. Engaging strategically with local authorities to ensure better development and governance outcomes (i.e. the bottom-up approach)
3. Addressing local development and decentralisation issues indirectly through sector programmes (i.e. focusing on sector support while in a decentralising context).

In practice, there is ***no watertight demarcation line*** between these three possible entry doors. EU country programmes that choose to support national decentralisation reforms as a focal sector (entry point 1) will have to engage with local authorities and may also seek to translate this commitment consistently into their sector operations. EUDs that prefer to stay out of direct support to decentralisation but are interested in the empowerment of local authorities (entry point 2) will inevitably be confronted with broader systemic issues, linked to state reform and fiscal decentralisation (as determining factors of local autonomy). EUDs that limit themselves to factor in the “decentralisation dimension’ in their sector (budget) operations (entry point 3) will also have to somehow deal with the national decentralisation policy and the structural problems faced by local authorities to deliver services or provide accountability to their local constituencies.

***How can it be done?***

As argued above (Chapter 1) such strategic choices should not be seen as a purely technical matter nor depend on the mere existence of formal commitments to reform, expressed by central governments. The challenge is rather to recognise the inherently political nature of local development and decentralisation processes. This means accepting that in the real world, local development and decentralisation outcomes are not determined by lofty development objectives but by power considerations.

Hence, it is critically important for EUDs to better understand the political dynamics underpinning ***local development and decentralisation processes*** in a given country. This means replacing benevolent government assumptions (i.e. the existence of a “political will to reform”) by a much more down-to-earth analysis of power relations, interests and incentives to change that drive the various categories of actors. It also implies accepting that progress (at local level or in decentralisation reforms) will ultimately depend on the ‘bargaining power’ of the various interest groups involved at different levels. Without pretending to be exhaustive, ***Table 3*** provides some tips to carry out a basic political analysis of local development and decentralisation dynamics prior to formulating an intervention.

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| **What does it mean to look at the political dimensions of decentralisation reforms?** | **Specific questions to be addressed** |
| 1) The initial context and motivations of decentralization reforms *(i.e. understanding initial conditions under which decentralisation arose is a useful starting point for understanding the reasons for pursuing it, their likely implications for the shape and pace of reform as well as the likely durability of resulting policies)* | *Three basic scenario’s can prevail:*   1. Does the central government primarily promote local development and decentralisation to better control the territory, local dynamics, resources and voters? 2. Does the central government promote local development and decentralisation with the motivation to keep strong central control while granting some levels of autonomy to local authorities? 3. Does the central government promote local development and decentralisation with a well-articulated vision aimed at providing autonomy to local authorities in order to achieve better development and governance outcomes?   *!!! The quality of the legal and policy framework for the implementation is a good indicator of the government’s commitment to the reform !!!* |
| 2) The key actors involved in the process (at both national and local levels) and the incentives that condition their behaviour with respect to reform design and implementation *(i.e. politicians, bureaucrats, citizens and their evolving interests and incentives to engage in the reform)* | * Is there a thorough mapping of the key actors and stakeholders involved, including their motivations and incentives to push for change? * If not, has the EU sufficient knowledge of the actual “drivers of change” in a given country context? * What is the legitimacy and operating capacity of national associations of local authorities? * Who could be considered as the “champions of change” at national level for promoting these agendas? |
| 3) The current stage of reform and its trajectory, including the sequencing of political, administrative and fiscal decentralisation *(i.e. how has reform unfolded since the initial decision to decentralize, with a particular focus on new political struggles that can arise and changing incentives of politicians and bureaucrats)* | * Quality of the overall legal decentralization framework? Is it relatively complete? Are the laws followed by the necessary implementation decrees? * Level of knowledge of the legal framework by the various actors? Degree of application? * What sequence was followed in the 3 types of decentralisation (political, administrative, fiscal) * To what extent can the decentralization process be considered as “frozen”? * Where is the current traction and action coming from in terms of deepening decentralization? |
| 4) The degree of local autonomy enjoyed by local authorities *(i.e. the capacity of local authorities to be a catalyst of development and wealth creation depends on the existence of sufficient levels of local political and fiscal autonomy)* | * Recognition of dual mandate of local authorities as political representative of the community and as facilitator of state action at local level? * Degree of local policymaking space and capacity? * Level of resources available to local authorities and degree of discretionary use? * Capacity to mobilize additional local resources? * Degree of capture by local elites and corruption? * Existence and quality of national policies aimed at creating a conducive environment at local level? |
| 5) The existence of an organized citizen demand for better local governance and service delivery *(i.e. the quality of local governance is related to the way local authorities interact with other public institutions, citizens and the private sector)* | * Do citizens take an interest in local public affairs? * Is citizen interest adequately organized? * Can coalitions of citizens undertake collective action? * Existence of effective and non-instrumentalized mechanisms for local dialogue? * Do citizens have access to information about central and local state commitments (i.e. transparency)? * Do mechanisms exist to sanction poor performance? * Existence of a societal debate on decentralisation (including in Parliament, political parties, media)? |
| 6) The motivations, incentives and approaches of key external development partners | * Number and importance of donors involved? * Existence and quality of political economy analysis? * Is there a critical reflection on suitable aid modalities? * Overall coherence of donor response strategies, including coordination and complementarity * Quality of the policy dialogue on local development and decentralisation? Degree of inclusiveness? * Quality of relations between donors and local authorities/national associations? |

This type of analysis is ***not a theoretical exercise***. It should help EUDs to ***understand the political arena*** in which decentralisation reforms unfold in the partner country, including:

* The bargaining processes that take place between actors on the shape and pace of the reforms.
* The underlying configuration of powers and interests underlying the relations between these actors.
* The specific position and relative strength of local authorities in this arena.
* The likelihood of seeing positive changes (such as enhanced local autonomy or a more development-friendly decentralisation reforms) coming out of these bargaining processes.

One tool that may help EUDs to dig even deeper into this political arena is to assess the balance of power between the coalitions ‘pro-reform’ and ‘anti-reforms” at national and local level. ***Visual 8*** does this for a fictitious partner country by making a power analysis of such coalitions at a certain moment in time[[1]](#footnote-1).

According to the type of coalitions that are in place (combining partisan and territorial interests) the decentralization agenda may differ substantially:

* If national level or ruling coalitions are most powerful in the bargaining process, the decentralization agenda is likely to be limited to administrative decentralisation. This is consistent with the territorial interests at stake in these two types of coalitions (i.e. to keep control over resources at national level).
* If a subnational coalition, an opposition coalition or mixed coalitions are in place (with territorial interests at subnational level) they will pursue a more ambitious agenda of political and fiscal decentralisation.

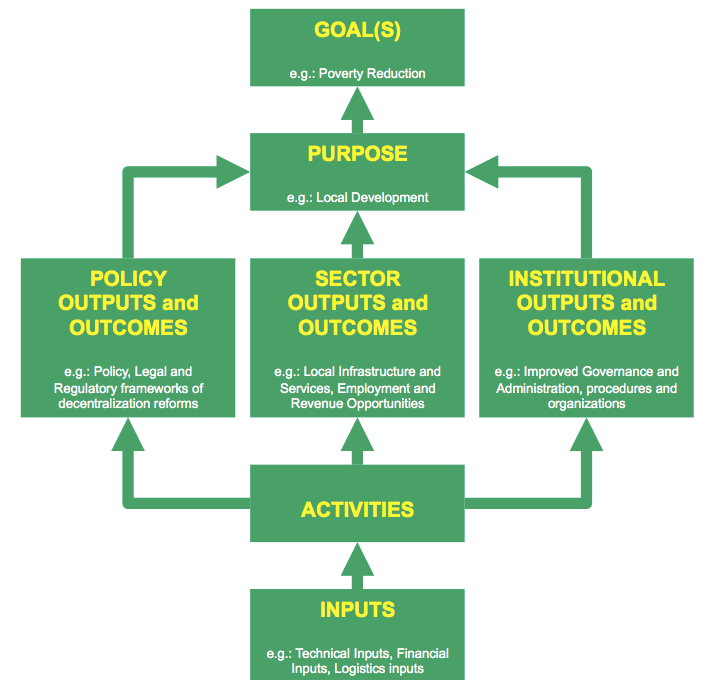
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| **QUESTION 3**  **What outcomes does the EU seek to achieve?** |

***Why is it important and what does it entail?***

This is a third strategic question to be addressed by EUDs *before* deciding on suitable aid modalities. After determining where the ‘local level’ fits into the overall EU country programme (step 1) and looking carefully at the political economy of the ongoing reforms (step 2), it is time to clarify the type of ‘outcomes’ the EU interventions ultimately seek to achieve at local level. Is the EU only concerned by ensuring an effective delivery of ‘development outcomes’ (e.g. physical infrastructure, services)? Or does the EU also as a ‘transformative agenda’ in mind, aimed at wider, structural changes in the development of local capacities, empowerment of the local public sector, influencing national norms and policies?

***How can it be done?***

Providing clarity on the types and levels of expected outputs/outcomes is crucial to define the levels of ambitions pursued by the EUDs in a given country context as well as to choose the most suitable (mix of) aid modalities. ***Visual 9*** may help to distinguish different types/levels of outputs and outcomes[[2]](#footnote-2).



What does all this mean in practice? It visualizes well the different options available to EUDs. The overall ‘goal’ of the intervention (poverty reduction) and the specific purpose (local development) are generally no matter of controversy and therefore quickly agreed upon. Yet how to get there? That is where things start to be more complicated and clear strategic choices have to be made. Levels of ambitions (transformative or not?) can vary substantially and this, in turn, should also affect the roadmap for implementation. With regard to expected outputs/outcomes, ***three scenarios*** seem to be available for EUDs willing to invest more in the local development/decentralization:

* A first option is to focus primarily on ***‘sector outputs and outcomes’*** (the middle column of the visual). In that case, EU supported interventions will manly seek to achieve concrete development results through actual investments in a broad range of local infrastructure and services improving the basic conditions for growth of the local economy as well as the coverage and quality of administrative and social services available to local communities, improved local environmental management, etc. In this logic, inputs and activities will be oriented towards this type of ‘development’ results.
* A second option is to combine a concern with delivering traditional development results with a clear ambition to also promote ‘***institutional outputs and outcomes’*** at local level (the right column of the visual). Institutional outputsrefer to changes in organizations and procedures to be introduced at both sub-national and national level. This is a more ambitious approach that embraces a transformative agenda. This type of EU-supported interventions will seek to (i) promote a transparent and effective management of local public expenditure (e.g. strategic planning, budgeting, procurement, accounting, etc.); (ii) strengthen participatory mechanisms (e.g. for local political representation and consultation); (iii) improve institutions for local service delivery (e.g. by introducing appropriate production arrangements) and (iv) involve central state institutions to provide technical support and oversight (c.f. legality controls).
* A third option is to go a step further by adding to these two categories of results a concern with achieving with ***‘policy outputs and outcomes’.*** This type of EU-supported interventions would also have the ambition to influence the overall policy decentralization framework. In practice, this means the elaboration of (i) new legislation (e.g. a local government act) to define the architecture of the sub-national governance and public administration system and the accountability relations across it; (ii) sectorial decentralization policies as well as legal and regulatory instruments to reassign (devolve, de-concentrate or delegate) functions across the sub-national system; (iii) Fiscal decentralization policies and laws to reassign fiscal powers, develop transfers systems and regulate sub-national finances; or (iv) Sub-national personnel policies and laws, to assign and regulate the development of the human resources of local authorities and administrations.

As mentioned above (chapter 1, par. 1.1.) donor agencies have often supported interventions at local level that were confined to the delivery of development outputs. These programmes generally lacked a political and institutional vision on the special role of local authorities or on the necessary link with broader state reforms. This also explains why the funding channelled for local service delivery or infrastructural works was often channelled through civil society organisations or managed by ‘project implementation units’. Linkages with local authorities were at best tenuous or unclear.

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| **QUESTION 4**  **What (mix) of aid modalities are suitable for achieving the intended outcomes?** |

***Why is it important and what does it entail?***

EUDs can now consider the issue of the appropriate aid modalities to intervene in the local development/decentralisation arena on a well-informed basis, using two essential parameters: (i) The politics of the reform process in a given country context (ii) The various types of outcomes that the EU wants to achieve with its intervention..

***VISUAL 10: Choosing suitable aid modalities in support of local development and decentralisation***

***Three possible scenarios***

SCENARIO 2

Moderately conducive environment

Timid government commitment to local autonomy

SCENARIO 1

Globally conducive environment (good legal framework)

Government commitment to local autonomy

Aim: EU support to macro/sector policies (top-down)

Expected Outcomes:

1. Policy and legal
2. Institutional
3. Sector development

Aim: Deepening the reform (top-down and bottom-up)

Expected Outcomes:

1. Policy and legal
2. Institutional
3. Sector development

SCENARIO 3

Non-conducive environment (poor, incomplete or unknown legal framework)

Very limited prepradness to grant local autonomy

Aim: Building credible decentralization system from below

Expected Outcomes:

1. Policy and legal
2. Institutional
3. Sector development

The visual above illustrates what type of process (in different steps) might help EUDs to make a strategic and pragmatic choice of suitable aid modalities, aligned to the specific conditions in a given country.

Four additional points of clarification may be useful at this stage:

* In the first scenario, there is trust in government commitment and the national policy frameworks. This explains the choice for programme-based approaches. This type of aid primarily focuses on outcomes of a structured nature, i.e. improved polices and institutions (levels 1 and 2 of the expected outcomes). Though there is also a concern to achieve sector development outcomes (level 3) this is often a more complicated thing to do and assess considering the focus of budget support on central level dynamics. Experience shows that there is a recurrent danger of a ***“missing middle” in sector budget support*** to service delivery. At national level, the central government and donors tend to spend a lot of time and energy discussing policies, funding issues and inputs. Much less attention is given to the next stage of the service delivery chain, i.e. the local processes and systems that are needed to translate funding into the actual delivery of quality services. This part of the chain remains often a black box (hence the notion of ‘missing middle’). Yet if at the end of the day results need to be achieved on the ground, this critical part of the process needs to be better managed.
* In the other two scenarios that trust in government commitment and in the solidity of the legal framework is less evident or largely absent. In such cases, the provision of budget support is more delicate as, by nature, this type of aid tends to strengthen the position of central players in the domestic bargaining process and may end up further weakening the local perspective. It illustrates that ***aid modalities are not neutral***. If the purpose of the EUDs is to empower local authorities, a mix of aid modalities or a bottom-up approach may be more suitable in such country conditions.
* In the third scenario, there are strong indications that the decentralization process in the country is actually “frozen”, i.e. lacking elite commitment, a real societal demand and drivers of change. Typically, in such conditions, the legal framework is weak and not applied, amongst others because most stakeholders are not aware of the prevailing norms. That is where smart projects can really add value as they seek “to ***give life” to rather virtual policy and legal frameworks by applying them on the ground, in an experimental way***, with the various stakeholders, thus contributing to their gradual socialization.
* In the third scenario, it can be noted that ***projects equally seek to achieve the three levels of outcomes*** (i.e. policy, institutional, sector development). They will choose another route (from below) but ultimately also have the ambition to influence structural aspects. The explicit linkage of decentralization “experiments” to the development of a credible national policy and the related choice to design such programmes for mainstreaming innovations within an improved institutional system of intergovernmental relations (political, fiscal and administrative) distinguishes smart project from classical, small-scale donor-funded local projects (e.g. the former EU micro-projects scheme).

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| **QUESTION 5**  **How to ensure direct funding to local authorities?** |

***Why is it important and what does it entail?***

Building on all what precedes, EUDs now have to look carefully at the flow of funding in their planned intervention. If the EUD has opted for a ‘project approach’ it is because it wants to shift the centre of gravity to the local level and empower local authorities in order to unlock their development potential. As mentioned before, budget support modalities may have limits in this sense, as experience suggests that funds injected in the Treasury may not trickle down. In other cases, the procedures by which local authorities can access these funds may be to cumbersome or restrictive in terms of granting discretionary powers to local authorities to pursue their general mandate. The May 2013 Communication on empowering local authorities recognizes this challenge. It also explicitly mentions the need to “*Support systems to monitor the extent to which funding is effectively transferred to local authorities, thus contributing to improving intergovernmental fiscal transfers and enhancing local autonomy* “.

Both the literature and the projects reviewed above are unequivocal about this: if the funds are not injected into the municipal budget, local authorities will not be in the driving seat and the expected benefits of local experimentation and scaling-up may not materialize. The May 2013 Communication also acknowledges this by calling upon the EUDs to *“explore the use of innovative funding modalities, facilitating flexible, transparent and cost-effective access to resources at local level including performance-based grants for service delivery”.*

To further stress this crucial point, a quick reminder of ***why*** the existence of ***such financial resources***, directly accessible to local authorities, is needed.

***Four main reasons*** can be advanced:

* *Funding as a means to build capacity*. The task at hand for EUDs is to reverse the classical approach (i.e. funding will be transferred when capacities exist) and do exactly the opposite (i.e. to consider direct funding as a prerequisite for real ***capacity development through learning on the job***). By providing resources to local authorities, they can go through a difficult learning process on what it entails to deliver services, generate own revenues, improve transparency in procurement, etc. On day-to-day basis, they will be confronted with a myriad of practical problems. Yet in the process of addressing these bottlenecks -within the framework of the existing national system and laws- learning takes place, step-by-step.
* *Pilot mechanism to enable the experimentation of innovative systems for local development management.* The purpose is not simply to financially support local authorities. The project should be designed in such way that this financial facility serves as a ‘pilot mechanism’ to test out various decentralised institutional arrangements. More specifically, in weak institutional contexts, ***direct financial support is the entry door to test and (over time) institutionalize***: (i) suitable rules and processes for central-to-local financial transfers; (ii) procedures for planning, budgeting and implementation of local public sector expenditures; (iii) the structures and procedures through which the state supports and supervises local authorities. This is consistent with the philosophy of using this type of projects as tools for ‘local system experimentation’. The outcomes of the local test may in particular inspire the development of a more solid fiscal decentralisation system. Admittedly, this is not an easy connection to make. Providing detailed guidance on when and how to use these financial facilities is outside the scope of this document. Yet the EC is preparing specific guidance on fiscal decentralisation in which these matters will be addressed upfront.
* *Strengthening the accountability of local authorities*. This is the third benefit to be derived from directly funding local authorities. Experience across the world clearly demonstrates that it is ***very difficult for local authorities to be accountable if they do not have the basic autonomy and resources*** to effectively fulfil their role as representatives of the local public sector. If anything, this leads to a loss of legitimacy in the eyes of the citizens. The provision of funds directly to local authorities may help to restore this ***crucial link between autonomous action and accountability***. By making local authorities responsible for their own public policy choices, a different kind of local political process can start to emerge, involving citizens (as stakeholders) and articulated around a more transparent and accountable delivery of services. This, in turn, may slowly change negative perceptions of citizens towards local authorities as well as tax behaviour. Evidence indeed suggests that the preparedness of local populations to pay taxes increases if local authorities are seen to properly manage public affairs and effectively deliver (this is yet another link with fiscal decentralisation).
* *Reinforcing other public institutions*. The fourth advantage of direct funding is that it may facilitate the mobilisation of a range of other public institutions that are formally in place to support and control the work of local authorities. In practice, however, these state bodies tend to very weak in countries with a highly incomplete decentralisation framework. They often have no place in donor-supported programmes.. The task at hand is to reverse this logic and to ***use the project as a booster*** to reinforce not only local authorities but also the ***capacity development of these other public institutions***. This is quite a challenge as in a decentralised context, the role of local administrations and de-concentrated services is supposed to shift from a top-down ‘command’ approach to ensuring ‘support and control’ functions towards local authorities (as foreseen by the law). This is a new type of job for these administrations, requiring behavioural changes and learning by doing. This change process is linked to the development and institutional outcomes that one seeks to achieve with this type of projects. The underlying philosophy is that the effective delivery of public services depends on the quality of relations between various categories of actors and the capacity to engage in a “co-production” of these services. This requires a major change of attitudes at the level of the different actors involved in service delivery –and projects can act as a laboratory to push forward these behavioural changes.

In short, a strategic use of the project approach may help to stop a vicious circle of decreasing delivery capacity and legitimacy of local authorities (***Visual 11***) and start turning this around in more virtuous circle (as illustrated by ***Visual 12*** below[[3]](#footnote-3)).



***Visual 12: Promoting a virtuous circle of legitimate and performance oriented local authorities***



***How can it be done?***

As indicated above, more detailed information on mechanisms that allow donor agencies to channel resources into fiscal transfer facilities supporting development spending by local authorities as well as an autonomous local planning and budgeting process, will be available through EC guidance on fiscal decentralisation. In this document, only a few operational pointers are provided on “do’s and don’t do’s”:

1. EC procedures allow for ***different modalities*** to provide funding to local authorities, including:

* Call for Proposals (CfPs)
* Direct granting
* Pool funding – Trust funds (e.g. to finance performance-based grants)

1. The ***Call for Proposals procedure is not a suitable tool*** to empower local authorities. This became evident, amongst others, in the EU-supported Acords programme in Madagascar, reviewed in Chapter 2 (see Box 13 above). First, the philosophy of competition, inherent to CfPs, may go against the principle of a more equitable distribution of public resources envisaged by the national decentralisation policy in a given country. Second, the CfP system requires applicants to demonstrate they have the necessary capacities and know-how to be eligible for funding, while in the case of local authorities the finance is needed to start building that capacity. Third, the approval processes of CfPs are not compatible with the prerogatives of local authorities to make their own public choices on adequate actions.
2. The procedure of ***direct grants*** is a ***much more compatible option*** to put local authorities in the driving seat (as contracting public authority) while respecting the national decentralisation principles and norms. It avoids the contradiction of the CfP approach and is consistent with the legal framework in most partner countries –which confers a de jure monopoly to local authorities for the planning, execution and monitoring of public investments in a given territory. So far, the general rule is to apply the CfC. The system of direct grants is still considered as an exception to the general rule for which Delegations need to ask for a prior approval (article 190 of “Rules of Applications).
3. In order to avoid parallel systems, the direct funding to local authorities should be organized as much as possible ***through the existing local public finance system.***  External agencies are often reluctant to follow this route, because of perceived risks of delays/disruption in the resource flows to the local level or because they feel the capacities and systems are not in place to ensure transparency (see guidance on fiscal decentralisation for details on how to connect direct funding to the intergovernmental fiscal transfer system).
4. There is equally a need to avoid targeting only a sub-set of local authorities in specific areas. This brings along the risk of introducing geographic imbalances into the system of resource allocation.
5. In order to allow for genuine experimentation and learning of local authorities and other key institutions, it is of paramount importance to reduce disbursement pressures. Experience suggests that if the project has too much pressure to spend the money within a certain period, that innovation may quickly become a secondary objective. Local actors are likely to rely on blueprint procedures to be followed to get access to the funds –rather than to follow their own, bumpy path of institutional development.

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| **QUESTION 6**  **How to involve all relevant public actors in the change process?** |

***Why is it important and what does it entail?***

In the preceding sections of this guidance, the need for the EUD to adopt a multi-actor and multi-level approach has been repeatedly stressed (see Chapter 2). This holds particularly true for projects that seek to build the state from below, experiment innovative approaches of decentralised management and give life to shaky legal frameworks. To implement this ambitious agenda, EU support should not be confined to local authorities alone. Making decentralisation work for development requires the active involvement of all relevant public institutions at local and national level. This is crucial to achieve the three sets of outcomes that characterise this type of projects:

* *Sector development outcomes*, because the effective translation of local funding into concrete services for populations depends on the quality of the interaction and collaboration between the various public institutions (local authorities, de-concentrated services, parastatals, sector ministries, etc.).
* *Institutional outcomes*, because the transformation of local authorities into capable and accountable institutions requires the technical support of other state agencies as well as functioning oversight bodies.
* Policy outcomes, because for scaling up of successful local experiments to happen, the participation of national actors is crucial. System-wide gains are more likely where the links are strong.

***How can it be done?***

The following operational tips may help to integrate the various categories of public actors into the design of a smart project:

1. Carry out a mapping of the ‘local public sector’

This is the first step to be envisaged as it allows to ‘visualize’ the local public arena, the different actors involved therein, as well as the linkages with higher levels of governance (province, region, national level). ***Visual 13*** below provides an example of how such a mapping of the local public sector could look like. The purpose is to have a basic navigation tool to think through the necessary connections that will need to be established between these actors, horizontally and vertically. In practice, the project be used to generate another ‘virtuous circle’, i.e. a shift from a situation whereby these various actors/levels tend to function in silos, in competition or in conflict with each other, to a much more constructive partnership between entities with distinct roles and comparative advantages. DEVCO is preparing guidance on fiscal decentralisation which should also help to better map this local public sector and financing needs.

Experience suggests that the legal framework is generally the best guide to ‘reconnect’ these different players. Even incomplete decentralisation laws tend to define the distribution of roles and responsibilities in the intergovernmental system. Pilot projects can build on this and use the intervention to bring the actors together, familiarize them with the legal framework, identify gaps, grey or conflicting regulations, and sort out workable arrangements for collaboration in the delivery of services.



1. Create incentives for the various actors to participate

This is a crucial aspect of the design process as it concerns the triggers that may lead to behavioural change among public sector institutions and related staff. ***Adequate political, institutional and financial incentives*** are key to mobilise the various public institutions in the local experiments the project seeks to stimulate. Identifying such incentives requires a fine understanding of the deeper motivations and interests driving the main players. Table 4 below provides an overview of possible incentives that could be help to ensure the participation of de-concentrated services in the local change process.

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| **Different categories of incentives** | **Possible examples** |
| Political incentives | * Improved position of de-concentrated services in the overall intergovernmental system * Opportunities to influence local decision-making processes * Enhanced legitimacy in the eyes of the population |
| Institutional incentives | * Enhanced valorisation of the technical expertise of the de-concentrated services * Opportunities for institutional development * Improved delivery capacity * Reduced marginalisation within the overall public sector |
| Financial incentives | * Improved access to government funding in the framework of the decentralisation reform process * Improved access to donor funding * Aid related opportunities for staff (e.g. participation in seminars, trainings, etc.) |

1. Choose the right ‘entry point’ to mobilise the actors

Constructing new partnership relations between key public institutions at local and national levels is a complex task. It is not something that can be achieved through a few participatory dialogue processes or seminars during the design of the intervention. Drawing up a formal action plan, with a clear description of respective roles and responsibilities, is also not a guarantee that concrete action will follow. These are necessary but not sufficient conditions to get the ball rolling. That is where the choice of relevant ‘entry points’ for getting local traction and effective collaboration between (often antagonistic) public actors comes in. Rather than overloading the agenda with too many objectives or promoting ‘best practices’, the design process should rather look at ‘***best fit’ approaches.*** This implies exploring what type of local development or governance priorities may provide the most powerful trigger for joint action in a given local context.

In practice, this means that quality time must be devoted, with the various actors concerned, to ***identify the*** ***concrete public services and goods to be ‘co-produced’*** through the project. This process should allow for the selection of a feasible number of priorities that (i) respond to genuine local needs and societal demands; (ii) require the active collaboration of different public institutions to succeed; (iii) are compatible with prevailing political realities change formulation; (iv) produce gains that benefit the wider group of actors.

To further specify the type of ‘co-production’ of services and goods the project could select to impulse gradual change in a given context, the following categorisation could help ***(Visual 14)***.

1. Extend capacity development support to the various public institutions involved

This is a logical ingredient of a multi-actor approach to promoting local development and decentralisation through project approaches. Targeting only local authorities for capacity support would be quite self-defeating, considering the levels of mutual dependency for delivering public goods and services. The outcomes that one seeks to achieve in sector interventions depend largely on the ***quality of the interactions*** between the various actors at local level. Hence the need to include a capacity building component directed to a multiplicity of local public actors whose participation is critical for the success of the local experimentations and institutional innovations. The key challenge will be to ***accompany a change process in the roles performed by these institutions***, i.e. from hierarchical, top-down controlling role to facilitation and technical support of local authorities.

Against this background, the design process could focus on the following questions:

* What is the overall capacity situation of the various public institutions at local level? What are their main strengths and weaknesses?
* To what extent and where is there a ‘dormant potential’ among these institutions, that could be mobilised to provide added value to the change process the smart project seeks to induce? A typical example is the local oversight bodies. Often donor-supported interventions do not use them (e.g. for auditing purposes) because they are perceived to be weak and/or corrupt. Yet experiences indicate that none of these bodies are monolithic. There may contain pockets of efficiency or motivated staff. The design phase could explore if and how this potential could be unlocked.
* How can the capacity of the various public institutions be reinforced through direct involvement in the project? To take again the example of the local oversight bodies: rather than further marginalizing them (because they are weak) the project could seek to mobilize them (because they have the legal obligation to fulfil that role and the project can help to build their capacity through learning by doing).
* What are the other capacity initiatives supported by central government or other donor agencies that could participate in the ‘burden sharing’? Often there is a multiplicity of disconnected, overlapping capacity building programmes targeting a wide range of public institutions at different levels. During the design a basic mapping could be done of these various capacity programmes, particularly those that could be instrumental for addressing the specific needs of the project.

All this could, amongst others, facilitate the inclusion in the project of a sustainable mechanism for technical/administrative support to local authorities and effective supervision of their performance

1. Ensure an organic link with key national actors/champions all along the process

The projects reviewed in Chapter 2 confirm the critical importance of including the national dimension right from the start in the design of the intervention. In practice, this amounts often to a difficult balancing act, as the project seeks to privilege the local level and concentrate on the empowerment of local authorities. This can create tensions which, if not carefully managed, may lead to disinterest from national authorities, attempts to takeover the process or open conflict.

How to establish such an organic link with national actors will be further detailed in the next questions which will deal with policy dialogue (question 9), scaling-up (question 10) and process facilitation (question 11). For all these aspects, the constructive participation of national actors is essential.

**3.3. Formulation**

Once the green light has been given on the initial proposal for a planned EU intervention, the formulation phase can start. The division of labour with the preceding phase (i.e. identification) is not watertight. Yet in practice the formulation phase seeks to ***deepen the analysis on technical aspects and make final choices*** regarding the project’s objectives, approaches and implementation arrangements. EUDs envisaging a smart project in support of local development and decentralisation are likely to be confronted with the following questions during the formulation phase:

* How to support the demand side for better local governance?
* How to ensure relevant capacity development of local authorities?
* How to organise an effective policy dialogue at local and national level?
* How to organise the scaling up of local system experimentation

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| **QUESTION 7**  **How to support the demand side for better local governance?** |

***Why is it important and what does it entail?***

The EU May 2013 Communication on local authorities clearly underlines that the ***quality of local governance strongly depends on the involvement of citizens***, communities, businesses and other groups in the management in local affairs. Improving the ‘supply-side’ of governance (by empowering local authorities) is not enough. In order to achieve better development and governance outcomes, there is equally a need to strengthen the ‘demand-side’ by fostering more constructive state-society relations and empowering citizens to engage.

This recipe is not new. Across the world, many local level experiments have been attempted over the past decade to stimulate active citizenship, promote joint action and leverage local authorities to provide accountability, increasingly using new means of communication (social media) and tools (such as social audits). The EU also has accumulated quite some experience in this area. Several EuropeAid Reference Documents address the question on how to strengthen the ‘demand side’ in sector operations[[4]](#footnote-4) or when providing budget support[[5]](#footnote-5). Innovative projects in support have been funded through geographic and thematic instruments (including the budget line for civil society organisations and local authorities). In the process, sobering lessons have been learnt. For instance, it has proven difficult the ‘public-private gap (in terms of constructive collaboration) as local authorities and civil society actors carefully protect their own territory. Or on the limitations of participatory approaches which often take the form of a ‘ritual’, controlled by local power holders and bereft of effective follow-up. ***Donor practices have often been part of the problem***, as they have tended to disburse funds at local level without a clear political-institutional vision on ‘who should do what’ and

on the place of local authorities in that picture.

***How can it be done?***

Building on existing experiences, how can EUDs effectively incorporate the ‘demand-side’ into the design of smart projects or foresee complementary actions? Four major operational challenges can be identified:

1. See support to civil society within a broader effort to (re-) construct the local political space

This is a first fundamental prerequisite. It invites EUDs to ***adopt a more strategic perspective on strengthening civil society*** by explicitly linking the support provided to a transformation of the local public space and promoting more productive state-society relations. Decentralisation processes potentially create more space for a mutually beneficial interaction between local authorities and civil society actors. Yet for this potential to be unlocked, two conditions are key. First, local authorities must be made more ‘attractive’ for citizens and organised interests groups. If local authorities are bypassed by donor agencies or lack autonomy to formulate and implement local public policies, there will be limited incentives for CSOs to engage. That is why the empowerment of local authorities should be a strategic objective of the EU Second, citizens and civil society organisations have a critical role to play in (re-) constructing the local political space and influencing the local political process for better development and governance outcomes. That is where strategic EU-support to these organisations –as governance actors- is equally vital.

The above scenario –promoting joint action for a more effective local state- is fully supported by two recent EU Communications. Though these two policy documents were produced separately, they converge on the need to better distinguish and articulate the respective roles and responsibilities of local authorities and civil society. This, in turn, should lead to much more coherent EU support strategies, which acknowledge the legitimate lead role of local authorities in promoting local development[[6]](#footnote-6) while empowering citizens to engage in the local political process and demand accountability to their local authority. In this context, it is interesting to note that the EU increasingly uses “mappings’ in partner countries to better understand how civil society interacts with the state (formally and informally) and seeks to contribute to the emergence of rule-based public authorities (at both central and local levels)[[7]](#footnote-7).

1. Clarify the different roles citizens and civil society organisations can play in the local political space

If the purpose is to reframe EU support to civil society in a broader perspective of building an effective and accountable local public sector, the next step is to identify *how* citizens and CSOs can interact with and impact upon the local policy-making process. Four essential (and complementary) roles can be distinguished (see ***Visual 15***).

Role 4

M&E of public action

Demanding accountability

Role 3

Co-production and co-provision of public services

Role 2

Participation in local planning and budgeting

Role 1

Leveraging access to information

The challenge for EUDs will be to integrate each of these dimensions into the overall intervention strategy, either as component elements of the project itself or as complementary actions (e.g. to be funded through the thematic instrument for civil society and local authorities). Each of these boxes presents a considerable amount of strategic and operational challenges. As with local authorities, it seems imperative to avoid normative approaches or the use of best practices derived from OECD countries. Getting better local governance is first and foremost a political battle, not a technocratic problem. EUDs are therefore advised to take into account the specific political economy realities in a given context as well as the history and past experiences with participatory approaches and local accountability processes.

It is beyond the scope of this document to provide detailed operational guidance on how to concretely support citizens and CSOs in each of these roles.

1. Respect a number of guiding principles when supporting CSOs (as governance actors)

The following ***guiding principles*** could be considered when conceiving support to civil society for enhanced local governance:

* Avoid direct financial support to grassroots organizations for infrastructure and services that local authorities should provide as this undermines the downward accountability of the latter towards their constituencies.
* Promote the access of local communities to the resources of their *own* local authority (rather than merely to sources of external funding). This is one of the potentially most powerful ways to reconnect citizens with the local state while strengthening accountability relations. It also implies that access of communities to resources should as much as possible take place *within* rather than outside the planning and budgeting process of the local authorities.
* Avoid ritualised forms of participation. Better development and governance outcomes are primarily created through political bargaining processes between state and society. This, in turn, requires EUDs 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.
* Focus on amplifying the local ‘public sphere’ by ensuring an ongoing flow of information on “what actually happens” within the local public sector and by promoting (contradictory) debates on policies, priority programmes, quality of service delivery, results of annual audits, etc.
* 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 policy-making processes.
* Involve local CSOs and local private sector in all phases of the project –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 to strengthen the levels of trust between actors and build more social capital.
* Take initiatives to shift CSO attitudes away from reliance on external aid to concentrating on domestic resource mobilisation, including through local taxation.

1. Mobilise different sources of funding

The primary financial beneficiary of the projects considered here should logically be the local authorities. However, within the overall project budget, a limited amount of funding could be reserved for targeted support to citizen action. Yet this is unlikely to be sufficient to make a structural difference in terms of strengthening the demand side for enhanced local governance. EUDs should therefore seek to mobilise other sources of funding for complementary actions at local and national level. Different options could be explored including:

* A complementary use of the various instruments within the EU portfolio (geographic and thematic). The new requirement to establish a “Civil Society Roadmap” may help to identify more coherent and integrated EU strategies in support of civil society in the area of local governance.
* Joint programming of donor support to civil society actors involved in local governance
* Collaborative arrangements with regional networks, international NGOs, foundations, etc. that are displaying innovative activities in the area of transparency and accountability at local level.

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| **QUESTION 8**  **How to ensure relevant capacity development approaches of local authorities?** |

***Why is it important and what does it entail?***

Local experimentation projects do not only have financial components but also critical ‘non-financial’ inputs, including capacity development (this question) and multi-actor policy dialogue (see question 9 below). This differentiates them from more classical local level projects that concentrate on delivering development outcomes (such as physical infrastructure for local beneficiaries).

Capacity development is a crucial factor in the success of decentralisation reforms. In many cases, inadequate capacity at the local level has been used as an excuse *not* to decentralize. Substantial funding has been allocated over the past two decades to capacity development by a variety of donor agencies, including Northern municipalities (through decentralized cooperation programmes). Valuable lessons of experience have been gained in the process. It is now widely acknowledged that capacity support should (i) target the various actors of the decentralization system (i.e. state actors at central and subnational level, civil society organisations and citizens); (ii) be focused on helping each of these actors to assume new roles in a decentralised system; (iii) combine ‘supply-driven’ support (largely managed by the central government) and ‘demand-driven’ support (tailored to the specific needs and requests from subnational actors); (iv) be conceived as an iterative ‘process’ over a longer period of time; and (iv) go beyond formal training) to also encompass the promotion of an appropriate mindset and organizational culture through learning by doing.

Building on this, question 8 specifically addresses the issue of capacity development for local authorities[[8]](#footnote-8). The EU Communication of May 2013 fully recognises the multi-dimension capacity agenda linked to the empowerment of local authorities. This includes critical functions such as *“managing and mobilising public sector resources, leadership skills, public financial management, revenue raising and expenditure, transparency, participation and interaction with other actors”.*

It is equally important to stress is that capacity development is first of all an endogenous, locally driven process of change in capacities(at the individual, organizational and institutional level.. External support (as provided by development assistance) can only facilitate, unleash and build upon this internal process. Defining local capacity to take account of these three levels is critical. All too often, central authorities reduce capacity to the individual qualities of local actors and capacity-building programmes are identified with training. This approach fails to recognise many situations in which governance outcomes depend less on the personal qualities of the local councillors and administrators than on the incentives created by the institutional environment in which they operate. This approach represents an important paradigm shift in current habits and models as requires addressing simultaneously the need for improving the regulatory framework and the institutions and the need to enhance the knowledge, skills and attitudes of the personnel involved.

The ***added value projects*** can have in terms of capacity development resides in the granting of direct funding to local authorities. This mechanism allows emerging local authorities unique opportunities for ‘on the job training’ in relation to a whole set of new functions they have to take up following decentralisation. Furthermore, they are supposed to go through this institutional learning curve together with other state actors involved in the decentralised system. The latter may eventually be called upon to help institutionalizing successful local innovations and further develop relevant capacity development programmes (as local conditions evolve). The crux of the matter is to commit funds allowing local authorities to take concrete actions in planning, finance and services delivery *before* they have proved their capacity to use them in a manner that corresponds with donors’ conceptions of good practice.

***How can it be done?***

There is no shortage of literature, studies, case material, guidance or evaluations on the subject of capacity development for local authorities. The resulting wealth of information and knowledge cannot be captured in this document. Yet it is possible to summarise experienced gained in some critical “do’s” and “don’t do’s” (see Table 5).

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| ***DO’s in capacity development for local authorities*** | ***DON’T DO’s in capacity development for local authorities*** |
| If empowerment is the aim, there is a need to adopt an approach to capacity development that takes into account prevailing values, culture, motivations, interests and incentives of the actors. This requires a proper institutional assessment of local authorities[[9]](#footnote-9) as well as a preparedness to start with “basic first” (including an enhanced awareness of the roles of each actor) | Limit capacity development to improved service delivery (without an empowering perspective  Adopt a technocratic approach to capacity development (based on formal transfer of best practices) |
| Work at three levels in an integrated manner: individual, organisational and institutional (as each of these affects the overall performance of local authorities). This implies linking ‘downstream” capacity support to local authorities with ‘upstream’ initiatives to create a more conducive environment for local authorities to perform. It implies distinguishing between the local governments ‘internal’ and ‘interactive’ capacities. Internal capacity is required to carry out core functions of public sector resource mobilisation and expenditure management. Interactive capacity involves the ability of local governments to align with a ‘new model’ of the local public sector. In this model, the local authority is recognised as just one, albeit major, element in a network of multiple actors that operates through cooperation and co-production with central agencies, civil society organisations and the private sector | Focus only on selected individuals within the local authority system (e.g. the local administration) or on specific technical aspects of organisational/institutional development (e.g. financial management) |
| Distinguish different core capabilities that need to be developed including the capacity to link up with external actors and stakeholders | Concentrate on capabilities linked to traditional, internal organisational development functions without considering the interface with the outside world and relational capabilities |
| Choose highly flexible forms of capacity development, based on real-time learning by doing and working with local actors to adopt new insights and develop better working practices  Constantly assess, learn, reflect and adapt to new challenges that arise. Accept the need for (controversial) changes) as implementation moves ahead  Promote the use of various communication tools including radio and theatre in local languages or simple didactic guides | Rely on spreading standard knowledge, prescriptions and training modules |
| Combine demand- and supply-driven forms of capacity support | Choose only for supply-driven capacity support |
| Determine the most suitable actor to deliver specific forms of capacity development to local authorities in a given context | Rely on a limited set of capacity providers (i.e. external experts, formal training institutions, NGOs) |
| Try to work “on system” by aligning capacity development support as much as possible to the partner country human resource development policies and systems of the public sector | Ad hoc, fragmented, parallel and ‘balkanized’ approaches to capacity development (funded by a proliferation of various donors without basic coordination) |

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| **QUESTION 9**  **How to organize an effective policy dialogue at local and national level?** |

***Why is it important and what does it entail?***

Policy dialogue is another core, ‘non-financial’ component of projects in support of local development and decentralisation. In classical micro-projects at local level, there is no need for such a dialogue, considering the chosen intervention logic (i.e. top-down schemes, targeting local beneficiaries and focusing on the delivery of services without accompanying political-institutional objectives). At best, there are consultations with local actors around beneficiary needs and project execution. A different story prevails when the projects are conceived as decentralisation experiments, involving all the relevant public and private actors in a learning process that ultimately seeks to influence national policies and promote the institutionalisation of innovative practices. Then policy dialogue becomes a vital component of successful project interventions –as this is the case in budget support operations. A multi-actor and multi-level policy dialogue is required to achieve the two main objectives of these projects: local system experimentation and scaling up.

* A ***horizontal policy dialogue*** is needed to connect the various local stakeholders around the various experiments in decentralised and participatory local development planning, budgeting and implementation of service delivering public goods and services (i.e. the local experimentation function). The dialogue offers structured opportunities for public debates between state and non-state actors in a given territory to jointly consider “what can be done” to improve service delivery, regularly take stock of “what works and does not work” and continuously fine-tune from practice.
* Complementing this, a ***vertical policy dialogue*** has to be put in place to ensure that the local perspective as well as evidence of successful local innovations can be brought to the attention of key actors at national level (i.e. the scaling-up function).

***How can it be done?***

In many ways, the challenges involved in organizing an effective policy dialogue at local and national level in project approaches resemble those encountered by EUD staff involved in policy dialogue around sector (budget) operations. Some key lessons of experience on how to conduct a meaningful and result-oriented policy dialogue can thus be shared. These include:

* Policy dialogue should be conceived as an iterative process over a longer period of time.
* It covers technical questions, the politics of cooperation as well as performance matters
* There are no blueprints for policy dialogue: it is an art rather than a science and its outcomes are unpredictable
* It encompasses both formal and informal processes.
* Its effectiveness largely depends on the credibility, capacity and legitimacy of the actors involved;
* Trust and transparency are essential parts of the software of an adequate policy dialogue
* In order to be efficient donor agencies need to conduct it in a structured, coherent and documented way. This means ensuring a strategic management of key elements of the policy dialogue (see visual 16 below).

******Yet there are also a number of specific features that need to be taken into account fora successful policydialogue.. These include:

* A bottom-up approach to policy dialogue, which put local actors and stakeholders in the driving seat.
* A process facilitation support in the form of an external catalyst with expertise in accompanying multi-actor and multi-level dialogues (see question 11 for more details).
* An adequate learning infrastructure for an ongoing monitoring and evaluation of the experiences gained at local level, as this is crucial to feed both the horizontal and vertical policy dialogue (see question 12)

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| **QUESTION 10**  **How to facilitate the scaling up of local experimentation?** |

***Why is it important and what does it entail?***

By nature, the projects discussed in this guide do not confine themselves to local level activities. From the outset, they seek to influence and help refining imperfect national policy and legal decentralization frameworks *through* the local experiments and innovations they impulse. This is the essence of a ‘bottom-up’ approach to state building, including workable arrangements for decentralized management of local development. The idea is to first test out “on the ground” how decentralization can work for development and then use these experiences to identify feasible reform paths.

Yet lessons learnt from previous projects (see Chapter 2) indicate that scaling-up is a complex, up-hill struggle, with unpredictable outcomes. Local experiments may be successful and generate genuine interest among national policy-makers and related services. But this does not guarantee that there will be an effective uptake of these local innovations, reflected in the institutionalization of new norms and local governance practices. Despite these uncertainties, EUDS need to think through, right from the outset, how scaling up of local experiments could effectively be organized.

***How can it be done?***

Building on preceding sections, a few rules of thumb can be provided to support EUDs in formulating an adequate response strategy to the challenge of scaling up local systems experimentation to the local level:

* Accept that the transition from ‘experimentation’ at local level to ensuring an effective ‘institutionalization’ of new norms, systems and procedures is a long and bumpy journey.
* Build trust relationships with powerful stakeholders at the government level -as this is decisive in positioning pilot projects at the forefront of new policy developments and influencing national debates.
* Ensure multi-actor ownership by involving local and central government partners in a consultative fashion through the whole implementation process, as this can help increase their understanding of the project activities and reduce suspicion.
* Receptiveness to local innovations depends not only on their quality but also on the extent to which they are tailored to statutory and regulatory frameworks
* Invest heavily in getting solid evidence on “what works and what does not work” at local level –as this will help to open eyes that different approaches to service delivery are possible and lead to better results.
* To this end, establish a specific mechanism to document and analyze successful local experiences and innovations (see also question 12).
* Ensure other policy development support measures (e.g. technical studies, policy papers, stock-takings of lessons learned).
* Develop adequate communication strategies, as the “how” matters as much as the “what”. Long reports or standard performance assessments may not ignite enthusiasm among national actors. Effective scaling up requires more accessible communication tools (e.g. films) that grab the attention of the audience and demonstrate, through recognizable stories, how the project concretely succeeded in changing attitudes and getting better development outcomes. Actors at the macro levels will be more likely to adopt and spread the changes if they have evidence of what is feasible and beneficial at the micro level.
* Support (or help to create) an appropriate national body responsible for managing process of implementing decentralization reforms
* Ensure the participation of national level actors in the field visits and monitoring of the projects, under the direct control of the national body responsible for managing and implementing decentralization reforms.

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| **QUESTION 11**  **How to facilitate the change process (at local and national level)?** |

***Why is it important and what does it entail?***

The projects discussed in this guidance have a transformational agenda at both local and national level. They seek not only to propose better management techniques but also aspire to change deep-seated attitudes and institutional practices. They are likely to operate in difficult environments, with weak bureaucracies and fragile local authorities. Levels of knowledge, internalization and effective application of the legal framework for decentralization will equally be low. They need to engage with a diversity of state and non-state actors, loosely connected to each other and whose relations are often based on mistrust, competing interests if not conflict. Context-sensitivity and flexibility will be required to navigate in these troubled waters and move forward in a way that leaves the ownership of the change process firmly in the hand of local actors. In addition to this, these projects are keen to deliver three sets of outcomes (developmental, institutional and policy-related) by providing relevant forms of capacity development, nurturing a continuous multi-actor dialogue, stimulating collective learning and ensuring an effective scaling up.

This is a tall order. It is therefore not a luxury to foresee adequate process facilitation support to push forward this ambitious agenda during the implementation phase. The projects reviewed above (chapter 2) all used (external) facilitation and technical assistance expertise. As their name suggests, facilitators are not there to substitute for local actors or to function as a classical ‘project implementation unit’, primarily concerned with finance and administration.

***How can it be done?***

Several operational suggestions can be made regarding the organization of such process facilitation support based on past experiences:

1. *Shift from a classical “PIU” to a “Facilitation Unit”.*  This is more than a change in name. It implies a drastic modification of the role of such a support unit. Instead of focusing merely on the management of project implementation, the unit receives the mandate to ‘accompany’ and proactively support the various change processes all along the implementation phase.
2. *Define the new roles expected from process facilitators*. The move towards a ‘Facilitation Unit’ implies a set of new roles that are crucially important for the implementation of projects with a transformation agenda. There are five main roles that process facilitators are expected to play in the ‘laboratory’ of such projects:

* listening (e.g. in order to understand local realities, become aware of informal relations, tap local sources of knowledge, etc.);
* advising (e.g. on how to use national laws and existing institutions to solve local problems);
* mediating (e.g. when mistrust exists or competing interests between local actors have to be reconciled in order for the process to move forward);
* facilitating learning (e.g. by producing users-friendly manuals on local management issues);
* connecting actors and institutions at different levels (this is crucial for scaling up to gradually take place).

1. *Select the right forms of expertise for the Facilitation Unit*. Accompanying social change processes is an art, requiring people with hands-one experience. The mobilization of (independent) local expertise is key to ensure an ongoing capacity to understand the deeper dynamics of societal/local changes. External expertise can also add value by bringing in experiences from other countries and by playing the role of a neutral mediator between different groups of local actors. EUDs have a major responsibility in recruiting the right type of expertise. Knowledge of EC financial and administrative procedures is not sufficient to be able to function in a Facilitation Unit. Three practical tips could be considered. First, make sure the Terms of Reference clearly explain the role of ‘process facilitator’ and the different functions this entails. Second, go beyond assessing the technical skills of candidates by examining the human/social/communication abilities of the person. Third, complete the CV assessments by personal interviews to test the human skills of the candidate.
2. *Protect the space for linking local experimentation with policy development*. Experience suggests that there can be a tension between these two stated objectives at the stage of implementation. One of the potential benefits of this type of projects is that a Unit is specifically in charge of ensuring that funds do trickle down to local authorities. Yet there is also a risk attached to it: the facilitation unit can get completely bogged down by pressures to disburse and account for the funds geared at local authorities. It is up to the champions of the intervention (especially the EUDs) to protect space and time for the Unit to also work on scaling-up and policy development. If the preoccupation with disbursing funds becomes too dominant, there might be a temptation to set up a ‘parallel’ system to secure the second objective –and that would defeat the whole purpose of the process.
3. *Foresee an adequate budget.* Considering all the tasks this Facilitation Unit has to fulfill, its budget should be substantial enough to deliver on expectations and also retain a large degree of flexibility between budget items –the specific needs of the Unit will largely be determined by the evolving implementation process itself.

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| **QUESTION 12**  **How to monitor, evaluate and learn from the project?** |

***Why is it important and what does it entail?***

All along this chapter 3, many good reasons have been advanced why projects with a transformational agenda (at local and national levels) need an adequate M&E and learning infrastructure. Without such instruments it will be difficult to promote local experiments; encourage learning by doing among local authorities; convince local actors to adapt norms and attitudes; discontinue certain reforms; collect evidence for the policy dialogue and related efforts to influencing national policies and institutional framework regarding decentralization. An efficient set of learning tools is particularly crucial for the process facilitators involved in the project. It helps to check on a continuous basis if the local experimentation process is on track, to identify required adjustments; and prepare the ground for scaling up.

***How can it be done?***

One key operational tip is provided in this regard, i.e. the need to base the local M&E and learning system, attached to the project, on the three levels of expected outcomes (developmental, institutional, policy/legal) as explained above (Visual 9, p. 11).

Traditional M&E approaches tend to focus primarily on development outcomes, the correct implementation of logframes and related use of the funds. This is, for instance, of the case of with ROM’s or project evaluations (mid-term or final). However, this approach is not adequate for projects that have a transformational agenda. These require M&E systems that focus also on less tangible things such as the progress made in terms of empowering local authority or adopting new local governance practices (i.e. institutional outcomes). There is equally a need to track the road followed to ensure a scaling-up of local innovations to the national level (i.e. policy/legal outcomes).

The widening of the M&E system to encompass institutional and policy outcomes is challenging from a methodological point of view. While some quantitative indicators may be identified, most of the progress to be measured is of a qualitative nature. Hence, the need to enable the process facilitators and local actors involved to measure ‘trends’ with regard to a key set of changes the project seeks to induce.

A concrete example of such a trend is the growing institutional maturity of local authorities to act as contracting authority. As mentioned before, this is a cardinal objective of this type of projects. In order to measure whether the local authorities targeted by the project actually adopt a learning curve and become more empowered a number of (qualitative) indicators could be developed. These could include: (i) the extent to which the transaction time for local authorities to take decisions is reduced over time; (ii) the nature and quality of the interaction between local authorities and de-concentrated services; (iii) the number of local infrastructures produced compared to available municipal budgets; (iv) the extent to which citizens are more aware of local public policies and budgets; (v) the degree of institutionalization of more transparent local procurement processes; etc.

The evidence collected through these M&E systems could generate powerful evidence to convince skeptical central government actors or donors that properly enabled local authorities can deliver public goods and services (often at lower costs than other actors).

1. Based on the work of Tulia Falleti, including *“Decentralisation and Subnational Politics in Latin America*”. Cambridge University Press. 2010 [↑](#footnote-ref-1)
2. Based on the work of Leonardo Romeo, including: *“The Role of External Assistance in supporting Decentralization reforms”*. 2003. Public and Administration, nr 23, p. 89-96 and “*System Experimentation in Support of Decentralisation Reform”.* 1999. Regional Development Dialogue, 20 92): 134-57. [↑](#footnote-ref-2)
3. Adapted from Yongmei Zhou. 2007. Supporting Decentralization as an Entry Point for Governance reforms in Sierra Leone. Powerpoint March 2007. [↑](#footnote-ref-3)
4. EuropeAid. 2008. Analysing and Addressing Governance in Sector Operations. Reference Document No 4. [↑](#footnote-ref-4)
5. EuropeAid. 2011. Engaging Non-State Actors in New Aid Moadalities for better development outcomes and governance. Reference Document No 12. [↑](#footnote-ref-5)
6. This legitimacy and catalyst role of local authorities stems from their (i) proximity and sensitivity to local realities and needs; (ii) dual mandate; (iii) regulatory powers; (iv) potential to act as ‘facilitator’ of local dialogues on development priorities. [↑](#footnote-ref-6)
7. See European Commission. 2012. Mappings and civil society assessments. A study of past, present and future trends. DG DEVCO. [↑](#footnote-ref-7)
8. Earlier this guide considered the capacity needs of other local public institutions (question 6) and civil society (question 7). [↑](#footnote-ref-8)
9. A most useful generic guide on how to carry out such institutional assessments (as precondition for effective capacity development support) can be found in: EuropeAid. 2005. *Institutional Assessment and Capacity Develop*ment. *Why, what and how?* Reference Document No 1. [↑](#footnote-ref-9)