THE ROLE OF EXTERNAL ASSISTANCE IN SUPPORTING DECENTRALISATION REFORM

LEONARDO G. ROMEO*
United Nations Capital Development Fund, New York, NY, USA

SUMMARY
A paradigm linking public sector decentralisation reforms to poverty reduction via improved local governance and development has provided the rationale for donor support of decentralisation and parallel efforts to build local government capacity. This article briefly considers the paradigm and reviews modalities of external aid to decentralisation, highlighting key limitations and contradictions. In spite of much rhetoric, decentralisation remains marginalised in a donor-government policy dialogue dominated by macro-economic and sectoral issues. Compartmentalisation within major aid organisations of the expertise and responsibilities to support administrative reforms, sectoral assistance programmes and community development projects, produces fragmented and competing interventions that do not address and even retard the systemic changes needed to advance decentralisation. New and more effective partnership arrangements between decentralising governments and their external partners are necessary to link ‘downstream’ assistance to local governments to ‘upstream’ development of the national decentralisation reform framework and to help manage a gradual and strategic approach to implementation of the reforms. Donor support to ‘decentralisation policy experiments’ may provide a new model for policy dialogue and the basis for building more effective partnerships. Copyright © 2003 John Wiley & Sons, Ltd.

INTRODUCTION
In the last decade, a paradigm linking public sector decentralisation reforms to poverty reduction via improved local governance and local social and economic development has emerged in the international development debate. This paradigm has provided a rationale for international donor agency support of decentralisation and local government (LG) reforms in many countries in Africa and beyond. The actual linkages between decentralisation and poverty alleviation, however, have not been fully articulated, systematically explored or validated by empirical research.

In this article we consider the decentralisation to poverty alleviation linkages, briefly highlighting the key issues as well as the opportunities and challenges they create for the design and implementation of external assistance strategies and interventions. We then review the main current modalities for external aid to decentralisation reforms and outline some of their main limitations and contradictions. We conclude with a brief analysis of the situation in Angola in light of the issues raised in the article.

THE DECENTRALISATION FOR POVERTY REDUCTION PARADIGM
The paradigm embodies a set of positive relations between (i) decentralisation reforms, (ii) good local governance, (iii) local economic and social development and (iv) poverty reduction. However, each of these relations appears to be inherently complex and subject to a number of additional factors and conditions, both facilitative and constraining with respect to government action and external agency support.

*Correspondence to: L. G. Romeo, United Nations Capital Development Fund, Two United Nations Plaza, New York, NY 10017, USA. E-mail: leonardo.romeo@undp.org

Copyright © 2003 John Wiley & Sons, Ltd.
From decentralisation to good local governance

Decentralisation reforms, and more specifically the devolution of substantial public sector responsibilities and resources to local governments, are often advocated for their potential to generate allocative and productive efficiencies in the use of public resources (Litwack et al., 1998). But they also have the potential to create or revive a local political process and generate incentives for people in general and the poor in particular to invest in local governments that, because of newly assigned responsibilities and resources, have become relevant to them (Wunsch, 2001). A variety of positive outcomes are often associated with the concept of ‘good local governance’, such as efficient service delivery, legitimacy, transparency and accountability of local authorities, security and participation of citizens in local decision-making (CIDA, 1998; World Bank, 2001). Devolution of responsibilities and resources to local governments, however, cannot alone bring about these results—it may be a necessary, but is not a sufficient condition. There is a broad consensus that, in order to convert the promises of decentralisation into the reality of good local governance, greater attention should be given to local government capacity development. But the concept of capacity needs to be articulated before standards, objectives and programmes for local capacity building can be developed.

First, it is useful to distinguish between the local government ‘internal’ and ‘interactive’ capacities. Internal capacity is required to carry out core functions of public sector resource mobilisation and expenditure management (Furtado, 2001). Interactive capacity involves the ability of local governments to align themselves with a ‘new model’ of the local public sector consistent with the changing role of the state (Clark and Stewart, 1994; Romeo, 1999). 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 (Helmsing, 2001). Obviously these two types of capacity are interdependent and difficult to separate in practice. Internal administrative capacity is essential to promote participation and partnership, and capacity to interact with multiple actors is essential to improve the performance of the local public sector.

Second, capacity for good local governance is affected by factors that operate at three levels: the individual, the institutional and the systemic (UNDP, 1998). At the individual level, local capacity is affected by the values, culture, training and attitude of local government personnel, both elected officials and administrative staff. At the institutional level, capacity depends on local government structures, procedures and operating rules, which frame and govern the activities of the personnel. At the systemic level, capacity is affected by the policy and legal framework within which the local governments operate, and by the rules and practices that govern the relations of local authorities with other actors. 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.

Of particular importance are the systemic factors, beyond the legal and regulatory ones, related to the structure of the local–central relations. To the extent that decentralisation is introduced, local governments and communities become more, not less, enmeshed in a wider system of intergovernmental relations. Decentralisation reforms, by multiplying the levels and units of public sector decision-making, add depth and complexity to this system. Thus, inadequate intergovernmental linkages can have a substantial constraining effect on sustainable local development. For example, a continuing problem under decentralisation in Uganda (Nielsen, 2001) is the lack of mechanisms to reconcile local authority (horizontal) and sectoral agency (vertical) plans and activities, which undermines the type of coordination in resource use that should lead to better impacts. Another constraint is the resistance of central government departments to enter into genuine central–local partnerships (agency arrangements) so that the comparative advantages of local governments could enhance the planning and implementation of sectoral programmes financed and monitored by central line agencies.

Third, to be successful, capacity building efforts must also be driven by demand, which is often constrained by vested interests in old practices and lack of incentives to change among local governments officials (Litvack et al., 1998). There is therefore a growing recognition that better performance of local governments both as public
resource managers and partners with other social actors, critically depends on strong incentives to change and adopt improved practices. Such incentives must be generated by pressure from below (Helmsing, 2001), as well as from above (Tendler, 1997; Romeo, 1999), to strengthen LG accountability both downward (towards their constituency) and upward (towards the state administration). Pressures from above refer then to central support and supervision of the LG sector, while pressures from below refer to mechanisms of participatory governance (Schneider, 1999). This scenario provides for different emphases in external agency approaches to decentralisation, to which we return below.

From good local governance to sustainable local development

Properly designed decentralisation reforms, when accompanied by strong incentives to institutional change and capacity building, may indeed result in improved local governance and development, but the process is complex and influenced by a number of additional factors. First, the local economy may be exposed to external shocks that range from the fluctuation of local commodities’ prices on the national and international market to natural disasters and war-related dislocation. Decentralisation reforms and good local governance can certainly increase the resilience of a local community against such shocks via increased predictability of local revenues, protection of property rights, asset accumulation incentives for the poor (Litvack et al., 1998), community self-help initiatives and the creation of local safety nets (Helmsing, 2001). Nevertheless such external shocks can have strong, negative impacts on the pace and quality of local development.

Second, some public goods that are important for economic development exhibit externalities or economies of scale and should not be provided locally. An illustration of this problem is reported from Uganda where immunisation rates fell when the funding of the outreach programmes was made a responsibility of the local governments (World Bank, 2001). This reality reinforces the need for appropriate forms of inter-jurisdictional and local–central cooperation.

Third, even though improved local governance should be able to generate fruitful public–private–community partnerships, it has been difficult for local governments to go beyond traditional support to investment in local economic infrastructure to a more active brokering of the capitalisation of local economic enterprises. Such activities risk displacing the local private sector or allowing the parasitic capture of public resources by local private interests. Much more work needs to be done in this area.

In short, the governance–development link is not simple or straightforward. Certainly better governance can lead to resource allocation decisions that improve the general well being of local residents. Sustainable local economic development, however, is not a purely local phenomenon and there are issues with direct LG involvement in private activities.

From sustainable local development to poverty alleviation

The causal relation between local development and poverty alleviation is also conditioned, and often overshadowed, by other factors. Even when local development outcomes are pro-poor, because of the adoption of improved local governance practices that give voice to the poor, local development is unlikely to be the principal answer to local poverty. A more important role may be played by employment and other economic opportunities located outside the local jurisdiction, as well as by investments in infrastructure with a regional or national scope. In fact, it is the regional and not the local (district, communal, municipal) level that is most important for economic development in many countries. Ultimately, economic development is required for poverty reduction, suggesting the need for cooperation between local and regional authorities to effectively implement a comprehensive poverty alleviation strategy.

THE ROLE OF EXTERNAL AID IN DECENTRALISATION SUPPORT

While the road that leads from decentralisation to poverty alleviation is not linear, many external aid agencies are, in one way or another, helping partner countries to travel it. An assessment of why countries initiate decentralisation is beyond the scope of this article, but a few general comments are important to set the stage for reviewing
donor support. It appears that where external pressures were not the main force driving decentralisation, central-
level political motives, rather than concerns with efficiency in local service delivery, have been predominant. Particu-
larly in Africa, such motives have included extending the influence of the dominant political party by creating a
new layer of local political personnel or countering political threats to the centre from ethnically based opposition
forces by breaking their regional base into multiple jurisdictions. Recent analyses of decentralisation (Crook and
Sverrisson, 2001) have highlighted such political rationales at work in Nigeria where the military regime has used
local governments to undermine state-based ethnic challenges, and Uganda where the delimitation of local gov-
ernment areas divides the country’s main ethnic power bases. A similar political rationale and the need to legit-
imise and consolidate the regime that emerged from the April 2002 peace agreement may be at the root of the
emerging decentralisation strategy in Angola. The decentralisation debate there is largely limited to political cir-
cles in the MPLA (Movimento Popular de Liberacao da Angola) and has not permeated the state administration.

The result of politically motivated decentralisation reforms is that they typically establish elected local councils,
but stop short of really empowering them through adequate administrative and fiscal decentralisation. The hesitant
and incomplete nature of many decentralisation reforms is reinforced by the lack of both a strategic plan for their
gradual implementation and the chronic weakness of the state structures (Ministries of Local Government and the
like) that should manage it (Smoke, 2000). It is in this problematic context that external aid agencies most often
intervene in Africa to support decentralisation reforms and, increasingly, to build up local government capacity for
meeting the objectives of the ‘decentralisation–good local governance–local development–poverty alleviation’
approach outlined above.

The fact that many central authorities undertake decentralisation for political reasons, while external agencies
are interested in local democracy and efficient service delivery, is noted not as a reason for undue pessimism but
rather as an argument for linking external support to serious national policy dialogue. There are also reasons for
cautious optimism because whatever motives are behind launching decentralisation, once started, the process often
takes on a life of its own, creating a national political constituency and considerable space for external assistance.
But what is the actual extent of this external intervention? And what are its instruments?

Five years ago, a donor report (NIBR, 1997) warned that assistance directed to support decentralisation and
build local government was only a ‘small proportion’ of development aid and that its effectiveness had to be
assessed by ‘taking into account all aid’. This remains true in spite of the recent popularity of decentralisation.
But the real issue of concern is the inconsistency of donor support. Despite the rhetoric surrounding decentralisa-
tion, it often plays a marginal role in policy dialogue between major international agencies and governments of
developing countries which tend to be dominated by macro-economic and sectoral policies. In addition, while
some externally funded programmes explicitly support decentralisation, others ignore or contradict it.

The NIBR (1997) study identified three broad categories in which donors’ assistance (both technical and finan-
cial) for decentralisation and local governments strengthening could be classified:

- Support to policy reform: drafting legislation and regulations, institutional development, LG Capacity building
- Support to sectoral decentralisation: line ministry deconcentration and LG involvement (LG agency) in imple-
  mentation of sectoral policies
- Support to area development programmes (integrated rural and urban development programmes) combining
  sectoral assistance and local institution building.

Projects and programmes of the first type have been referred to as providing ‘upstream’ support, while the others
have been called ‘downstream’ support. Taken collectively they cover the range of issues that external assistance
could help decentralising governments to address. The problem, however, is that these areas of assistance are
poorly coordinated. Projects and programmes are developed to address, in a piecemeal way, selected elements
of the systemic policy and institutional development required. This lack of a systemic approach is aggravated
by the compartmentalisation along intra-organisational and professional lines of the technical expertise and finan-
cial support within major international agencies. This tends to produce fragmented and competing interventions
that are ineffective or counter-productive with respect to the integrated changes that must be introduced to move
forward the decentralisation agenda and build LG capacity.
For example, external interventions of the ‘upstream’ type usually involve policy and technical advice to develop a normative legal decentralisation framework. However, such interventions seldom support strategic implementation of reforms nor do they systematically link to complementary ‘downstream’ activities often concurrently financed by the same external agencies. The design of downstream projects is usually left to sectoral planners or urban/rural development experts with limited understanding of, and interest in, systemic public sector reform.

**Mainstream approaches to downstream support**

In the area of ‘downstream’ support, severe limitations and contradictions of external assistance to decentralisation reforms are often evident. Such interventions involve substantial financial assistance for delivery of local infrastructure and services. As mentioned above, such interventions include (i) centrally managed sector and multi-sector development programmes that to some degree do (or could) involve local governments in the delivery of the services that they finance, as well as (ii) programmes that directly provide financial resources and technical assistance to local governments and communities. With respect to the former, sector-wide approaches (SWAPs) to financing social sector development and the widespread Social Investment Funds (SF) deserve attention because they play a major role in current donors strategies.

Many donors that support the devolution of responsibilities to local governments are also increasingly advocating aid coordination and budgetary support through SWAPs, particularly in social sectors. These approaches, which could appropriately involve local governments in contractual arrangements with central and deconcentrated state agencies for co-provision of services, tend to bypass local government planning and decision-making processes. Sometimes SWAPs also directly compete for resources with decentralisation. This is what happened in Mozambique, where the 1998 inception of sectoral programmes coincided with a reversal of an earlier decentralisation trend. In fact, in 1994, the Ministry of Planning and Finance started experimenting with modest block grants to provincial budgets. The development of sectoral programmes redirected resources previously allocated to sub-national authorities to provide counterpart funds to donor-supported SWAPs. This resulted in the re-centralisation of the planning, financing and implementation of line agency programmes in the provinces. (Jackson, 2002)

As for the Social Funds, which are often presented as mechanisms to support decentralisation and build local institutional capacity, their actual role and impact raise serious questions (Parker and Serrano, 2000; Tendler, 2000). Social Funds were born as central agencies for implementing national policies (particularly of national anti-poverty strategies). Their resources are usually restricted to a pre-determined menu of (social) sectoral investments; they do not support operating expenditures (even incremental) and they impose specific design and construction standards and procurement procedures. Many SFs bypass LGs, inviting applications for funds directly from community groups.

Given the growing focus on decentralisation, new generation SFs are increasingly working through local governments. Even when they do, however, their primary objective often remains to implement central priorities by getting constrained resources to local communities. The SF local financing, planning, programming, budgeting and implementation systems and procedures are developed to meet these goals rather than to provide LGs with resources for autonomous development and implementation of local policies, the essence of the decentralisation model that many donors claim to support. In addition, SF systems and procedures often focus on investment, ignoring a function of LGs that is critical for sustainability, the preparation and approval of annual budgets.

The superficial focus of some SFs on LGs allows central governments to use the argument that the SF is ‘transferring’ resources to the community level in order to deny the need for other fiscal decentralisation reforms. The contractual financing mechanism of the SF, in which LGs act as agents of the centre, is then portrayed as alternative rather than complementary to devolution of fiscal powers and development of general-purpose transfers. Also, as well-staffed and resourced SFs step in to extend new systems and procedures, they displace state agencies (Ministries of LG or Interior, Institutes of Municipal Development, etc.) whose central mandate is to build LG capacity and monitor LG performance in managing local planning and budgeting. Ultimately the lack of attention to appropriately developing the capacity of these key central actors becomes a major obstacle to strategic implementation of sustainable decentralisation reforms.
A third category of externally supported ‘downstream’ interventions in support of decentralisation has developed from a critical assessment of rural development experiences in the past two decades. This includes a new generation of rural/area development projects that stress community participation in local-level resource allocations and establish demand-driven rural investment facilities. A 1997 conference on decentralisation and rural development in Rome (FAO, 1999) heralded the emergence of this new category of projects and helped crystallise some basic principles underlying them. Today most donors support projects that provide financial resources and technical assistance to establish and operate institutions for decentralised, community-based, planning and financing of local/rural development. The actual impact of these projects on decentralisation, however, depends critically on how the relations between community groups and LGs are designed. In a description of its ‘Community Driven Development’ (CDD) approach, which underlies many of the ‘new type’ of rural development projects that it supports, the World Bank characterises this relation as follows:

In many cases, local governments are better placed than central institutions to allocate public resources across community groups and to assure long-term support to O&M activities that cannot be assured by community groups. Reform and capacity-building of local governments is often critical to assure that that they have the incentives to reach down to communities and to support community groups in a demand-based manner. Strengthening community groups and their capacity to express demands on local governments also helps develop downwards accountability of local governments (WB, 2002).

The definition recognises the importance for communities to access the resources allocated through their own LG (as opposed to direct access to resources of the central government or external partners) as well as the need to strengthen the capacity of communities to hold local officials accountable. In practice however, projects supporting this approach are the exception rather than the rule. The argument for communities to be financed through their LG is often made only on the ground of the practical necessity for LG involvement if community-developed public infrastructure will later be maintained and operated. What remains obscured by this logic is that as long as donors finance grassroots organisations—directly or by rigidly managing resources that pass to them through LGs—for infrastructure and services that LGs should provide or co-provide, they will contribute to undermining the ‘downward accountability’ of LGs towards their constituencies, which donors state they intend to foster. If local governments are effectively bypassed and remain under-funded and institutionally under-developed, individual citizens and community groups will have no incentive to engage in the local political process and to demand transparent and accountable management of local public resources. Why bother to participate in a process that cannot deliver?

An alternative approach

A more balanced approach to local government—community relations seems to be necessary. Strengthening communities should be seen as part of a broader effort to reconstruct the local polity and the local political process. Then, strengthening community capacity to demand should be accompanied by strengthening the capacity of local governments to respond. Again, financing local governments and providing the appropriate support and supervision for adoption of participatory practices that give communities access to local public sector resources seems to hold better prospects for sustainable local development than relying primarily on direct central/external financing of local community groups. This, however, raises the question of whether the new type of rural development projects can contribute to strengthening LGs in a way that is consistent with decentralisation. As these projects are themselves the product of an evolution that attempted to overcome earlier inadequate attention to institutional factors, there is reason for a cautious optimism that this evolution will continue.

There are already examples of projects originally designed for community-based area development that have evolved into major instruments of support to decentralisation and LG capacity building (Romeo, 2001; WB, 2001). Changes in project design that allowed such results include: (i) re-conceptualisation of externally-funded demand-driven investment facilities into pilots of regularised LG fiscal transfers; (ii) extension and institutionalisation of LG participatory planning, budgeting and implementation practices; and (iii) development of higher-level capacity to support and supervise LGs and create incentives for their adoption of improved governance practices. These principles have been at the heart of the experimental ‘Local Development Fund’ (LDF) programmes supported
by the United Nations Capital Development Fund (UNCDF) in over a dozen countries since the mid-90s (Romeo, 1996, 1999). Lessons learnt in the implementation of such programmes are the basis of most of the reflections in this article on the difficulties and contradictions of external assistance to decentralisation.

Designing projects that incorporate the above principles and scaling them up beyond the initial experimentation phase is not easy in practice. Possibly the greatest challenge is to devise mechanisms that allow the combination of external and domestic resources into fiscal transfers facilities supporting LG development spending and underpinning an autonomous LG planning and budgeting process. This process should be independent from the separate, multiple-purpose programmes and funds supported by external agencies, but provide the framework for accessing them. Here however the preferences and practices of both donors and international financial institutions continue to create often-serious hurdles. Many donors do not support recurrent expenditure, preferring to restrict their resources to investments in specific sectors. Many also insist on targeting only a sub-set of local authorities in specific areas, introducing the risk of geographic imbalances in resource distribution. Finally, many resist channelising resources through the regular public finance system because of perceived risks of delays and disruption in resource flows to local activities or because existing accounting systems and capacity do not satisfy their specific requirements. Such resistance is further complicated by the fact that most external financial assistance is provided in the form of discrete investment projects rather than as more flexible budgetary support.

All the above concerns suggest the need for a change in the practice of external aid to decentralisation. To assist decentralisation and LG capacity building more effectively, new forms of donor/government partnerships must be developed and an effort must be made to go beyond the project format used to channelise much current assistance. Instead, it would be productive to adopt a comprehensive ‘sector-wide’ programming approach for the local government ‘sector’ similar to the sectoral programmes now increasingly advocated for external assistance to other sectors. Such an approach would provide greater opportunity to link ‘downstream’ assistance to local governments to ‘upstream’ development of the legal and regulatory framework for decentralisation, within a gradual and strategic approach to the implementation of the reforms. Of course the likelihood that such an approach will be adopted depends on whether decentralisation reforms will find a more prominent place in the major policy dialogue between governments and aid providers than what has been the case so far.

Once recognised, the importance of an open policy dialogue and partnership approach, raises another set of questions, which have been recently highlighted by the debate on the so-called ‘low income countries under stress’ (LICUS). These refer to how external aid can promote a local governance approach to local development and poverty reduction, where decentralisation reforms, even if officially advocated, are neither consistently supported by the central government nor part of the condition-based policy dialogue between the government and major donors and lenders. This is not uncommon in Africa and a reflection on the case of Angola may help illustrate a rather widespread syndrome. In Angola a ‘Strategic Plan’ for decentralisation reforms has been developed and endorsed by the Council of Ministries. The plan reflects the government’s vision for a round of deconcentration and decentralisation reforms as well as a programme and time frame for producing the necessary legal and regulatory framework. It argues that reforms are urgent because the current centralised administrative situation is not consistent with the existing Constitution and is an obstacle to development.

The case in Angola for transfer of resources and responsibilities to sub-national governments, especially municipalities, is based on significant geographical imbalances in terms of: (i) most social indicators; (ii) the relative importance of displaced people; and (iii) deployment of public servants, who are concentrated in Luanda and a few other cities. While the final decision will be made by Parliament, the Plan suggests a 2–3 year framework for ‘transitional’ deconcentration, followed by local elections and the establishment of autonomous local councils (‘autarquias’) within 4–5 years. The concept of ‘transitional’ deconcentration suggests that any transfer of powers to sub-national agents of the centre should be designed and implemented to facilitate, rather than prevent or retard, eventual devolution of responsibilities and resources to elected local governments.

In practice, however, there has been little progress in implementing the ‘Strategic Plan’. Most importantly, its relevance for reconstruction, development and poverty alleviation, beyond its original political rationale, is neither clearly articulated nor appreciated within the central administration. Centralised mechanisms to tackle the post-conflict reconstruction, including the Social Fund and similar donor-supported programmes, continue to be
dominant and are posited as alternatives, rather than additional, to genuine decentralisation and the related need to finance and plan part of the reconstruction effort through municipal administrations. The Ministry of Territorial Administration, which has primary responsibility for oversight of the sub-national administration, remains on the sidelines of the reconstruction and development debate and there is little understanding of the critical need to invest in a system of effective state support and supervision of local authorities if decentralisation reforms are to succeed.

CONCLUSION

Under the typical circumstances discussed in this article and specifically in the brief treatment of Angola above, securing space for a pilot programme, conceived as a decentralisation ‘policy experiment’ with the help of selected national and local stakeholders within and outside the government may be the best option open to external aid agencies. Such programmes to pilot the transfer systems, participatory mechanisms and central oversight capacity development approaches discussed above, could play a key role in both building up a constituency for decentralisation reforms and demonstrating the feasibility and benefits of a local governance approach to local development and poverty reduction. They could also provide both an alternative model for policy dialogue and a basis for building the type of partnership between international donors and governments that is necessary for both to travel together on the road to effective decentralisation.

REFERENCES


