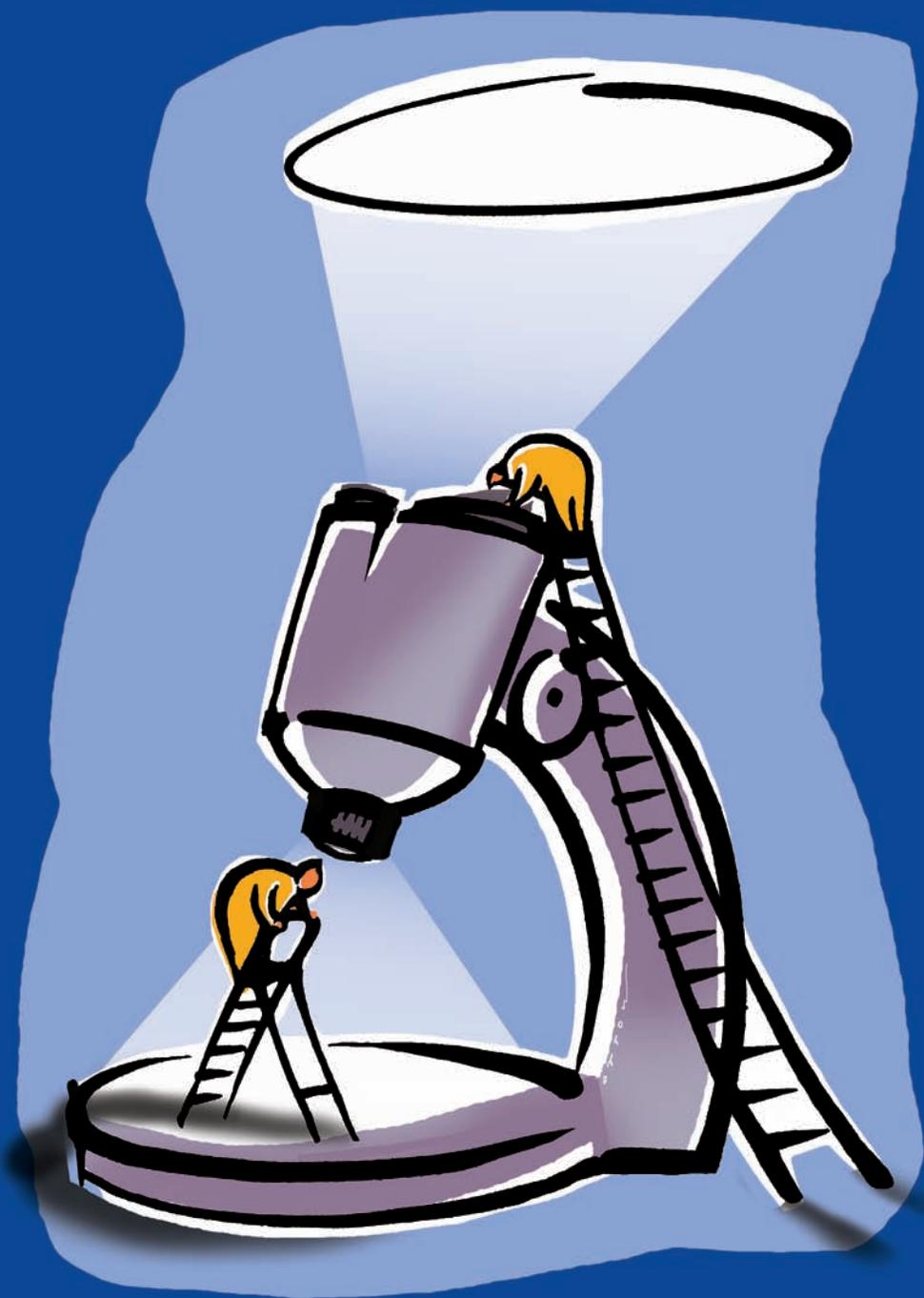


Bridging the macro-micro gap

Micro-meso-macro linkages in the
context of sector-wide approaches



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Summary

The shift in aid delivery from donor-led projects to supporting sector programmes in partner countries (Sector-Wide Approach, SWAp) has contributed to an increase in funding for social service delivery and better management capacity at the national level. However, the positive impact at the local level is as yet less evident. This chapter seeks to explain this ‘macro-micro gap’ and argues that a systematic effort is required for it to be bridged. There are several missing links in the current practice of SWAp implementation. Sector-wide often turns into ‘sector-narrow’ arrangements, which are perceived not as a multi-stakeholder process, but as a specific public expenditure programme funded by a group of donors. The objective that other local stakeholders be involved proves hard to meet. Avenues for strengthening macro-micro linkages include: addressing failing linkages in the policy dialogue; better institutional analysis at all levels as the basis for sector programming; effective monitoring of performance and results at service delivery level; an appropriate choice of aid modalities; supporting local capacities; and an open interaction with a wide range of stakeholders. This chapter does not propose radically new approaches. Rather, it promotes renewed attention for some of the original messages of SWAp policy.

Why are macro-micro linkages important?

“Think micro, act macro” was the slogan when Dutch development assistance initiated its transition from project support to sector-wide approaches (SWAp) at the end of 1998. While the starting point for any assistance to be given remains an analysis of the causes of poverty at grassroots level, aid is increasingly provided through the partner country’s national level systems. The aim of this policy shift was to overcome the limitations of isolated donor projects, while still ensuring the active engagement of donors with the actual poverty situation in partner countries. In this new aid architecture, donors move away from implementation and rely increasingly on the partner country’s own capacity for service delivery. For the Dutch government, this means that instead of direct interventions at local level, the policy dialogue with the partner government and other stakeholders has become its main tool for promoting effective spending of aid flows and domestic resources.¹

Recent evaluations show that the move towards sector support and general budget support stimulate institutional reform at the macro level – and that it does this to an extent that project support would never have been able to achieve.² Improvements are also noted in policy coherence and planning capacity, and in the quality of public finance management. Moreover, the *volume* of public services has expanded – spectacularly in some countries – and in particular in basic education. However, the same evaluations also point out that improvements in the *quality* of service delivery are far less evident, and that it remains difficult to reach the poorest sections of the population.

The IOB evaluation report *From Project Aid towards Sector Support* (April 2006) states that the Dutch government has failed to systematically operationalise a pro-poor focus in its sector support. Moreover, effective interaction between macro and micro levels has receded to the background. Most efforts of embassy staff go into processes in the national capitals. The IOB report states:

“The fact that there are few direct contacts with the local level anymore (via project aid, for example) means that the target groups have often literally disappeared from view. As evidenced by the frequent complaints from embassy staff that nowadays there is very little time for field trips. At present, most time is taken up in administration, managing the programme and intensive discussions with donors and the government.”³

It is natural that processes of structural sector reform take time to translate into improved outcomes at community level. However, the time factor is not the only explanation for this ‘macro-micro gap’. SWAp policies emphasise the importance of (i) broad-based participation by public and private actors and (ii) linking national level reform to institutional changes and dynamics at lower levels. These twin objectives have not yet sufficiently materialised. The Minister’s policy response to the 2006 IOB report, which was sent to parliament, acknowledges that improved service delivery at local level should become a key focus within the Dutch government’s work on sector support in the coming years.

What do we mean by micro-meso-macro linkages in the sector?

Broadly, the *macro level* refers to institutions operating at the *national level*, such as central government, parliament, national budget laws, trade unions, umbrella organisations of NGOs or the national media. It may also include *supra-national* institutions and forces of change such as trade regimes, migration flows and multinational companies. The *meso* or *sub-national level* refers to administrative layers that lie between the local and national levels, such as provinces, regions, districts or large municipalities. Institutions at these levels may include, for example, regional hospitals, district councils, district health or education boards, land registration offices and sub-national chambers of commerce. The *micro level* is used to refer to the *community level*, with actors being amongst others, village councils, community based organisations, primary schools, health clinics, small-scale producers and individual households.

Sectors cut through all three levels. Of particular interest is the interplay, at each level, between public and private actors, and formal and informal institutions. All of these have an impact on development outcomes. The Dutch government uses the following definition of a ‘sector’:

“a coherent set of activities at macro, meso and micro levels, in defined institutional and budgetary frameworks for which the government has formulated policy.”⁴

The sector-wide approach is based on the – not always realistic – premise that sector policies are rooted in a thorough knowledge of the development needs at local level, that they are formulated at the national level, and implemented at meso and micro levels. In practice, most problems encountered with SWAPs are caused by ineffective implementation at the local level. This implies that we need to step up our knowledge of the ‘transmission mechanisms’, or linkages, between the local and the national level. In order to understand who the relevant players are and how they are linked, a country-specific analysis is always required.

The importance of decentralisation processes

The nature of macro-micro linkages and the management of service delivery strongly depend on the way in which countries have decentralised their government systems. Basically there are three different models of decentralisation. *Devolution* (democratic decentralisation) means that authority for a wide range of operations is transferred to elected local governments. *Deconcentration* means that local government is merely a service delivery arm of the centre and has little or no discretion over how or to whom services are provided. *Delegation* is an intermediate form, in which spending priorities and programme norms and standards are set centrally, but with local government having some degree of authority over the actual allocation of resources to meet local circumstances. In practice, most countries apply a mix of these three models. For example, the devolution of mandates is often not matched by the necessary transfers of financial and human resources. Therefore, to understand the actual realities, it is advisable to examine which types of services are actually decentralised and how much decision space is granted to the local level.

Decentralisation is usually considered a powerful tool with which to bring decision making power closer to citizens. Local level decision making can be more responsive to local needs than standardised national level policies. After all, local governments have more knowledge of local conditions and are in a better position to assess the cost effectiveness of specific policy measures. Decentralisation can also lead to more accountable local governance, because it offers opportunities for stakeholder participation in planning, budgeting and monitoring. However, these benefits do not come about automatically. They require, above all, the political will to design decentralisation processes which effectively create space for more stakeholder participation and improved service delivery. If the right conditions and incentives are not in place, decentralisation may be ineffective or even be (ab)used by elites at the national or local level to their own political and economic benefit.

The scope for effective poverty reduction is thus also decided by informal dynamics. Which voices are being heard, what information reaches policy makers and how this information is used, partly depends on the relationships among different groups of people, on the personal views and social and cultural backgrounds of those in charge, and on political patronage. Furthermore, communication and the two-way flow of information also determine whether sector reform at national level is responsive to lower level needs. Too often, national level reform policies are designed without the prior consultation of stakeholders at local level. But also at the local level, government agencies are sometimes unwilling to communicate and co-operate with stakeholders such as local NGOs and private service providers. Public access to information matters a great deal: do citizens know to which services they are entitled? Can they hold service providers to account?

In 2006, the new prime minister of Tanzania announced a major initiative to expand access to secondary education. All districts and municipalities were ordered to build secondary schools and to pay for this from their limited 'discretionary' resources, without any reference to their own development plans and priorities.

In brief, there is no empirical evidence that decentralisation by definition leads to improved outcomes in the quantity or quality of service delivery: experiences vary across countries and across sectors, as well as over time. In Bolivia, Colombia and Chile decentralisation resulted in improved health care services thanks to better informed decision making by local government. In Uganda and the Philippines, however, decentralisation led to the reallocation of resources to curative care and away from public health care.⁵

In order to gain a better understanding of the effects and opportunities of decentralisation, the driving forces behind the decentralisation process must be identified (top-down or bottom-up; political or efficiency-related; donor-induced), as well as the 'winners and losers', and the historic and political context must be studied (quite often the starting point is a dominant central state with a one party system and central planning). This may include an analysis of political and commercial interests - such as the fear of national elites to lose their political base - patronage systems, productive resources, and the interests of local traditional leaders.

Current experiences with SWAp processes and the bottlenecks encountered

This section discusses some of the bottlenecks and difficulties that have been encountered so far with the implementation of SWAps.⁶

'Sector-narrow' arrangements and a lack of local stakeholder participation

The sector-wide approach confers a crucial role to central governments, whose political will is a *sine qua non* for any sector reform to be successful. But broad-based stakeholder support is equally essential. In fact, it was acknowledged at an early stage that:

- SWAps should not be driven by a ministry-led plan, but draw in perspectives from a wide cross-section of people and agencies
- Responsibility (and funds) for their implementation should be devolved as much as possible to lower levels of government
- Private agencies should engage in the design, implementation and monitoring of aspects of the SWAp: citizens' organisations have a particular role in enhancing accountability.⁷

In practice, SWAps have come to be perceived by many donors and partner governments not as a multi-stakeholder process, but as a specific public expenditure programme funded by (a select group of) donors. As such, the sector as a whole tends to get identified with the policy and budgetary framework established by the central government. In reality, a sector is not a policy or a budget, but a diverse and complex set of actors at all levels. Government policies and funding decisions can create enabling conditions, but it is the combined actors who achieve, or fail to achieve, development results.

An important reason why SWAp implementation has not been all-round successful, is the fact that donors have primarily focused on securing the cooperation and ownership of central

governments. The usual participants in the sector dialogue are donors and representatives of line ministries and ministries of finance and/or planning. The demand that other local stakeholders be involved proves hard to meet. Sector-wide has become sector-narrow! Most partner governments lack a tradition of broad stakeholder involvement, and donors are therefore confronted with a tension between government ownership and the envisaged wider ownership in society. Faced with a trade-off between the need to ensure an effective multi-stakeholder process and the urge to demonstrate results, donors usually decide to ‘start implementing’, hoping that an adequate multi-stakeholder process will develop over time.

In the environment sector in Senegal, the Dutch embassy, as a part of the shift from a project approach to sector budget support, entered into an intensive dialogue with the ministries of environment and finance. It facilitated a considerable improvement in national planning for the sector, including the formulation of a medium term expenditure framework and a sector-wide monitoring framework. However, given the lack of a consultative tradition in Senegal, involvement of critical NGOs or other stakeholders in the process was considered one step too far. Instead, the embassy supports some NGOs, the press and even parliament separately for advocacy in support of the environment.

There is little evidence, even in SWAp processes which have been going on for years, that governments and donors actively pursue ‘opening up’ the policy dialogue to a wider range of non-state actors. Donors often struggle with the ‘legitimacy’ or ‘representativeness’ of civil society organisations (CSOs), or they worry that the results they are just starting to achieve through their dialogue with the government, will be undermined if partners not trusted by this government enter the scene. It is also felt that few NGOs and CSOs have the capacity to participate effectively in the policy dialogue.

Non-state actors, on their part, feel that donors shy away from the political perspective that they wish to bring in, being aware that donors prefer to treat (sector) reform as a technical process. To CSOs and local administrations, the donor-government dialogue is often a ‘black box’ that is closed to public scrutiny. A study by ActionAid and CARE on the changing relations between DFID, recipient governments and NGOs in Malawi, Tanzania and Uganda notes:

“NGOs interviewed believe they are excluded from the all-important policy dialogue between donors providing budget support and recipient governments. Crucial issues including conditionalities, budget allocations and spending limits are discussed in forums closed to NGOs.”⁸

Even if civil society organisations are invited to participate, the set-up of the dialogue usually does not allow them much time to prepare or the space to actually influence policy planning and implementation. Meetings are convened in a very *ad hoc* manner with late notification, documents are distributed late (or not at all), and none of the documents is available in the local language.

Consequences of time pressures and the ‘sector-narrow’ approach

Weak institutional analysis underlies the design of sector strategies

Despite the very explicit guidelines provided in the manuals on sector support, most sector policies are not grounded in a solid, participatory analysis of the existing arrangements at the local and national levels. Moreover, many of these sector strategies are highly influenced by donor priorities. They tend to be technical, uniform documents, which lack an in-depth insight into local (political) dynamics. Proposed solutions are often based on experiences elsewhere, including the donor countries’ own systems, which usually do not reflect the local dynamics at hand.

Other proposed solutions are overambitious and neglect existing constraints, such as high teacher absenteeism, delays in funding, or the fact that the poor do not go to public service providers.

Limited focus in the dialogues and a weak information base

As noted above, the sector dialogue tends to focus on processes at national level such as planning, budgeting and financial accountability. Much time is also spent discussing donor coordination and the choice of funding modalities. The dialogue lacks a systematic perspective from lower levels of administration and private and civil society actors. The Performance Assessment Frameworks (PAFs), which are increasingly used by governments and donors for joint monitoring of sector programmes, ideally rely on a local system for data collection. However, in most countries the capacity for data collection is as yet weakly developed. Besides, limited use is made of existing surveys and tracking mechanisms which do provide information on results at local level. The monitoring is still usually conducted for management purposes, with an emphasis on policy implementation and the supply of agreed inputs. The intended shift from *output* to *outcome* indicators for monitoring progress has rarely occurred. Hence, policy making and the policy dialogue processes are insufficiently evidence-based and weakly related to grassroots realities. In addition, the tendency to link payment decisions by donors directly to the achievement of PAF indicators entails the risk of biased reporting and less open discussion of the bottlenecks encountered.

SWAs are often limited to public services...

Sector reform policies usually focus on tasks and services delivered by the state. Rarely do government plans present a strategy based on a clear concept of the complementarity of public and private providers. They also seldom provide for allocation of resources to non-state service providers. Donor-funded government programmes thus tend to benefit public service providers only, even in situations where poor people to a large extent rely on other providers.⁹ The fact that governments are the key actors in the social sectors – notably education and health – explains why SWAs have come off the ground much more easily in these sectors than in the water or agriculture sectors. But even in health and education a large part of the services may still be delivered by non-state providers such as churches and NGOs.

...with parallel donor projects and support to non-state actors

Despite their policies which look good on paper, governments often lack the capacity or the political will to effectively reach the poor and marginal groups. The World Development report 2004, *Making Services Work for Poor People*, states:

“... most public spending on health and education goes to the non-poor, much of it fails to reach the frontline service provider, and service providers face weak incentives to deliver services effectively.”¹⁰

And:

“Most poor people do not get their fair share of public spending on services, let alone the larger share that might be justified on equity grounds ... In Ghana for example, the poorest fifth received only 12% of public expenditures on health in 1994, whereas the richest fifth received 33%.”¹¹

To compensate for this lack of service delivery to the poor, many donors continue to finance non-state service providers parallel to the government's sector programmes. They sometimes do this rather than try to reach a more pro-poor focus in government budgeting.

In Bangladesh, both in the health and education sectors, government sector programmes have come off the ground with very substantial funding from a large group of donors. Yet, many donors including the Netherlands continue to also provide large amounts of separate funding to the country's biggest NGO, BRAC, which has been much more successful than the government in reaching the poor and promoting gender equity. Also in Mozambique, where the embassy was providing sector budget support for the water sector, it was decided to additionally fund a separate UNICEF water project to reach the poorest areas.

Recentralising tendencies...

While some countries have well thought-through decentralisation policies, their implementation often leaves a lot to be desired. Local governments typically control only very limited resources, and their roles and mandates are often unclear. Line ministries tend to be particularly unwilling to decentralise financial and human resources, as well as decision making powers on hiring and firing of staff. Invariably, these ministries justify this by arguing that local administrations lack the capacity to properly plan and implement service delivery. Naturally, it takes time for capacity to develop at lower levels, but this will only happen if capacity building efforts are undertaken and accompanied by a credible transfer of resources.

In theory, SWApS can provide the missing link between sector reform and decentralisation.¹² In reality, however, many SWApS have the tendency to reinforce the position of central line agencies vis-à-vis other actors. Donors' spending pressure and their eagerness to demonstrate results are hard to reconcile with a slow process of local capacity development.

... and restricted space for local priority setting

For local governments the vertical ('stovepipe') nature of sector programmes can be quite problematic. Priorities set at central level often clash with local priorities. For instance, in areas where waterborne diseases constitute a major health problem, local authorities may want to prioritise investment in safe drinking water over additional spending on, say, HIV/Aids. Sector investments decided at central level should become much more based on an adequate knowledge of local needs, and local politicians and administrators should get more say in decisions relevant to the situation in their areas. In addition, sector programmes must avoid overemphasising accountability of local governments and service providers to the centre, at the cost of accountability to citizens. Central government and donors must allow space and time for learning by doing. Donors also need to bear in mind that SWApS may have the effect of *reducing* incentives for local governments to involve local stakeholders and non-state actors in planning and implementation, because they feel that everything is decided nationally anyway.¹³

Too little attention is paid to citizen demand and empowerment

SWApS focus predominantly on the 'supply side' dimensions of service delivery. While in fact an effective user demand is the best way to guarantee accountability of service providers and policy makers. Some sector plans do provide ways to give stakeholders a more active role. Examples are the parent-teacher committees in basic education, where parents monitor the quality of education and the presence of teachers in the classroom. The World Development Report 2004 focuses entirely on the need to strengthen the control of poor people over service providers. To date, there is little evidence that this type of thinking is part of regular sector processes.¹⁴

How can micro-macro linkages be strengthened in the future?

Improving macro-micro linkages requires a systematic effort on the part of donors and their partners in central government. Rather than reverting to donor-driven interventions at local levels, the challenge is to help strengthen mechanisms *within* the partner country that ensure more effective micro-macro linkages. The key is to enhance the poverty focus of national policies. The main instruments for donors to help strengthen the pro-poor focus of partner countries, discussed in this section, are: (1) the policy dialogue; (2) institutional analysis of macro-micro linkages; (3) joint monitoring of performance and results; (4) the choice of aid modalities; (5) support for capacity development and (6) the interaction with a wide range of stakeholders.

The policy dialogue

Addressing macro-micro linkages in the policy dialogue

The policy dialogue between donors and partner governments – both at sector and macro level – currently tends to focus on national level policies, systems and inputs. However, the principle of *alignment* of aid to national systems applies not just to the central level. In decentralised government systems or countries where decentralisation reform is underway, the design and implementation of sector programmes should respect the legal division of tasks, and the mandate of elected local governments. Donors must resist the temptation of engaging in top-down planning and policy making together with their national counterparts. Instead, strengthening local government institutions should take an important place in all sector strategies.

SWAps envisage a shift to an outcome-based dialogue. If expected outcomes are not achieved, the policy dialogue is the place to address existing constraints. Donors should not prescribe any institutional reforms in a normative manner, but they can discuss the inclusiveness, effectiveness and sustainability of existing models, based on an institutional analysis (see next paragraph).

Through the policy dialogue, donors can encourage central line ministries to take on an enabling ‘stewardship’ role, with a view to increasing long-term local government capacity for service delivery. Such an enabling role includes overall policy formulation, resource mobilisation, ensuring adequate and predictable resource transfers, co-ordination across and within sectors, advisory services, supporting demand-driven capacity building at the lower levels, impact monitoring and promoting quality control.

Donors need to be well aware of existing resistance to decentralisation among stakeholders at central level (both open and hidden). A frequently heard question from the perspective of social service delivery is: is decentralisation a policy objective in itself or a means to an end? Should national standards be prevailing or should local interests and special circumstances take priority? Legitimate concerns of all parties need to be addressed, not ignored. However, whatever answers are given to these questions, some confidence at least needs to be placed in local leadership and the local electorate and democratic process. The dialogue with the line ministry could then focus on specific measures, e.g. to address fiduciary concerns regarding fiscal transfers, but local governments should not be stifled by too strict controls. Though the risks of local misuse of funds and corruption are real, this must not be exaggerated.¹⁵

The policy dialogue needs to be more inclusive

The current aid situation, despite good intentions, still emphasises accountability from government to donors, rather than to domestic stakeholders. Domestic accountability is primarily the responsibility of our partner governments. However, donors can do much to stimulate public

debate and access to information. In partner countries with a bad rating for public accountability, more serious donor pressure on government is required for these governments to open up. In all countries, donors could for instance promote that PRSPs and other key documents are made available in the local languages.

While most of the policy dialogue by donors will continue to take place with national institutions, the design of more specific programme components needs the involvement of local governments and local service providers. The ministry in charge of the decentralisation process and/or associations of local government authorities may act as intermediaries in the policy dialogue to bring in the local perspective.

Discuss the effects of macro-economic policies

Solid macro-economic policies are indispensable for sustainable poverty reduction. For a long time, this was regarded as the exclusive realm of ministries of finance and international financing institutions such as the IMF and World Bank. However, it is by now generally acknowledged that macro-economic choices – in areas such as liberalisation, privatisation, downsizing of the public sector and fiscal ceilings – strongly influence the scope for poverty reduction and pro-poor service delivery. The Dutch government, being increasingly involved in the policy dialogue at both sector and macro level, is obliged to discuss the effects of such macro level policies and reforms at the meso and micro levels. It should also critically assess policy advice and conditions set by international financing institutions, which are too often based on standard recipes. Similarly, global agreements on trade, intellectual property rights, agriculture and migration must be made to respond much more credibly to the development concerns of poor countries. For DGIS, this requires a systematic coordination of positions both within the head office and within embassies. Donors should also make a credible effort to promote a domestic stakeholder dialogue on these issues.

Institutional analysis

Institutional analysis of macro-meso-micro linkages

An adequate understanding of the institutional realities at micro, meso and macro levels, and the linkages between these, is vital for all partners in the national level dialogue, both at sector and macro level. To engage effectively in the policy dialogue, and before taking positions, donors need to step up their knowledge of national decentralisation policies, the administrative and legal frameworks, as well as realities at the grassroots level. A wide range of questions needs to be answered. How are responsibilities in the sectors distributed across different levels of government? Do national policies allow sufficient space for local decision making, responsive to local needs? Are sufficient human and financial resources made available to local governments and service providers in a timely and predictable manner? Are available resources employed effectively at the local level? Are services reaching poor people equitably and are they affordable? Are there sufficient incentives for public and private service providers to provide good quality services to all citizens, and can they be held to account? Ideally, such questions should be addressed in a participatory stocktaking process with local partners in the lead.¹⁶

Fiscal decentralisation and funding for frontline service providers

Donors should be more aware of country specific arrangements regarding fiscal decentralisation. Fiscal decentralisation involves real decision making power at local level over the use of public money. Sources of local funding may include local revenue, sub-national borrowing and intergovernmental transfers from the centre to lower tiers of government.

The choices made with respect to fiscal decentralisation have a bearing on the scope for addressing regional disparities in development, and the ability of local governments to address their own priorities in poverty reduction. National governments use different formulae and allocation criteria. There are no 'best practices': each country context is different. In more decentralised systems, local administrations often receive conditional sector grants, intended to meet local targets, along with more discretionary types of funding such as unconditional block grants. Insufficient and/or highly earmarked funding constrain the ability of local governments to act, which undermines their credibility and legitimacy towards citizens.

In many sectors, exact information on which resources reach the communities is unavailable. In case of unexpected resource shortages, front line service delivery units may suffer most from the decisions of ministries to redirect resources to other purposes. Channelling of funds via intermediate levels of government may have negative implications for timeliness and predictability of funding at local level. The case of the education sector in Uganda serves as a spectacular example: up to 90% of funds intended for the communities got stuck at intermediate levels. A public information campaign on local entitlements later led to dramatic improvements.

A tool for analysing the quality of national public finance management, including the provision of resources to the local level, is the internationally agreed Public Expenditure and Financial Accountability (PEFA) performance assessment framework.¹⁷ It includes indicators on fiscal relations between the national and sub-national levels and on resources received by service delivery units. By the end of 2007, this PEFA framework will have been introduced in most partner countries.

Monitoring performance and results

Monitoring, data collection and awareness building

One bottleneck of the sector-wide approach is the monitoring of the results at community level. Partner governments need information from domestic monitoring systems for evidence-based policy making. Civil society needs information to hold government to account. In most countries, making sure that relevant information is collected *and* used effectively still proves a challenge.

Monitoring frameworks for sector programmes often contain a mix of input, output and process indicators, but are focussed on central level processes. Little research is done into the actual flow of policy and funds from central to district and local level. This can be addressed by including some critical benchmarks relating to micro-macro linkages in the monitoring framework, such as indicators on the percentage of (financial) resources that actually reaches the local government and service delivery level; on the performance of individual service providers; or on the findings of client satisfaction surveys about the *quality* of services delivered by frontline providers.

Budget tracking and routine data collection

Tracking of fund flows is vital to determine whether existing management systems of public finance effectively support frontline service delivery. If regular accounting systems provide incomplete or unreliable information on budget flows and budget execution, these may be complemented by alternative sources of information, such as audits, or Public Expenditure Tracking Surveys (PETS). Donors can help governments to strengthen their accounting systems and routine systems for data collection, and to ensure adequate dissemination of data (which is not just a technical, but sometimes highly political issue!). Donors need to avoid that their own demand for information results in mobilising limited capacity for data collection exclusively around their own priorities.

Participatory monitoring

In addition to government systems, various types of monitoring used by NGOs and community based organisations (CBOs) yield valuable information on the quantity and quality of public services delivered to the poor.

The Uganda Debt Network tracks whether debt relief funds reach the poorest. The Civil Society for Poverty Reduction in Zambia monitors PRSP implementation and its impact on the poor. The Development Organisation for the Rural Poor in Bangladesh monitors access to and quality of health services.

Monitoring tools used by such organisations include i.a. budget tracking at community level, household and service delivery surveys, citizen report cards and focus group discussions. Central governments and donors should make better use of this information to improve the effectiveness of government spending and policy making from a pro-poor perspective. Local monitoring can result in effective pressure on local administrators and contractors to force them to deliver better quality services or construction works. Donors can facilitate local monitoring by promoting public access to information (e.g. local budget transparency, public information on resource transfers) and they can assist NGOs to publish their findings. It is important that donors are aware of the difficulties faced by NGOs and CBOs in monitoring at local level, and they should avoid using NGOs for their own information needs.¹⁸ Monitoring by non-state actors first and foremost serves a process of local awareness building and empowerment: making people aware of their rights. In addition, joint monitoring by government, civil society and donors of progress in the sectors provides excellent scope for a common understanding of needs and constraints, and joint discussion of adjustments needed.

Funding mechanisms in relation to local development

For the public sector

Current Dutch policies promote flexibility in the deployment of aid modalities, based on local needs and opportunities. The country-specific track record analysis appraises what degree of alignment is possible. Funding to local governments can be delivered in various ways. When adequate financing mechanisms for lower tiers of government are built into the national budget system, general or sector budget support may be the most appropriate aid modality. Alternatively, donors use i.a. sector specific district basket funds or earmarked support directly to the general account of local governments to ‘ringfence’ a minimum percentage of total resources for service delivery at local level. Examples are the district health baskets in Burkina Faso and Zambia or the Ethiopia Protection of Basic Services Grant. Project funding can be used i.a. to support innovative pilot approaches - e.g. for reaching out to certain marginal groups – but should not be used as long-term compensation for failing government services.

Whichever funding modality is chosen, donors should avoid distorting the regular budget process. Donors and their partners should carefully examine the pros and cons of intermediate financing arrangements. Donors can support a process of fiscal decentralisation by phasing out parallel systems, harmonising their support, and helping to build (local) capacity for public finance management. With all types of funding, the timing of transfers should follow the annual budget cycles at the local level, and procedures for accountability should be maximally aligned with the regular procedures of accountability for (local) government institutions. All financial contributions for sector programmes should ideally be visible in the concerned local government’s budget - even if funding is not channelled through the local government finance system.

The Tanzania Local Government Capital Development Grant:

Tanzania's decentralisation policy stipulates decentralisation by devolution. However, in reality the Tanzanian model is a mix of devolution and deconcentration. The 122 district and urban councils prepare and approve their own annual plans and budgets. For recurrent costs funding (e.g. salaries) they receive a mix of sectoral block grants from line ministries and general purpose grants from the Ministry of Finance. There is very little flexible funding for local capital investment. Only 3% of the total capital investment budget is decentralised and local tax collection is very limited. Sectoral development grants are highly earmarked and often subject to approval by the line ministries, which causes delays. The Local Government Capital Development Grant was established as part of the local government reform programme to provide additional discretionary funds. One of the criteria to access the grant is a positive audit report, which has helped strengthening local public finance management and accountability. Although the Development Grant is mainstreamed into the national budget process, it is currently still largely a donor-funded mechanism. Donors and the Prime Minister's office for Regional Administration and Local Government anticipate that all sectoral development grants will be mainstreamed into the Development Grant within the next 4 to 5 years. In 2006, the agricultural grant was mainstreamed, followed by the water sector grant in 2007. Some line ministries are still resisting such mainstreaming.

For the private not-for-profit sector

As for the funding of civil society organisations, it is relevant to distinguish between organisations engaging in service delivery for the poor and those focusing primarily on lobby, advocacy and empowerment. Funding for non-state service providers (mostly NGOs and faith-based organisations) often takes place in parallel to donor support for government programmes.

A first important requirement is for donors and recipients to be transparent about the amount of funding going to such organisations. The challenge for the government is to acknowledge the contributions of these organisations and integrate them in the (sector) strategy and/or the local development plan. Services that are not provided by the public sector – because other actors have a comparative advantage – could be financed by donors through sector baskets or sector budget support, if these are part and parcel of the agreed sector programme.

To help develop countervailing power in partner countries, support to NGOs and CSOs that focus on lobby, advocacy and empowerment is essential. In some countries, multi-donor funding mechanisms have been established which provide harmonised financial and capacity building support to such organisations on a demand basis.¹⁹ Lessons learnt with respect to funding for advocacy organisations include: provide core-funding that allows organisations to concentrate on their core tasks and to respond dynamically to changes in the policy environment; provide multi-year funding (advocacy does not produce results overnight); encourage strategic diversity.

Donor support to capacity development at the local level

Line ministries in partner countries have, for decades, by-passed local authorities in the implementation of donor-sponsored programmes. Instead, NGOs and CBOs (such as water user groups, forest management committees) have been used as vehicles for implementation. Sector programmes require special attention for local capacity building needs. If donors were to systematically apply the principles listed above – and regard SWAs more as a *process approach*, with a strong integrated capacity building strategy – this would go a long way towards addressing existing constraints. Better coordination and harmonisation of development organisations operating at local level is another key prerequisite. The proposition is not to strengthen government structures at the expense of other local actors. Rather, the aim is to promote good

local governance, including the need for local governments to consider which roles and responsibilities are best left to other actors and create an enabling environment for this. While strengthening local capacity for a single sector, donors and line ministries should not lose sight of the broader capacity building needs for general administration, financial management and accountability. Even sector programmes may well set aside some funds for general capacity-building needs at the local level; such funding mechanisms should be highly responsive to local demand. Some embassies (e.g. in Mozambique, Tanzania, Uganda and Bolivia) support general local government reform programmes. Yet in recent years, many embassies have wondered what scope they still have for targeted support to local capacity development. It must be stressed that – since the quality of local administration is a crucial part of the governance agenda and a precondition for effective sector and general budget support – such decentralisation support by embassies is entirely acceptable, as long as it is part of a prioritised and approved embassy plan and the modalities adopted are in line with the ‘Paris agenda’.

Training or capacity building efforts should be linked to an adequate transfer of financial and human resources – and vice versa. The lack of professional staff is a key constraint in many sectors. In Zambia, the embassy supports a retention scheme which provides financial and other incentives to motivate medical staff to work in remote areas. Donors can also contribute – through the policy dialogue at various levels – to the coordination of decentralisation processes with other institutional reform processes such as sectoral deconcentration, civil service reform and privatisation.

Local capacity development, perhaps more than any other area, requires complementarity between different types of development organisations. Among Dutch organisations, VNG International and SNV specialise in capacity building support at local levels.

Under the new financing agreement with SNV (2007-2015) it is agreed that at least half of SNV's programme in each country supports sectors or themes identified jointly with the Dutch embassy. SNV's work includes advisory services, knowledge brokering and networking, assisting in setting up local funds for capacity development, advocacy, and supporting national/local capacity building organisations. SNV usually focuses on the district level and supports constellations of stakeholders, both public and private, to achieve shared goals. SNV's new approach explicitly aims at helping to bridge the macro-micro gap. VNG International is also interested in complementary work with Dutch embassies and has, in addition to providing local advisory services, started to help build capacity of local governments, for instance to improve their effective participation in national level (sector) dialogues.

Many (inter)national NGOs are involved in capacity building of local actors. While much of their support is still directed to individual service delivery NGOs, the need to increasingly focus on demand side capacity, voice and accountability and broader multi-actor approaches is acknowledged.²⁰

How to make complementarity work

To act complementary, all actors have to be clear about their own roles and the niche they see for themselves. DGIS has a comparative advantage vis-à-vis NGOs because of its easy access to partners in government. DGIS' niche can be to facilitate – through dialogue at national level – the translation of poverty analysis and monitoring at micro level into adequate government policies and financial priorities, reflected in an integrated national budget. Embassies also have a comparative advantage vis-à-vis the international financing institutions, because of their (prior) experience ‘in the field’, their flexibility in funding and the ability to address sensitive political

issues. However, since its direct knowledge of the grassroots level is diminishing, DGIS depends on organisations which still work at local levels to maintain this added value. Complementarity need not imply a direct (funding) relationship. It is first and foremost a matter of open and mutual exchange and feedback. This need not be limited to Dutch embassies and other Dutch development agencies. Both can fruitfully work in exchange with partners from other countries. However, when DGIS and organisations like SNV, VNG or the Dutch co-financing organisations have a substantial involvement in the same country, this provides obvious opportunities for mutual learning. More active cooperation can also be pursued, especially in the area of capacity building for local governance, voice and accountability (as noted above) and forging public-private alliances. For instance, Dutch NGOs can support advocacy groups to participate in joint sector reviews or in conducting (public) awareness campaigns at local and national level. An example of the latter is the work done by the organisation Wemos on the link between IMF policies and human resources in the health sector. The activities of Wemos bear direct relevance to our own work in the health sector in many partner countries.²¹

Relations between embassies and the Dutch co-financing organisations are generally still not smooth and active synergy appears hard to achieve, though there are positive examples. There is a mutually felt need for a more structural (policy) dialogue at head office and embassy level, to better understand each other's positions in the context of the aid effectiveness agenda. At head office level, this type of dialogue is underway and will be continued and possibly intensified in coming years. To improve cooperation requires a change of mindset on both sides. Embassies can contribute to this cause by providing more openness about their work and by acknowledging that the work and perspective of civil society organisations are as important as their own.

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Notes

- ¹ See chapter 'talking your way out of poverty' in this book.
- ² See the IOB evaluation report *From Project Aid towards Sector Support*, paragraph 8.1, p. 153-155. See also IDD and Associates, *Evaluation of General Budget Support: Synthesis report*, (May 2006; commissioned by a consortium of donor agencies and partner governments under the auspices of OECD/DAC)
- ³ IOB, 2006, p. 151
- ⁴ This definition was used in various DGIS internal policy notes and external brochures issued in 2000 and beyond, including *Sectorale Benadering, Groeidocument* (DGIS, 2000), p.5.
- ⁵ Gottret, Pablo and George Schieber, *Health Financing Revisited* (World Bank 2006)
- ⁶ This overview is based on exchanges with embassy staff and local partners in a large number of countries and with other donors at head office level.
- ⁷ A DFID-DGIS key-sheet on Sector-Wide Approaches, issued October 2001, lists these and other principles as key concerns with respect to strengthening governance and citizens' rights in the context of SWAps.
- ⁸ See the CARE/ActionAid report *Where to now? Implications of changing relations between DFID, recipient governments and NGOs in Malawi, Tanzania and Uganda* (2006).
- ⁹ There are positive exceptions. In Zambia, the Ministry of Health pays the salaries of health workers from a number of faith-based organisations. The faith-based organisations organised through the Churches Health Association of Zambia (CHAZ) provide 50% of rural and 30% of urban health services. The services provided by CHAZ members are part of the health sector strategy.
- ¹⁰ World Development Report 2004, p. 11
- ¹¹ Ibid, p. 38-39
- ¹² See *Building Coherence between Sector Reforms and Decentralisation: do SWAps provide the missing link?*, a paper written by ECDPM for the LENPA Berlin Forum in 2003.
- ¹³ A Danida Discussion Paper written by Henrik A. Nielsen in October 1999, *Sector Programme Support in Decentralised Government Systems: a Contextual Donor Challenge*, provides a useful overview of aspects of decentralisation which need to be taken into account by donors and line ministries engaging in SWAps.
- ¹⁴ See chapter 'Taking responsibility and demanding rights' in this book.
- ¹⁵ Nielsen, p. 7
- ¹⁶ In 2007, further work will be undertaken by DEK/BA jointly with thematic departments and other donors to draft a checklist pertaining to the various aspects of effective macro-micro linkages.
- ¹⁷ In 2005, the World Bank, IMF and the OECD/DAC joint venture on PFM (Public Finance Management) issued a joint diagnostic instrument for assessing the performance of PFM systems in partner countries. This instrument is shortly known as 'PEFA'. Indicators PI-8 and PI-23 pertain to fiscal decentralisation and funding for frontline service providers. The embassy support programme for PFM (PFM-POP) offers a separate module on fiscal decentralisation.
- ¹⁸ A useful overview of such challenges is provided in a report written for Cordaid by Angela Wood: *Beyond Data; A Panorama of CSO Experiences with PRSP and HPIC Monitoring*, October 2005.

- ¹⁹ For example, the Tanzania Foundation for Civil Society, funded by the Netherlands and many other donors, provided funding for 248 CSOs in 2006 for activities in the areas of governance, advocacy and policy influencing; 249 organisations were trained in financial management.
- ²⁰ See Notitie Decentralisatie en Lokaal Bestuur vanuit het perspectief van armoedebestrijding, (DMV/VG policy note, April 2002) for information on Dutch and international organisations active in support of decentralisation and local capacity development.
- ²¹ Angela Woods, IMF Macroeconomic Policies and Health Sector Budgets, (July 2006, paper written for Wemos Foundation)