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Noé Cornago

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OF CONSTITUENT UNITS:
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NOÉ CORNAGO

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Forum of Federations
700- 325 Dalhousie
Ottawa, Ontario (Canada) K1N 7G2
p. 613-244-3360
forum@forumfed.org

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Abstract:

Recent transformations in the international aid regime have created a new opportunity for sub-national governments across the world to extend their own development cooperation policies. Constituent units from federal countries are becoming more and more active both as donors and partners, facilitating, along with state agencies, multilateral institutions and NGOs, the emergence of what can be called the decentralization of the international aid regime. Although some prominent exceptions exist and some best practices in the field are gaining international recognition among international institutions, partners and conventional donors, the involvement of constituent units in the development field has proven, thus far, to be more enthusiastic than effective. For constituent units in both developed countries and emergent partner states, the issue has nonetheless a double face, depending on whether they participate as donors or partners under the new cooperation schemes. In both cases, they should carefully consider the ways in which specific aid instruments could contribute not only to human development and sustainability but also to ameliorating the robustness of federal systems and mutual institutional loyalty. Nonetheless, it is possible to foresee that as result of its increasing relevance both in terms of the significant level of funds involved and policy design, constituent units' involvement in the development field will require more effective and fluid intergovernmental coordination in the medium term, as well as important adjustments to international development policy mechanisms.

Keywords: Aid; constituent units; cooperation; decentralization; development; donors; federal; intergovernmental; international; policy; sustainability

Introduction

Recent transformations in the international aid regime are creating new opportunities for sub-national governments to extend their own foreign development policies. In this context, constituent units from federal countries and other highly decentralized political systems are becoming more and more active both as donors and partners. They facilitate, along with state agencies, multilateral institutions and NGOs, the emergence of what can be called the decentralization of the international aid regime. In contrast with some frequent approaches to this reality, which tend to concentrate exclusively on donors, this paper also considers the importance of this phenomenon for recipients of foreign aid and offers a critical assessment that takes into account the two sides of this reality. For this purpose, the paper is divided into three sections: the first section briefly analyzes the current decentralization of the international aid system facilitated by the so-called new 'consensus on development;' the second section describes the basic modalities of bilateral and multi-lateral aid as provided by constituent units and assess their effectiveness; and the third section examines the wider implications of diverse aid instruments mobilized by constituent units of federal systems.

Our aim is to determine if the current trend towards the decentralization of aid may have some transformative effects on development policies and planning, particularly with regard to their specific impact in federal countries. Although the great diversity of practices we examine makes it difficult to extract generalizations, one could argue that the growing acceptance of constituent units as legitimate donors or partners in the international aid system will help shape a new era in development policy. International cooperation policies and development policy planning are likely to become more sensitive to the implications of foreign aid for institutional balance, territorial cohesion and the political legitimacy of federal systems.¹

Decentralizing the international aid system

The current world economic crisis poses a serious financial challenge to aid donors. However, the so-called 'consensus on development', recently achieved under the joint leadership of the Development

1. Although he remains the sole person responsible for this text, the author wishes to thank Felix Knuepling for his kind collaboration and important suggestions, and also thank reviewers of this publication for their useful remarks and constructive criticisms.

Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) and the UN Development Group, does not seem to be at risk. That consensus is a response to the many lessons learned after decades of not so fruitful development cooperation and foreign aid. A new commitment to promote human development and sustainability is displacing the strategic interests and foreign policy priorities of donor states that decades ago gave form to the existing international aid system.

There are two landmarks in a new and widely shared agreement on the need to improve the quality of foreign aid. First, the Paris Declaration on Aid Effectiveness (March 2005) endorsed an international agreement by which over one hundred countries and the main international organizations committed to a set of important principles. Second, the Accra Agenda for Action (AAA), adopted in 2008, established a plan to accelerate effective progress in line with Paris Declaration's principles (See Box 1). Based on these commitments, the new consensus tries to promote human development, good governance and environmental sustainability across the world through more effective coordination and dialogue among the diverse stakeholders participating in development processes.

That important change, even at the level of discourse, has created the opportunity for sub-national governments to extend their own development cooperation policies, both as donors and as partners. Consequently, we are witnessing the emergence of what can be called the decentralization of the international aid system. However, that decentralization of aid underlines the challenge to achieve better coordination among both aid donors and partner states.

Recognizing the growing scope of sub-national involvement in international cooperation, the OECD issued a report that aims to identify the basic contours of this phenomenon among member states (OECD 2005). In addition to describing the scope and modalities of aid extended by local and regional governments, that report discusses to what extent these forms of decentralized cooperation may be qualified as Official Development Assistance (ODA). The nature and amount of the "sub-state aid" should be reported to the OECD's Development Assistance Committee (DAC), which would entail a modification of existing methods of ODA data collection and report.

According to the OECD study, development aid extended by constituent units – that is, aid provided by the public sector other than central government – was particularly important in Belgium, Germany and Spain; increasingly relevant in Austria, Canada, France, Italy, Japan and Switzerland; and of minor relevance for countries such as Australia, Denmark, Finland, Greece, Ireland, Netherlands, Sweden and the United States. In reply to OECD questionnaires, some countries in

Box 1: The new consensus on development

| Paris Declaration on Aid Effectiveness (PD) | Accra Agenda for Action (AAA) |
|---|---|
| <p>March 2nd, 2005: an international agreement by which over 130 States and the main international organizations committed to continue to increase efforts in the following areas:</p> <p>1) Ownership: developing countries set their own strategies for poverty reduction; aid shall improve their institutions, foster global governance and respect their partner priorities;</p> <p>2) Alignment: donor countries will use existing governmental systems in partner countries to deliver assistance;</p> <p>3) Harmonization: donor countries will coordinate and simplify procedures and share information among each other as well as with partners to avoid duplication;</p> <p>4) Results: developing countries and donors will shift focus to measurable results;</p> <p>5) Mutual Accountability: donors and partners are mutually accountable for development results.</p> | <p>Adopted in 2008, the AAA establishes an agenda to accelerate progress following the Paris Declaration's guidelines, under the following guiding principles:</p> <p>1) Predictability: donors will provide 3-5 year forward information on their planned aid to partner countries, in order to facilitate development policy design;</p> <p>2) Country systems: partner country institutions and procedures will be used to deliver aid as the first option, rather than donor systems;</p> <p>3) Conditionality: donors will switch from reliance on prescriptive or earmarked conditions about how and when aid money is spent to conditions based on the developing country's own development objectives;</p> <p>4) Untying: donors will relax restrictions that prevent developing countries from buying the goods and services they need from whomever and wherever they can get the best quality at the lowest price.</p> |

Sources: (OECD/DAC 2005; AAA 2008).

the last group stated officially that they lacked relevant statistical data. Even more significant, some reported that sub-national aid does not exist in their countries.

The lack of accessible and up-to-date information about the involvement of sub-national governments in foreign aid presents difficulties. For one thing, the OECD/DAC seems to be unsure about their own sources on the importance of decentralized aid policies. Yet a recent OECD/DAC survey (2009) observed that “the contribution of sub-national authorities to DAC member countries’ foreign assistance can be important,” particularly in countries like “Austria, Belgium, Canada, France, Germany, Italy, Portugal and Spain”. The report nonetheless identified benefits of such aid. For instance, “the involvement of sub-national authorities in foreign assistance activities raises the overall level of a country’s aid, makes it easier for citizens to engage in development related activities, and promotes greater public awareness and understanding of development issues (OECD/DAC: 2009:61).” The report concluded that only “rarely is decentralized co-operation guided by a strategic framework at the sub-national level, except in Belgium where the Francophone and Flemish regions have each developed such a framework (OECD/DAC 2009:62).”

The report also noted that DAC members are working on reforms to improve the performance of sub-national authorities, including the establishment of “databases to collect information on sub-national development activities, identifying good practice in development cooperation for sub-national authorities, and developing common tools for monitoring and evaluation (OECD/DAC 2009:63).” Finally the survey expressed concern that “sub-national authorities may resist implementing the principles of aid effectiveness... but developing appropriate tools for them to use and sensitizing them to the importance of the Paris commitments can help overcome this resistance (OECD/DAC 2009:63).”

The reality is slightly different, however. It is true that the design and planning of sub-national foreign aid through specific strategic or master plans for development policy remains exceptional for most countries. However these practices are common for Belgian regions, some German *länder* (states) such as Baden Württemberg and North-Rhine Westphalia, and many Spanish autonomous communities. Even in those cases, in which these new forms of decentralized aid have acquired a special relevance, the challenge of coordination has proven to be a complicated issue.

The Spanish case is particularly illustrative of this. Despite central government efforts, constituent units remain reluctant to fully coordinate their respective policies. They seem to prefer to assert their autonomy, with each adopting its own legal instruments and planning tools. Spain’s autonomous communities have created their own deve-

lopment agencies. Development assistance is formalized and strongly institutionalized in Andalusia, the Basque Country and Catalonia, and to a lesser extent in Aragon, Valencia, Galicia and other regions. Goals and means are largely subject to master plans adopted with a significant degree of public support.

The Catalan Agency for Development Cooperation (ACCD), for instance, presently employs more than 60 staff members working either at headquarters in Barcelona or in the field at locations throughout the world. For the fiscal year 2010, the Agency was allocated more than US \$110 million. It has undertaken activities and spending consistent with policy guidelines established by multilateral institutions in the field. Although Catalan development funds are mainly channeled through NGOs (a minimum of 55 per cent), direct bilateral cooperation (20-35 per cent) and other bilateral cooperation schemes (10-25 per cent), ACCD also pays special attention to multilateral institutions (Martí Gonzalez 2008).

In response to these realities, the Spanish government has adopted a number of measures aimed at better coordination and planning of decentralized aid. Both the Spanish Development Cooperation Act of 1998 and the Master Plan for Development Cooperation, 2009-2012, recognize the growing importance of sub-national aid. In addition, intergovernmental coordination and dialogue is channeled through the Inter-Territorial Commission on Development Cooperation, as well as through the Consultative Council for Development Cooperation. The Council is organized into six working groups that deal with planning, evaluation, education, statistics, humanitarian aid and harmonization of NGO funding. A recent report concluded however that coordination needs to be substantially improved in forthcoming years if Spain is to comply with the Paris Declaration (Hombrados 2008).

Other countries are discovering that the growing involvement of their constituent units in the development field can have a positive impact on their own foreign aid policies and goals (See Box 2). In countries such as Belgium, Germany and Spain, the additional funds provided by local and regional governments contribute toward achieving the long-term goal of 0.7 per cent of GDP investment in aid. The most salient case in this respect is Spain, where presently around one-fifth of bilateral official development assistance (ODA) consists of contributions from regional governments. In Germany, aid provided by federated units represents almost 10 per cent of total bilateral ODA, while in Belgium the share is five per cent.

Even in federal countries in which sub-national aid is not as significant in quantitative terms, this trend is receiving new attention. A recent report by the Swiss Direction for Development and Cooperation

Box 1: The new consensus on development

| Country | Decentralized Aid as % of Bilateral ODA in 2003 | Amount US millions |
|--------------------|--|-------------------------------|
| Austria | 1 | 3.9 |
| Australia | 0.8 | 0.8 |
| Belgium | 5 | 59.8 |
| Canada | 1 | 17.5 |
| France | 0.4 | 39.5 |
| Germany | 11 | 687.3 |
| Greece | 0.07 | 0.1 |
| Japan | 0.1 | 9.9 |
| Italy | 2 | 27.3 |
| Portugal | 0.5 | 1.0 |
| Spain | 18 | 321 |
| Switzerland | 2 | 22.4 |

Note: This box only includes DAC members that effectively reported decentralized aid, extended by both local and regional governments, to OECD/DAC. Members stating that the total amount was too small to justify the administrative burden of data collection include Finland, Luxembourg, Netherlands, New Zealand, Norway, United Kingdom. Those stating they have no such aid (Denmark, European Commission, Ireland, Sweden, United States) have been omitted. Source OECD/DAC (2005).

(DEZA) noted the new role that cantons and municipalities are playing in Swiss foreign aid. Some cantonal constitutions even have provisions for both international humanitarian aid and development co-operation, while others have passed specific regulations concerning these issues. Although the sub-national contribution to Swiss ODA remains slightly below 2 per cent, the report aptly anticipates the need for strengthening coordination between federal authorities and constituent units as a way of improving aid effectiveness (DEZA 2006).

Similarly, in Austria, where the federal government carefully collects data on decentralized aid for the purposes of its yearly report to OECD/CAD, some federated units are taking important steps towards

the institutionalization of this new policy field. Salzburg, for instance, has an officially appointed Advisory Board for Development Cooperation that contributes to the elaboration and accountability of its decentralized aid. Moreover, although constituent units' contribution to Austrian bilateral ODA remains below one per cent, the states have a representative in the Council of the Austrian Development Agency (AAD).

The previously discussed changes in the international aid system affect all OECD countries in a similar way. The differences in constituent units' involvement in development can best be explained in terms of domestic structures of incentives and constraints, political motivations and popular will. These differences can be further evaluated on the basis of both functional and normative arguments (Round and Odedokun 2003).

Among the *functional* explanations, we can identify the availability of economic, technical or administrative resources, the possible link between development aid and trade agendas, and diverse expectations for a foreign aid agenda that will not conflict with other policy priorities. Another explanation would be a shared concern among the local political elite about the possible impact on electoral support resulting from the more or less favorable attitude of taxpayers to the allocation of public funds to foreign aid.

Among the *normative* aspects, it can be argued that a genuine concern for social justice and international solidarity can also be, at least in some cases, a real motivation for development cooperation initiatives. In the context of a broader discussion on the foreign relations of federated units, Michelmann (2007) pointed out that altruistic motives can also play a role: "constituent units have expertise in policy fields such as education and healthcare delivery that is not found in the public services of many national governments; thus they can undertake aid projects in less developed countries to transmit such expertise... such aid can also build government capacity through training civil servants and providing policy advice (Michelmann 2007:7)." Finally, the political will to project a distinctive collective identity in the international realm has also been the source of some outstanding initiatives in this field, notably those of Catalonia, Flanders and Quebec (see Hernandez 2008).

Modalities of decentralized aid

For many local and regional governments, particularly in Italy, France and Spain, as well as in other European cases, the first modality of aid envisaged was to simply allocate some public funds through development NGOs. The availability of these increasingly important amounts of funds for local NGOs has, during the past decades, been the most important source of social legitimacy for decentralized aid. This type of funding contrasts with traditional ODA channeled through donors'

official agencies and only exceptionally is channeled through NGOs. In contrast to the previous cases, German states have focused their aid efforts on education and training of young foreign specialists. This focus explains why over 90 per cent of decentralized aid amounts reported by Germany to the OECD/CAD relate to tuition costs for international students from developing countries.

Beyond these particularities, sub-national governments' involvement in development aid – as with conventional ODA – can be deployed basically through either bilateral or multilateral cooperation schemes. The wide diversity of practices in this field is indicative of the learning processes of the constituent units about how to intervene in the development aid system.

Some illustrations of bilateralism will be offered first. A good example is the Memorandum of Agreement (MOA) between the German state of Nord-Rhein Westphalia and the South African province of Mpumalanga. The Agreement, signed in 1995 and renewed in 2008, outlined the commitment to work together in the fields of economic development, youth education and culture, good governance, HIV/AIDS and, more recently, support to the organization for hosting the 2010 FIFA World Cup in South Africa (Mahlangu 2009). Another noteworthy partnership has been the bilateral relationship between the Catalan Agency for Cooperation and Development and the autonomous regions of the Atlantic coast in Nicaragua. Other more institutionalized modalities of bilateral aid have also occurred. Similar partnerships have also been implemented in Belgium by Flanders and Wallonia with African counterparts.

The European Union has played an important role in fostering decentralized partnerships. Programs such as ASIA-URBS and URB-AL as well as economic incentives for decentralized cooperation (EC 1992, 1996, 2008) have encouraged many local and regional governments in Europe to establish partnerships with African, Asian and Latin American counterparts (Rhi-Sausi 2000; Husson 2007; Sarraute 2008; Romero 2008). As Malé aptly pointed out: “by making use of their autonomy, these local administrations create or adopt certain forms of co-operation based on strategies and decisions of their own, which are often original and innovative,” yet the real outcomes depend “mainly on the willingness and interest of each one of them, resulting in a wide variety of cases with specific forms and motives (Malé 2008:21).”

The EU-supported development activity has had another, perhaps unforeseen, outcome. Through their networking partnerships, constituent units from different states have had the opportunity to co-operate closely together in areas as diverse as institutional support and capacity building, economic development, environmental management, cultural

and educational exchanges, and humanitarian aid. These initiatives and related cooperative networking are particularly frequent among French, Italian and Spanish regions, but are increasingly important in other European states. Recognizing the growing relevance of these practices, the European Union is currently preparing an Atlas of Decentralized Cooperation under the auspices of the Committee of the Regions. The atlas should give greater visibility to this reality and facilitate a new awareness of its relevance to development aid and co-operation.

The European situation contrasts with Australia and Canada. Despite the robustness of their federal systems and their position among the top OECD donors, decentralized aid in these countries has only achieved minor relevance. In the Canadian case, provincial contributions to development aid are generally channeled through the Canadian International Development Agency (CIDA). CIDA operates a network of three main regional headquarters and six satellite offices across the country, which offer support and advice to Canadian provinces wishing to submit proposals to CIDA programs. To demonstrate the value of this activity, in 2006-2007, CIDA reported ODA-eligible disbursements by Quebec of more than \$35 million Canadian. Ontario, Manitoba, and Alberta made much more modest contributions, each less than \$2 million Canadian (CIDA 2009).

Quebec stands out among the Canadian provinces for its more generous spending and its focus on educational and cultural sectors – its preferred areas of international expertise and activity. Other Canadian provinces tend to invest on the basis of ad hoc opportunities. In this way, provincial governments seem to have found useful policy instruments in existing federal bilateral cooperation schemes. Alberta, for instance, has implemented important cooperation projects, generally in the high tech sectors, with Malawi, Russia, South Africa, Ukraine and Vietnam. Although these activities have often been highly effective, they have lacked a long-term agenda and have not received a substantial level of funding (Kukucha 2008).

In Australia, the situation is similar to Canada. The federal government tries to pool local efforts and concentrate on the poorest regions of partner countries. Examples of this strategy are the Philippines, where more than one half of Australian assistance is now directed to activities in Mindanao, and Indonesia, where aid is directed to a group of Eastern provinces.

Along with bilateral partnerships, sub-national governments all over the world are also making increasing use of opportunities recently provided by multilateral institutions to realize their policy objectives. In this field, the progress achieved in less than a decade is quite impressive. A few years ago, when evaluating the institutional participation of sub-

national authorities in international development aid co-ordination efforts, Desmet and Develtere (2002) identified an important problem. First of all, they said, “sub-national entities are not recognized by the agencies involved in aid policy-making and aid co-ordination – DAC/OECD, World Bank, UNDP, FAO among others.” The authors added that “notwithstanding their sometimes strong powers and substantial competences in their country they are not considered as member states in their own right... the consequence of this is that the sub-national entities have to find a *modus operandi* and a coordinating mechanism with the central government in order to play their role in international forums (Desmet and Develtere 2002: 18).”

It is worth remarking, nonetheless, that federated units only rarely aspire to full membership in international organizations formed by nation states. Moreover, even in those exceptional cases, such as Quebec’s efforts with UNESCO, the final status has not been true membership but formal recognition of the special role of a constituent unit as an official part of the affected state delegation.

Seven years after Desmet and Develtere’s comments, we can say today that despite the challenges, many sub-national governments have been really successful in promoting their interests in international aid. The ways they do this have been varied. Sometimes, sub-national governments have simply committed themselves to the declared goals of a particular institution. By offering complementary resources, they have effectively contributed to the success and effectiveness of an initiative. In these cases, constituent units do not pretend to hold any type of formal membership. Rather, the simple fact that they are recognized as relevant partners in global development efforts is sufficient. There are some compelling illustrations of this type of activity. The so-called Agenda 21, adopted at the United Nations Conference on the Environment and Development in Rio de Janeiro in 1992, has been signed by many local and regional governments around the world, as was the case more recently with the United Nations’ Millennium Development Goals campaign, which also attracted considerable support from local and regional governments.

In addition, particularly when they are acting as donors, constituent units have been able to sign MOAs with such institutions as the UNDP, UNICEF, FAO, UNESCO, UNIFEM, UNEP and others. This tendency has facilitated innovative cooperation schemes that are helping to transform old routines in multilateralism.

The Flemish government presents an interesting case. Flanders is presently among the top 25 international donors to UNAIDS. It has achieved this prominence through the activities of its development agency, created in 2006, and as a result of a number of important

bilateral instruments and specific formal agreements with multilateral institutions such as WHO, and FAO.

In Spain, the Basque Government, in close cooperation with civic associations and universities, and in partnership with diverse UN institutions, has successfully established a Young Professionals Program with a yearly budgetary allocation of around 1 million Euros. Over the past ten years, the program has funded internships for 400 young graduate students of diverse nationalities who have served, for terms of one or two years, as experts in mission at UN country offices around the world.

The most ambitious policy effort of this type, both in terms of funding and political design, is that of Catalonia. The Catalan agency recently announced a groundbreaking multilateral development cooperation strategy that will surely serve to give Catalonia new energy, visibility and credibility as a donor within the UN system (ACCD 2009). Furthermore, the Catalan Multilateral Strategy, which had a formal launch at the UN headquarters in New York in October 2009, is likely to open the door to similar initiatives by other constituent units worldwide.

These innovative agreements are usually implemented in a consistent and non-controversial way. This takes place under the watchful supervision of the official development agencies of each state, and benefits from the good will of both the executive teams of international organizations involved and officials of the constituent governments.

Financial contributions to specific multilateral institutions show this clearly. According to the 2004 UNHCR Global Report, Spain ranked as the 12th most generous donor to the UNHCR, with its contribution of almost US \$13 million. Interestingly enough, the central government of Spain was responsible for less than \$5.3 million, while its autonomous communities delivered the remaining US \$7.6 million. The situation was different in 2008. That year, Spain retained the same place in the ranking but it was the central government which contributed the lion's share, almost US \$28 million, more than six times its 2004 level of funding. The autonomous communities together contributed less than US \$8 million, an amount nearly the same as their 2004 contribution. Most surprising, perhaps, is that the contribution by the Autonomous Communities surpassed the combined contributions of China, Russia, Poland and Portugal to the UNHCR that year.²

With precedents like these, it is easy to understand why the executive boards of multilaterals of the UN Development Group are becoming increasingly willing to recognize federated units as relevant partners in the new international aid regime. These ideas were voiced by Bruce

2. UNHCR Global Reports are available at: <http://www.unhcr.org/gr08/index.html#/annexes>.

Jenks, Director of the Bureau for Resources and Strategic Partnerships at the UNDP, who spoke on the occasion of the signing of a MOA between UNDP and the Conference of the Peripheral Maritime Regions of Europe (CPMR):

“Thanks to democratization and to decentralization, sub-national governments, even if more is still claimed, have been given more political, administrative and financial means, responsibilities and power. The UN at large and UNDP in particular have become aware of the new roles and responsibilities acquired by regions. Regions seem to be the perfect link between global and the local. For us, the UN, it is important to rely on new partners which are in between national governments, who are our constituencies, and the citizens, who are our targets ... Yes, UNDP, through its hub for innovative partnerships believes in the promotion of a territorial approach of development, which allows ... the alignment of different stakeholders – inter-governmental bodies, national, regional and local governments, NGOs, academics and private enterprises – in working together, through a coherent and coordinated mechanism in a delimited administrated territory (region, province, district) with clear political and technical leaderships (Jenks 2006).”

In keeping with this approach, the UN system has started to work with regions and federated units, both in developing countries and in the industrialized world, under different cooperation schemes. The most important effort is ART GOLD launched in 2004, which brings together the programs of several United Nations Agencies including UNDP, UNESCO, UNIFEM, WHO and UNITAR.

On its web site, ART GOLD explains that its work “involves local communities in development processes, and promotes a new type of multilateralism in which the United Nations system works together with governments to promote the active participation of regional and local authorities, local communities and social stakeholders in the South and the North, while striving to fulfill the objectives of the Millennium Development Goals (UNDP ART-GOLD 2009).”

Thus far, ART GOLD has funded more than 300 partnerships between regional and local governments in the North including Belgium, Canada, France, Greece, Italy, Spain and Switzerland; and governments in the South including Albania, Cuba, Ecuador, Lebanon, Libya, Morocco, Sri Lanka and Uruguay (Camilleri 2008).

Other programs of this type provide still more opportunities for federated units to participate in development partnerships. A good example is the system of UNDP/GEF Small Grants Programs, or the so-called “Knowledge Fairs,” widely available in Latin America, Africa and Asia-Pacific. Under this system local and regional institutions exchange best practices and skills. In so doing,

they forge lasting partnerships. In addition, organizations such as FAO, UNEP, UNITAR and UN-HABITAT have their own decentralized aid programs, and have signed MOAs with local and regional governments worldwide.

Implications of aid instruments for federal systems

The growing economic and political importance of federalism for emergent countries (including Argentina, Brazil, Ethiopia, India, Mexico, Nigeria, Pakistan and South Africa) is posing new challenges for development policy makers and foreign aid planners. This subject has only recently begun receiving the attention it deserves. The most influential literature on decentralized aid looks at the subject from the point of view of donors (Vanna 1999; Desmet and Develtere 2002; Hafteck 2003). But important issues – such as the implications of foreign aid for the institutional equilibrium and territorial balance of federal and highly decentralized states which are recipients of aid – have only rarely been examined directly (e.g. Eldon and Waddington 2007; Cezario and Andrade 2008; Diaz-Abraham 2008).

In the past, the problem was frequently missed within the broader debate on development and decentralization (Bardhan 2002). But despite their respective relevance, and following the important insights in this field made by Rondinelli (2006), it is important to differentiate the transfer of responsibilities to lower levels within the central government, *deconcentration*, to non-governmental organizations, *delegation*, or towards the private sector, *privatization*, from the transfer or reallocation of power and authority – of a political, administrative or fiscal nature – from central to local or regional governments, *devolution* (Rondinelli 2006). All these forms of decentralization may have critical effects, but the latter, when not adequately implemented, may exacerbate intergovernmental competition and territorial imbalances fostering political conflict.

The implications of this for development aid have been largely ignored for decades, but fortunately, some path-breaking works are offering insights about this critical problem. A recent study looked at the implications of aid in the federal countries of Ethiopia, Nigeria and Pakistan, and carefully examined the way in which some aid instruments may provoke intergovernmental tensions and territorial imbalance by overriding constitutional distribution of powers (Eldon and Waddington 2007). The authors summed up the importance of this issue in very precise terms:

“Federalism has been neglected by development policy makers and practitioners, and we know little about of the relationships between

poverty reduction, sector performance and the institutional arrangements in federal settings. The interaction between federalism and donor aid instruments has also been inadequately explored...with arguably serious consequences for development outcomes and aid effectiveness (Eldon and Waddington 2007:1).”

Eldon and Weddington’s insights, as well as other equally relevant criticisms on the domestic implications of diverse foreign aid instruments (Bardhan and Mookjerjee 2000; Platteau and Gaspart 2004; McGregor 2007; Kuhl 2009) can be summarized as follows:

- 1. Community-Based Development Partnerships (CBDPs):** This instrument seeks to promote the empowering and effective participation of local institutions and civic organizations in the target community or region, offering them direct control over the provided resources. Lack of control by donors and opportunistic behavior on the part of local groups and leaders may produce what is called “elite capture”. Sequential and conditional disbursement of aid and information sharing among donors can reduce opportunities for these forms of mismanagement or corruption (Bardhan and Mookjerjee 2000; Platteau and Gaspart 2004; McGregor 2007).
- 2. Institutional and Capacity Development (ICD):** Implies a diversity of actions in support of local institutions with the purpose of fostering analytical, technical, and managerial capacities relating to specific policies. This practice has also been criticized as a vehicle for “organizational narcissism” of donors, since it frequently ignores local conditions, offering instead support in the donors’ areas of expertise (McGregor 2007; Kuhl 2009).
- 3. General Budget Support (GBS):** A contribution to a government’s overall budget, provided to support government policy and expenditures, the long-term objective of which is generally poverty reduction. When this support is disbursed in federal countries, without specific attention to their institutional complexity, it can have the effect of undermining constitutional equilibrium and fostering inter-governmental tensions. The federal dimension should be specifically incorporated in the policy design, and could include direct budgetary support to the constituent units (Eldon and Waddington 2007:2).
- 4. Sector Budget Support (SBS):** This is aid focused on specific sectors. When provided to federal governments, in countries where systems of fiscal decentralization are not well-developed,

the funding might bypass sub-national governments' sector priorities. Federal level policy dialogue needs to be congruent with a constitutional distribution of powers, while simultaneously avoiding the increase of transaction costs occurring as a result of the multiplication of actors participating in aid delivery (Eldon and Waddington 2007:2).

5. **Sector Wide Approaches (SWAs):** These mobilize a range of aid instruments and are focused on results in a single sector under government leadership. They can include a mix of projects, pooled funding, and reimbursements after eligible state expenditures have been incurred. SWAs must be negotiated and implemented at different levels consistent with the division of powers. This approach may be easier where federal governments provide un-earmarked support to constituent units, allowing them to establish their own policy priorities (Eldon and Waddington 2007:3; McGregor 2007:160), but this could also provoke rent-seeking attitudes by sub-national governments (Gervasoni 2005).
6. **Project Support (PS):** Relates to specific projects, not necessarily consistent with formal government policies and frequently implemented by development NGOs. When key stakeholders at different levels are engaged, Project Support can be very effective in promoting local policy change, but can complicate policy planning at the national level. Federalism poses specific challenges for donor efforts to improve service delivery if the constitution grants powers to sub-national authorities that can constrain the implementation of national policies in key social areas (Eldon and Waddington 2007:4).
7. **Small Grants/Funding Programs (SGP):** This instrument allows donors to provide funds or in-kind support directly to target communities through local and regional governments or NGOs. Despite some participatory mechanisms for local stakeholders, donor's views tend to prevail over local needs and priorities (McGregor 2007:166). Consequently, the resources are frequently allocated to the most efficient aid seekers (Epstein and Gang 2005).

Eldon and Waddington (2007:6) argue that, despite their differences, many of these instruments can be considered equivalent to the intergovernmental fiscal transfers (IGFTs) that many developed countries have successfully implemented through past decades to

ensure minimum standards of social welfare and territorial balance. Those experiences, they add, “could provide a framework against which to ‘map’ donor aid instruments and improve the effectiveness of aid” in federal countries such as Ethiopia, Nigeria or Pakistan (Eldon and Waddington 2007:6). However, their views sharply contrast with that of Gervasoni (2005), who, invoking the example of Argentina, has suggested that:

“a fiscal federal system that is designed to progressively redistribute fiscal resources from richer to poorer sub-national units may actually have a rather regressive political effect: the strengthening of local elites that stay indefinitely in power by means of restrictions on democratic competition (Gervasoni 2005:25).”

In addition, while asserting the value of earmarked direct or indirect fiscal transfers to constituent units – contrary to the recommendations of the Accra Agenda for Action – it is important to bear in mind previous experiences in which federated units have entered into direct negotiations for funding with multilateral institutions such as the IMF or the World Bank. This was the case in certain large federal countries such as Argentina, Brazil and India, where, unexpectedly and as result of the initial interest of federal governments to diversify the allocation of their external borrowing, constituent units became interlocutors negotiating directly or indirectly with international institutions (Watts 2005, Iglesias 2008; Liu and Waibel 2008).

There were some successful outcomes, such as Ceará in Brazil, which involved a combination of external borrowing, fiscal reform, a fight against corruption and a proactive international strategy of export promotion and attraction of foreign investment (Bessa Maia 2006). More frequently, however, the results have been less positive. In India, for instance, several federated units negotiated and concluded major agreements with the World Bank during the last decade. In 2002, Andhra Pradesh and Karnataka negotiated World Bank loans exceeding 250 and 100 million USD respectively. However, as the Government of India was the official borrower and ultimate guarantor of those loans, the federal government, as Jenkins eloquently remarked, retained “a great discretion in deciding what provisions will be allowable” (Jenkins 2003:75). Eldon and Waddington (2007) have summed this up in very convincing words:

“donors need to explicitly acknowledge that aid can be used to legitimize particular political interests, and be clear about which interests their aid seeks to strengthen, how they expect this to happen, and which systems should be supported to achieve success (Eldon and Waddington 2007:14).”

Conclusion

It remains to be seen whether the rapid extension of diverse foreign aid mechanisms by constituent units all over the world will produce real added value to the existing international aid regime. The diversity of experiences discussed in this paper illustrates that it is difficult to generalize about this phenomenon. Some best practices in the field are now recognized internationally. Constituent units are increasingly accepted as legitimate partners in development aid by conventional aid donors, partner states, multilateral institutions and NGOs. Clearly there is enthusiasm about the involvement of local and regional governments in foreign aid, but it is too early to tell whether it will prove to be effective as a policy innovation. Under current cooperation schemes, and from the point of view of constituent units in both western countries and emergent states, our exploration suggests at least two main conclusions:

First, involvement of constituent units in the development field needs more effective and fluid intergovernmental coordination – both horizontal and vertical – not only within the domestic sphere, but also with multilateral institutions and other international donors. The multiplication of donors, proliferation of projects, and diversity of administrative procedures can lead to aid fragmentation. Without the necessary multilevel coordination, the growing involvement of local and regional governments in the development field could further complicate the existing international aid system. However, the challenge of coordination requires a double loyalty. Both constituent units and federal governments have to be mutually respectful of their respective legitimacy and powers, as well as willing to find innovative venues for shaping a fruitful cooperation in this increasingly important field for democratic policy making.

Second, the emergence of this new type of public-sector donor – constituent units – opens the opportunity for a new and promising understanding of development aid. In this new approach, development experts and practitioners shall be considerably more sensitive to the many implications of development policy for constitutional legitimacy and territorial balance, in donor countries, and even more crucially in partner states. More than the simple increase in aid flows, the most promising and distinctive role that constituent units may add to existing development aid practices, is surely the understanding that aid instruments may contribute not only to human development in specific but more or less isolated communities, but also to the robustness and social legitimacy of constitutional systems in their partner countries.

Box 1: The new consensus on development

| Country | Decentralized Aid as % of Bilateral ODA in 2003 | Amount US millions |
|--------------------|--|---------------------------|
| Austria | 1 | 3.9 |
| Australia | 0.8 | 0.8 |
| Belgium | 5 | 59.8 |
| Canada | 1 | 17.5 |
| France | 0.4 | 39.5 |
| Germany | 11 | 687.3 |
| Greece | 0.07 | 0.1 |
| Japan | 0.1 | 9.9 |
| Italy | 2 | 27.3 |
| Portugal | 0.5 | 1.0 |
| Spain | 18 | 321 |
| Switzerland | 2 | 22.4 |

Note: This box only includes DAC members that effectively reported decentralized aid, extended by both local and regional governments, to OECD/DAC. Members stating that the total amount was too small to justify the administrative burden of data collection include Finland, Luxembourg, Netherlands, New Zealand, Norway, United Kingdom. Those stating they have no such aid (Denmark, European Commission, Ireland, Sweden, United States) have been omitted. Source OECD/DAC (2005).

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Some relevant websites:

Accra Agenda for Action, available at:

<http://www.oecd.org/dataoecd/58/16/41202012.pdf>

Catalan Agency for Development Cooperation (ACCD)

<http://www.gencat.cat/cooperacioexterior/cooperacio/>

Flanders International Cooperation Agency (FICA)

<http://www.fica.be/index.php?pid=1>

Forum of Federations

<http://www.forumfed.org>

Observatory for Decentralized Cooperation

<http://www.observe-ocd.org>

Paris Declaration on Aid Effectiveness, available at:

<http://www.oecd.org/dataoecd/11/41/34428351.pdf>

UNDP Art Gold

<http://www.undp.org/partners/region-local/art.shtml>

UNITAR Decentralized Cooperation Programme

<http://dcp.unitar.org/>

Abbreviations:

AAA Accra Agenda for Action

AAD Austrian Development Agency

ART GOLD UN's Interagency Programme for Human Development Thematic and Territorial Networks

ASIA-URBS EU's programme for Europe-Asia Decentralized Cooperation

CBDP Community-Based Development Partnerships

CIDA Canadian International Development Agency

DAC Development Assistance Committee (OECD)

DEZA Swiss Directorate for Development and Cooperation

DFID Department for International Development (UK)

EC European Commission
EU European Union
FAO Food and Agriculture Organization of the United Nations
GEF Global Environmental Fund
GBS General Budget Support
GDP Gross Domestic Product
IGFT Inter-Governmental Fiscal Transfer
ICD Institutional and Capacity Development
MDGs Millennium Development Goals
NGO Non-Governmental Organization
ODA Official Development Assistance
OECD Organization for Economic Co-operation and Development
PD Paris Declaration on Aid Effectiveness
PS Project Support
SBS Sector Budget Support
SG Small Grants/Funding Programmes
SWAps Sector-Wide Approaches
UN United Nations
UNEP United Nations Environmental Programme
UNHCR United Nations High Commission for Refugees
UNIFEM United Nations Development Fund for Women
UNITAR United Nations Institute for Training and Research
UNDP United Nations Development Programme
URB-AL EU's Programme for Europe and Latin America Decentralized Cooperation
WB World Bank
WHO World Health Organization

