

**Development Partners Working Group on
Local Governance and Decentralization**

**International Development Partner Harmonisation
for Enhanced Aid Effectiveness**

**ALIGNMENT STRATEGIES IN THE FIELD OF
DECENTRALISATION AND LOCAL GOVERNANCE
A REVIEW OF COUNTRY PRACTICES AND EXPERIENCES
NICARAGUA**

Draft Country Report and Annex to the Main Report

August 2007

Finn Hansen

TABLE OF CONTENTS

ABSTRACT	3
ACRONYMS AND ABBREVIATIONS	4
EXECUTIVE SUMMARY	5
1. INTRODUCTION.....	10
2. BACKGROUND TO THE DECENTRALISATION PROCESS	11
2.1. The Issue of Decentralisation in National Policy.....	11
2.2. The Policy and the National Decentralisation strategy for Local Development	12
2.3. Key Issues in the Decentralisation Process.....	13
2.4. Description of the Development Partners' Support to Decentralisation	20
3. PRACTICE OF AID HARMONISATION AND EFFECTIVENESS.....	22
3.1. Management of the Decentralisation Process	22
3.2. Development Partner Coordination Mechanism	25
3.3. Alignment of DP Support to Country Strategies.....	27
3.4. Support Modalities for DPs.....	32
4. LESSONS LEARNT AND PERSPECTIVES.....	35

ANNEX: Matrix of Development Partners working on decentralisation in Nicaragua

The Mission Terms of Reference are included in the Main Report covering the four countries.

Likewise, information has been provided regarding persons met, programme, literature list, and specific information at sector level.

ABSTRACT

The decentralisation process in Nicaragua has achieved considerable progress since the mid-Nineties, though not in linear fashion, and in the context of a complex political and economic framework. For the first time there is a National Decentralisation Strategy for Local Development. The strategy was published in December 2006 and includes a proposal for the design of a National Programme to address the many challenges at hand and to serve as a platform for DP alignment. The incoming government, headed by Daniel Ortega, took office in January 2007, but has not yet expressed officially whether such a National Programme will be formulated. In addition, the new government is reviewing the decentralisation strategy.

Development Partners (DPs) have achieved a good level of coordination, exchange of information and analysis in the framework of the sub-table for decentralisation headed by the Presidency's Secretariat. However, there are few examples of joint financing arrangements, joint missions or a formalised overall labour division between them. At present, some DPs are assessing the option of supporting wider governance programmes that could include the issue of decentralisation.

Overall, alignment in the field of decentralisation has been slow. Modalities are still diverse. Four reasons for this are highlighted: i) There is a need to formulate a more operational national programme, with results, joint modalities and budgets, and including all relevant key institutions that could serve for aligning the DPs. ii) The DPs have already pledged funds under well-defined modalities that cannot be easily changed. However, some DPs are formulating new programmes for the coming years, which could be susceptible for alignment. iii) since decentralisation and local governance are crosscutting issues, there is a large number of national institutions involved. This means that harmonisation and alignment is complex and needs more time to develop; and iv) With some exceptions, there have been few clear signs from the head offices of some DPs as to how to harmonise and align cooperation in practical terms in this area.

Acronyms and Abbreviations

AECI	Spanish International Cooperation Agency
AMUNIC	Nicaragua Association of Municipalities
CGR	Office of the Comptroller General
CIDA	Canadian International Development Agency
Danida	Danish International Development Agency (part of the MFR)
DP	Development Partner
DfID	Department for International Development (UK)
ENDDL	National Decentralisation Strategy for Local Development
ERCERP	Enhanced Economic Growth and Poverty Reduction Strategy
EU	European Union
FISE	Social Emergency Investment Fund
FONIM	Fund in support of transfer mechanism financed with external funds
GDP	Gross National Product
GTZ	German Technical Cooperation Agency
H&A	Harmonisation and Alignment
IDB	Inter-American Development Bank
IDR	Rural Development Institute
IMF	International Monetary Fund
INIFOM	Nicaraguan Institute for Municipal Strengthening
INVUR	Nicaraguan Institute for Urban and Rural Housing
JFA	Joint Financial Arrangement (budget support to several Nicaraguan government agencies)
KfW	German Development Bank
MDC	Municipal Development Committee
MHCP	Ministry of Finance and Public Credit
MINREX	Ministry of Foreign Relations
MPMP	Medium-Term Expenditure Framework
NDP	National Development Plan
OAP-SETEC	Public Admon. Office at the Technical Secretariat of the Presidency
ONDP	Operational National Development Plan
PEF	Economic and Financial Programme
P-ENDDL	Decentralisation Policy and Strategy for Local Development
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
SDC	Swiss Development Cooperation
SETEC	Technical Secretariat of the Presidency
SNV	Dutch Cooperation Service
TA	Technical Assistance
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WB	World Bank

EXECUTIVE SUMMARY

A. Context

During the past decade the decentralisation process in Nicaragua has achieved considerable progress, though not in linear fashion, and in the context of a complex political and economic framework. In practice, party politics have prevailed over national policies, making it a challenge to obtain political and institutional support to the decentralisation process from the top levels. The former government of President Bolaños (2002-2006) did not have a majority in the National Assembly (parliament), making for slow decision-making on which policies to pursue. Notwithstanding, one significant step forward is that for the first time there is a National Decentralisation Strategy for Local Development (ENDDL, acronym in Spanish). The Strategy was published in December 2006 and includes a proposal for the design of a National Programme to address the challenges at hand.

The incoming government, headed by Daniel Ortega, took office in January 2007. It has pointed out that prior to presenting a far-reaching government plan, previous policies must be reviewed. Nevertheless, the new government has already mentioned six priority issues: i) energy; (ii) water, sanitation, and the environment; iii) economic recovery and the reduction of hunger, malnutrition and poverty; iv) the right to health and social protection; v) literacy and education, and finally vi) decentralisation, citizen participation and governance.

According to the Constitution, Nicaragua is a unitary and decentralised state with three levels of government and public administration: (i) central government agencies deconcentrated to the departmental level; (ii) the decentralised autonomous regions of the Caribbean Coast; and (iii) the municipalities. The two autonomous regional governments on the Caribbean Coast were exclusively established for the region, and adhere to the constitutional principle of Nicaragua as a multicultural and multiethnic nation.

The country is divided into 15 departments, two autonomous regions on the Caribbean Coast (with elected regional councils), and 153 municipalities, also with elected local governments (a mayor and councillors). The size of the municipalities varies widely: some 70% of the municipalities have less than 30,000 inhabitants; approximately 25% have a population ranging from 30,000 to 100,000; and about 5% have over 100,000 inhabitants. The most recent data on poverty according to the published PRSP progress reports shows that 46% of the population is poor, and that of this percentage 15% is extremely poor. Poverty affects in particular the Caribbean Coast and the central zone.

The role of municipalities in Nicaragua has recently been defined. Reforms made in 1995 to the Constitution confirm the political, administrative and financial autonomy of local governments. It confers upon local governments the responsibility for promoting development and the well-being of citizens in the respective municipalities. The Constitution makes it mandatory to transfer a "sufficient" percentage (without defining what that may be) from the national budget to the municipalities. However, it also holds that the National Assembly has the authority to create taxes and approve the annual revenue of local governments. Further, the 1988 Municipalities Law and its 1997 reform in particular, defines such responsibilities. In 2003, the Municipal Transfers Law for the first time defined the percentage of the budget to be transferred to the municipalities (4% of state's tax revenue in 2004; increasing gradually to at least 10% in 2010).

Municipal competencies focus on: i) service delivery in a variety of areas (water, garbage, slaughterhouses, markets, urban planning, and the like); ii) delivery of other services "in coordination" with the competent government agencies, such as primary health care, rural and community roads and bridges, environmental protection, and so forth. The two regional governments enjoy faculties of "general competency" similar to that of the municipalities. However, they have no exclusive competency of their own. Despite the existence of instruments

and opportunities for improving citizen control, a more efficient accountability system is needed both vis-à-vis the government and the Office of the Comptroller General, as well as the population at large, in order to ensure local governance.

B. Findings

Management of the decentralisation process

Since 2004 the Public Administration Office at the Technical Secretariat of the Presidency (OAP-SETEC) is the entity in charge of conducting the decentralisation process. Nonetheless, the role of and distribution of work with other entities involved in the process, particularly the Nicaraguan Institute for Municipal Strengthening (INIFOM), which is charged with providing technical assistance to municipalities, need to be confirmed and clarified. Nicaragua has no ministry with a specific decentralisation mandate. Thus, the institutions involved (OAP-SETEC and INIFOM) have no ministerial rank. Due to historical weaknesses in INIFOM and other entities, a proper system for municipal strengthening and oversight needs to be created.

SETEC and the Ministry of Finance jointly established a strategic coordination space known as **Interinstitutional Executive Committee**. It is responsible for the overall management of the process to formulate a decentralisation strategy. Furthermore, an **Interinstitutional Technical Committee** was set up in February 2005 to coordinate with sector ministries and entities (health, transport, education, infrastructure, water / sanitation, and the environment). Moreover, an **Expanded Interinstitutional Technical Committee** had been established as a space for consultation in which to discuss issues related to the decentralisation process. The Committee includes representatives of regional and municipal governments, the Parliament's Commission of Population, Development and Municipalities, as well as municipal associations and civil society. The new administration has not confirmed whether this structure will continue. SETEC is also in charge of conducting structural reforms that ensure consistency between sectors, as well as public sector reforms, including decentralisation in each sector ministry. In 2004, the government assigned the Technical Secretariat of the Presidency, through its Public Administration Office (OAP), the leading role in the decentralisation process, for the specific purpose of promoting the issue at the highest level of government and linking the decentralisation process with public sector reform and modernisation.

Nicaragua now has a second PRSP which is under review by the new government. Decentralisation is one of the strategic areas ("governance and state reform"). Nonetheless, there is need to define the role of municipalities in poverty reduction. For the moment, central government agencies play a more specific role in this regard. Because the decentralisation process has been affected by party politics, there is a lack of financing mechanisms and monitoring systems with clearly defined roles that contribute to and measure the progress made in poverty reduction.

There is a strong municipal movement in Nicaragua that includes such actors as the Nicaragua Association of Municipalities, civil society organisations, among those the Nicaraguan Network for Democracy and Local Development and Fundemos. In 2006 these entities participated actively in the process of consultation and formulation of a strategy, as well as in public debate. According to several actors, their presence and opinions have contributed to promote approval of the National Decentralisation Strategy for Local Development (ENDDL) and its publication.

Development Partner coordination mechanisms

DPs in this field have achieved a good level of coordination, exchange of information and analysis. However, there are few examples of joint financing arrangements or a formalised overall labour division between them. At present, some DPs are assessing the option of supporting wider governance programmes that could include the issue of decentralisation.

In 2003 the government of Nicaragua established and has since guided the dialogue with DPs through seven tables: global issues, governance, health, education, infrastructure, production and social protection. As regards local development and decentralisation, the government has set up a **government – donor sub-table** within the framework of the governance table. The sub-table's terms of reference indicate, as one of its objectives, "to promote coordination and alignment of DPs with national priorities." The sub-table is coordinated by the OAP at the Technical Secretariat of the Presidency (SETEC) with Denmark and Germany (GTZ) acting as the liaison between the approximately twelve DPs participating in this sub-table with the government. Additionally, the DPs meet as a "**donor sub-table**" to promote coordination.

Despite periods in which the sub-table has been less active (i.e. during the first months of 2007 when the new government took office), its performance is considered to have been good. This was particularly true in 2006 when decentralisation strategy work was conducted as a space for exchange and joint analysis. Some of the actors in civil society have stated that these events have been too formal to have any influence and promote a proper exchange of ideas.

As far as the donor table is concerned, its existence and operation is regarded with satisfaction. Nonetheless, some DPs are of the opinion that this space could be made better use of and the liaison report underscores the challenge of advancing toward harmonisation and alignment, as well as increasing the involvement of international financial organisations. Common approaches and modalities could even be harmonised with respect to: i) institutional strengthening of municipal governments and national key institutions; ii) technical assistance; iii) financial assistance, including investment and pre-investment; iv) promotion of citizen participation, although this area is quite harmonised through a multi-donor basket fund v) geographic rather than national approaches; and vi) relationships with other sector programmes.

The sub-table and table structure includes coordination between DPs and the government, as well as among DPs active in the various sectors such as education, health and the environment, where municipalities have less competency. The challenge of ensuring a similar decentralisation approach is recognised for both municipal development and sector decentralisation support. Contact is still scarce between the decentralisation sub-table and other relevant tables, i.e. education and health, among others.

Alignment of DP support to country strategies

Overall, alignment in the field of decentralisation has been slow. Persons interviewed highlighted four reasons, among others: i) Progress has been made as shown by the current policy and strategy, but the government has yet to express interest in alignment by formulating a more operational national programme, with results, joint modalities and budgets, and including all relevant key institutions. DPs must allow the new government sufficient time and an opportunity to formulate such a programme. ii) DPs have already pledged funds under well-defined modalities that cannot be easily changed. Many agencies are preparing a new programme cycle in coming years; a fact which may facilitate joint financial arrangements. iii) Since this is a crosscutting area, there is a very large number of institutions involved in the issue of local governance and decentralisation. This means that H&A is complex and needs more time to develop. iv) With rare exceptions, there have been few clear signs from the head offices of some DPs as to how to harmonise and align cooperation in practice in this area. Results are required at local level from head offices, though not necessarily harmonisation and alignment.

Some of the few examples of alignment available include support from "groups of DPs": i) joint funding to the municipal transfers mechanism in 2005 and 2006 (mechanism in support of transfers financed with external funds – FONIM with support of four agencies). However, development of this mechanism should be improved; including follow-up and more accountability need to be applied to municipal transfers; ii) co-financing to key institutions in decentralisation, such as OAP-SETEC and the Office of the Comptroller General; iii) alignment in support to INIFOM (for instance, development of planning instruments); and iv) joint support to FISE by

three DPs. In other words, there exist only a few examples of joint financial arrangement, though significant progress has been made, particularly in 2006, in terms of a common platform.

Modalities of DP support

Lack of guidelines for a more uniform design of cooperation programmes has led DPs who support local governance and decentralisation to opt for several approaches. DPs whose support programmes were strong at the start of the new century have decided to decrease their support or withdraw entirely (World Bank /USAID), while others (DFID, Danida, UNCDF / UNDP, World Bank, Finland) have chosen to provide policy support. Moreover, a tendency to return to or maintain a geographic approach has been noted (EU, SDC-Switzerland, AECI-Spain, Finland), and in the future will have to be adjusted to the implementation of a programmatic approach to decentralisation and municipal development support.

As regards fiscal decentralisation, two distinct approaches have been presented. On the one hand, the IMF, World Bank and the Inter-American Development Bank have pointed out that municipalities have been transferred funds as a result of the Municipal Transfers Law, but no new competencies. This leads to increased expenses and contributes to the government's fiscal imbalance. They have expressed concern in this regard. On the other hand, such DPs as UNCDF, DfID, Danida and Finland have actively supported the new law. Some have underscored the low level of municipal funds, the need for municipalities to comply with already defined duties, the interest in promoting local financial decisions, and the legal requirement to transfer a percentage of the budget to municipalities as stipulated by the Constitution.

Complementariness and contradiction exist in DP support programme approaches. For instance, the WB, IDB and KfW have promoted a Programme for Fostering of Local and Good Governance through the Social Emergency Investment Fund (FISE), thus supporting municipal capacity building. The municipalities must compete for the funds before FISE and jointly co-finance activities that FISE finances in the municipalities, and thereby make sure that part of the municipal transfers be used for certain, specific investments. Other DPs have also supported capacity building programmes for the municipalities, but through INIFOM and provided funds through the government system of transfers to the municipalities to be used for local priorities without other criteria outside those that are based on their competencies.

Almost all DPs provide technical assistance, mostly short-term, national consultants. The few DPs that have long-term international technical advisors have considerably decreased their numbers in the area of decentralisation. However, in some cases DPs finance national advisors and consultants, i.e. to work with the decentralisation strategy. Financial sustainability of these advisors is an important issue to pay attention to.

C. Lessons learnt and perspectives

Nicaragua is in a transition period. This will affect the H&A process. The present government has yet to express to what extent it will accept the former government's decentralisation strategy. Meanwhile, the following lessons learnt related to the H&A process have been noted:

- **Support to local governance and decentralisation must be (1) multi-institutional and (2) encompass key areas for decentralisation**, all of which are significant to the process. As regards Nicaragua, actors include the Presidency, the Parliament, INIFOM, the Office of the Comptroller General, AMUNIC, civil society organisations and the municipalities. Furthermore, interventions must be complemented in the following key areas relevant to development: the legal framework, institutional strengthening (including human resources), development of national policies, financial resources for investment and improved services, as well as accountability and monitoring. Interventions by DPs encompass these five areas.

- **DP's continued support to (1) policy and (2) strategy development and its link to state reform is a key issue for harmonisation and alignment given the lack of a clear national framework:** The absence of a government policy and strategy (ENDDL) has encouraged several DPs to facilitate and support the government in drawing up of such a framework, though leaving it up to the government to decide the pace and speed at which to proceed. There is at present an improved framework for alignment, though it has involved a long-term process that has lasted for years, and putting the ENDDL in place as well as linking municipal support policies with sector decentralisation policies remain challenges. Some DPs are considering the possibility of linking their support to decentralisation with a broader framework for support to governance consistent with state reform.
- **Promotion of a (3) National Programme for Decentralisation and Local Development to achieve concrete alignment** seems to be a logical way to render the ENDDL more operational, with well-defined results, indicators and an allocated budget. This approach points in a common direction, though the programme has not as yet materialised. The complexity of such a programme is acknowledged, as it would involve several institutions, in addition to sector-wide and crosscutting coordination mechanisms.
- **Transfer Law important tool for alignment, but continuously fine-tuning is needed:** The Municipal Transfers Law of 2003 and the support mechanism used by a handful of DPs represent the most advanced example of a public policy for the alignment of cooperation. Nonetheless, implementation of mechanisms for contributions and monitoring of use of funds has been slow, thus leading to exiguous contributions on the part of DPs. Monitoring systems must be put in place in order for government and DPs to jointly assess the mechanism and to promote efficient management and poverty reduction efforts.
- **A shift from International technical assistance to use of national human resources:** Long-term international advisors are currently few in the field of local governance and decentralisation. Some DPs have even reduced their use. The role of international advisors is valued and justified where they contribute with particular knowledge. Instead, national short and long-term advisors have been financed as part of supported institutional plans. While the practice of an increased use of national human resources seems well-justified, the issue of sustainability of national advisors also needs to be attended.
- **If detailed alignment is not possible, then harmonisation could be achieved.** The government has decided to review previous policies during the first months of 2007. DPs have decided, as a joint proposal, to present a matrix of DPs working on decentralisation in Nicaragua, as the will exists to gradually harmonise cooperation. It may be possible to advance toward harmonisation and "micro-alignment", i.e. based on specific institutions.
- **The coordination mechanism is useful for dialogue, though it must be deepened:** the sub-table coordination mechanisms have been useful for exchange, joint analysis, and build consensus as regards joint financing and to ensure government leadership. There is interest in and potential to use these mechanisms for promoting alignment and harmonisation by discussing common approaches to technical and financial assistance to municipalities.
- **Growing ownership by the government is seen as positive. There is a need to clarify how to involve government more in formulation.** In interviews with government representatives the demand for increased government participation in programme formulation, implementation, approval, and monitoring was noted. Missions scheduled by DPs with little lead time to define a programme are not appropriate.
- **Broad participation by civil society:** Civil society and the Association of Municipalities have been important factors to maintain and insist on a priority policy. Agency support through a basket fund to civil society has been complemented by international NGOs.

1. INTRODUCTION

This report has been prepared as part of a study on the **International Development Partner Harmonisation for Enhanced Aid Effectiveness** in four countries, as follows: Tanzania, Benin (Africa), Nepal (Asia) and Nicaragua. The study, conducted by the Development Partners Informal Working Group on Local Governance and Decentralization, has been sponsored by the German Development Bank (KfW) and the Danish International Development Agency (Danida).

The study will focus on four issues: i) **Management of the Decentralisation Process:** the progress made in local governance and decentralisation, including an institutional framework and national policies; ii) **Coordination Mechanisms:** effectiveness and performance regarding coordination mechanisms among Development Partners (DPs) and between these and the government in the field of decentralisation; iii) **Alignment of DPs support to country strategies:** extent of alignment of DPs with country strategies, especially as concerns decentralisation; iv) **Modalities of DP support:** the way in which DPs approach their support to good local governance and decentralisation strengthens or weakens national decentralisation reforms.

The core concepts in this study – “local governance and decentralisation” – have different meanings in the various contexts. As regards Nicaragua, decentralisation refers to:

“The transfer of functions, resources, and authority from national government entities to autonomous entities, and regional / municipal governments, for the purpose of promoting broad participation and joint responsibility of all sectors working in the area of development and common well-being” (p. 25, Decentralisation in Action: National Decentralisation Strategy for Local Development, 2006).

Thus, decentralisation deepens *democracy and efficient provision of services*.

Further, local governance¹ is referred to in national official documents as *“increased efficiency, transparency and accountability, as well as the strengthening of mechanisms for communicating with the population and inter-governmental relations,”* including proper performance of the “governance system”, meaning the relationship between government entities.

Finally, official documents underscore the issue of “local development,” indicating that *“the main motive for decentralisation should not be political in essence; rather, it should aim at social and economic development”* (p 18, Decentralisation in Action, 2006). They make reference to the role played by municipalities in articulating development with local actors in the public, civil society and private sectors. This report will therefore address “local governance and decentralisation”, including explicitly the issue of “local governance.”

In view of the foregoing, recommendations are presented with the aim of further harmonising specific assistance from DPs in support of local governance and decentralisation. There follows a description of conclusions and recommendations reached in the documentary study and the round of interviews conducted with government representatives, development partners, and civil society in Nicaragua during the period from 30 May to 13 June 2007 concerning each of the four issues. We take the opportunity to express our gratitude to all persons interviewed.

¹ In Latin America, and indeed at almost every cooperation agency, different uses are made of the concepts of “governance” (*governabilidad*) and “local governance”, including the term “*gobernanza*”, which, put very simply, means good governance. We have chosen to use the word “local governance” in the sense indicated in this introduction.

2. BACKGROUND TO THE DECENTRALISATION PROCESS

According to the Constitution, Nicaragua is a unitary and decentralised state with three levels of government and public administration: (i) central government agencies deconcentrated to the departmental level; (ii) the decentralised autonomous regions of the Caribbean Coast; and (iii) the municipalities. The two autonomous regional governments on the Caribbean Coast were exclusively established for the region, and adhere to the constitutional principle of Nicaragua as a multicultural and multiethnic nation.

The country is divided into 15 departments, two autonomous regions on the Caribbean Coast (with elected regional councils), and 153 municipalities, also with elected local governments (a mayor and councillors). The size of the municipalities varies widely: some 70% of the municipalities have less than 30,000 inhabitants; approximately 25% have a population ranging from 30,000 to 100,000; and about 5% have over 100,000 inhabitants. The most recent data on poverty according to the published PRSP progress reports shows that 46% of the population is poor, and that of this percentage 15% is extremely poor. Poverty affects in particular the Caribbean Coast and the central zone.

Municipal competencies focus on: i) service delivery in a variety of areas (water, garbage, slaughterhouses, markets, urban planning, and the like); ii) delivery of other services “in coordination” with the competent government agencies, such as primary health care, rural and community roads and bridges, environmental protection, and so forth. The two regional governments enjoy faculties of “general competency” similar to that of the municipalities. However, they have no exclusive competency of their own. Despite the existence of instruments and opportunities for improving citizen control, a more efficient accountability system is needed both vis-à-vis the government and the Office of the Comptroller General, as well as the population at large, in order to ensure local governance.

2.1. The issue of decentralisation in national policy

Decentralisation has become an increasingly important issue on the national political agenda. Local governance and decentralisation have been incorporated to both the Enhanced Economic Growth and Poverty Reduction Strategy (“PRSP-I”, presented in 2001) and the National Development Plan (also known as “PRSP II”). The latter was drawn up by the government of former President Bolaños (2002-2006) and is currently under review by the current administration of President Ortega (2007-2011).

This issue has also been reflected in two additional international cooperation instruments: the World Bank’s Poverty Reduction Support Credit (PRSC) and the Joint Financial Arrangement (JFA), where a number of DPs provide budget support². The PRSC and the JFA make reference to the policy of decentralisation, whose main goal is to “adjust the basic powers and competency at the various territorial levels of public administration.”

A draft National Development Plan (NDP) was put forward in late 2002. It was presented to civil society in September 2003 and to the Consultative Group of Donors in October of that same year. The National Operational Development Plan (ONDP) was drawn up in 2004, and from then onward the donor community and civil society have offered suggestions and comments that have been taken into account regarding implementation. The 2005-2009 National Development Plan was completed in November 2005 and submitted to the World Bank/IMF as a second-generation PRSP (PRSP II). The new government, which took office in 2007, is expected to continue to implement the NDP, although adjustments may be made.

² DPs providing budget support are: European Commission, WB, Sweden, Germany, the Netherlands, United Kingdom, Norway, Switzerland, Finland.

One of the goals of the National Development Plan is to promote “governance, reform and modernisation of public administration” by “strengthening and promoting decentralisation.” Other additional actions include “formulation of an agreed-upon and sustainable national decentralisation strategy” in 2005 and “implementation of the approved national decentralisation strategy” during the period 2006-2008.

More recently, a national decentralisation strategy was drafted in tandem with this process. It was discussed and consulted with actors in the public and private sectors, as well as with civil society organisations in 2004-2006.

2.2. The National Decentralisation Policy geared toward Local Development (PND-DL) and the National Decentralisation Strategy for Local Development (ENDDL)

As pointed out earlier, during the past decade the decentralisation process in Nicaragua has achieved considerable progress, though not in linear fashion. Since the mid-Nineties, political actors and a strong municipal movement, including the association of municipalities (AMUNIC) and civil society organisations, have been putting forward the idea of a national decentralisation policy.

The Executive Committee for Public Administration Reform (CERAP) was created and attached to the Office of the Vice-president in 1994, as the leading entity in the process of state modernisation. One of CERAP’s commissions was the Sector Commission on Decentralisation (CSD) made up of ministerial and institutional representatives. Formulation of a first draft National Decentralisation Policy for Local Development was achieved through efforts by CSD. This first draft was subjected to national consultation in 2002-2003, but was not made official as a public policy document by the Office of the President.

In this regard, the process was affected by a lack of clear backing from the top levels of successive governments. Some analysts believe the process has been affected by “party politics” which have prevailed over “national policies.” Previous administrations have not given or have not been able to give priority to the issue of decentralisation. However, political opposition in Parliament to former President Bolaños from adversaries both within and outside his party caused the Office of the President to prioritise the issue. In 2004 a decision was made to simplify the CERAP structure and create instead the Public Administration Office at the Technical Secretariat of the Presidency (OAP-SETEC). From February 2005 onward, the OAP directed its efforts to update the first policy draft on decentralisation.

Thus Bolaños became the first president to decree a National Decentralisation Policy for Local Development (Decree 45-2006, July 2006). In December of the same year, as a follow-up to the consultation process, the Technical Secretariat of the Presidency presented and published a National Decentralisation Strategy for Local Development (ENDDL).

The ENDDL describes the situation the process is in and indicates five strategic areas to be implemented: i) structuring of a **system of governance and inter-governmental relations**; ii) definition of **sector strategies** and policies to be established in order to direct sector programmes and policies, and harmonise them with ENDDL; iii) promotion and improvement of conditions for **local development** at the three levels of government; iv) allocation, planning and mobilisation of **financial resources** to deliver services and promote development at the various levels of government; v) adaptation and training of **human resources** to promote development at the various levels of government and public administration.

Furthermore, the strategy refers specifically to the issue of alignment and harmonisation of international cooperation through the decentralisation and local development sub-table, as

well as the other sector coordination tables and sub-tables³. It proposes a **National Programme for Decentralisation and Local Development** that would allow for implementing the strategy and use it as a tool for cooperation alignment.

As mentioned before, the incoming government of President Daniel Ortega has indicated that it intends to review previous policies prior to presenting a far-reaching government plan. In this respect, adjustments are being made to the ENDDL and a new, shorter, action-oriented version with emphasis on citizens' participation is expected to be presented.

Nonetheless, the Economic and Financial Programme (PEF) of the 2007-2009 Medium-Term Expenditure Framework (MPMP), which the previous government attached to the 2007-2009 draft budget, is being updated. The Government has set up the core areas for poverty reduction and achievement of the Millennium Development Goals. It has defined priorities for the reduction of poverty and generation of wealth. These core areas are a starting point to engage in dialogue with the IMF, WB, IDB, and other bilateral and multilateral donors. These areas are related to the following six priority issues:

- energy;
- water, sanitation and the environment;
- economic recovery, hunger, malnutrition, and poverty reduction;
- the right to health and social protection;
- literacy and education; and
- decentralisation, citizen participation, and governance.

As some agencies have stated, if the current government does not approve and take ownership of the current ENDDL (or some adjusted version thereof), there exists a risk of persisting in the situation in which each donor opts for what it considers best, even with the alignment process available. According to some DPs, the decentralisation process was donor-driven due to the absence of a clear government policy.

2.3. Key issues in the decentralisation process

In the first study carried out by the informal group that sponsored this study, five key issues were identified concerning the decentralisation process. It was decided to study the current ENDDL framework in terms of progress made and challenges faced in relation to these five key elements, as follows: (i) legal framework for decentralisation; (ii) financial resources for municipalities; (iii) human resources and adequate institutional strengthening to comply with municipal competencies; (iv) transparency and accountability; and (v) institutional arrangements in support of the decentralisation process from central level. In the following key aspects related to each of the first four issues are described. Regarding the fifth issue, a more detailed assessment is made in chapter 3. The information on progress and challenges originated from both the ENDDL itself and other sources, although not including all elements from the ENDDL.⁴ It must, however, be made clear that the ENDDL is being reviewed and adjusted.

(i) Legal framework and the challenge of defining competencies:

The legal framework linked to decentralisation is complex and wide in scope, as described in the ENDDL. Nicaragua began a decentralisation process in the late Eighties. The 1987 Constitution was a step forward as regards municipal autonomy and the Autonomy Law,

³ At the sectoral level, the former government established in 2003 six fora with donor participation to discuss sectoral priorities and elaborate policy matrices in education, health, social protection, governance, production and competitiveness, and infrastructure.

⁴ It is acknowledged that these five common elements for the four countries may not encompass all aspects relevant to decentralisation. Nonetheless, they coincide to a large extent with ENDDL strategic areas. Furthermore, these are tools – not an end in themselves – intended to promote better services, economic development and local democracy.

which created the two Atlantic Coast Regions, was passed that same year. Within this framework, the 1988 Municipalities Law provided for direct election of municipal authorities, as well as increased competencies and responsibilities regarding expenditures. Notwithstanding, there was no increase in resources available for regions or municipalities.

Three later references are of particular importance: the 1995 reforms to the Constitution; the 1997 Municipalities Law (a reform of the 1988 Law) and the Municipal Transfers Law passed in 2003. That same year, enabling regulations for the Autonomy Statute were passed that helped to define the role of the two regional governments of the Atlantic Coast.

The 1995 reforms to the Constitution grant local governments political, administrative, and financial autonomy. Furthermore, it points to the responsibility of local governments in the promotion of municipal development and the well-being of their citizens. Moreover, it specifies that the government shall, by means of a law, transfer an adequate percentage of tax revenue in order to allow local governments to fulfil their obligations. Nonetheless, the reforms limit the autonomy of local governments, as authority resides with the National Assembly to create or eliminate taxes, and approve annual revenue for local governments.

Reform to the 1997 Municipal Law (40/261) provides that municipalities have overall responsibility for all matters related to their economic development and environmental protection. Further, it assigns municipal governments a series of specific responsibilities, among which are: i) that local governments are in charge of delivering basic services (water, garbage, slaughterhouses, markets, urban planning, and the like); ii) delivery of other services “in coordination” with the competent government agencies, such as primary health care, rural and community roads and bridges, environmental protection, and so forth. Notwithstanding, the law does not clearly express which responsibilities are mandatory and basic; neither does it stipulate a clear division of labour with government agencies.

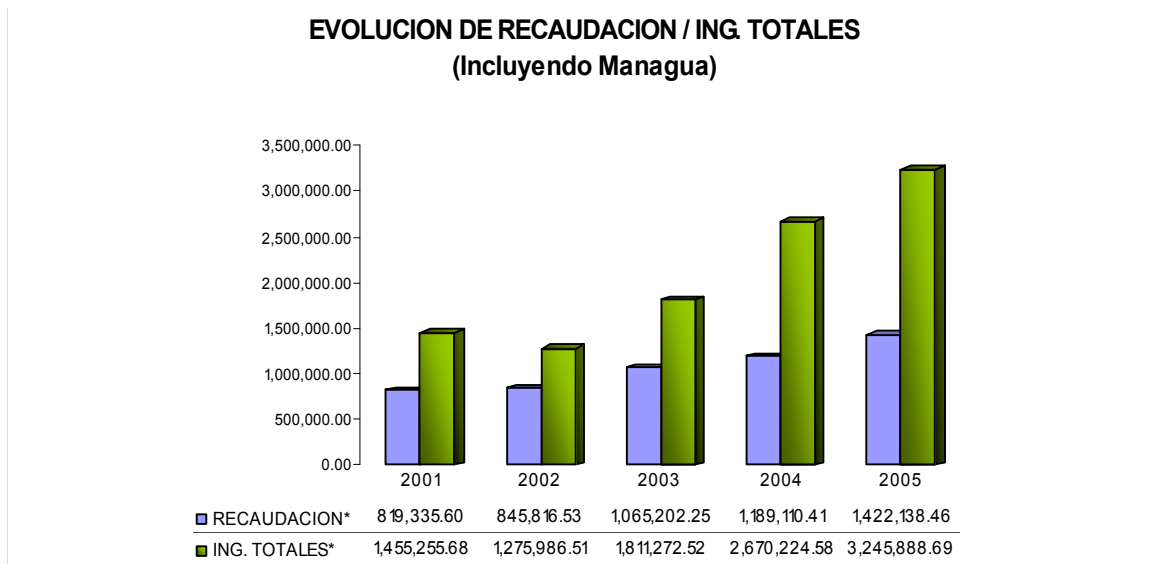
The 2003 Municipal Transfers Law for the first time defines the percentage of the national budget to be transferred to the municipalities. Below is a detailed description of its importance under point (ii). The 2003 **enabling regulations of the Autonomy Statute** provides that regional governments have general competencies similar to that of the municipalities by means of delegations from ministries to regional governments. However, specific competency limits between regional governments and national agencies are yet to be defined.

The role of municipalities and regional governments in development continues to be limited by a lack of definition of responsibilities in infrastructure, the environment, and social services in such key sectors as health, education, water and sanitation. One of the DPs has stated that having mixed competences and responsibilities means that in practice no one is responsible and projects end up being implemented by the strongest institution with the most funds available.

According to ENDDL, no further responsibilities are to be decentralised to the municipalities until the year 2009. However, there has been talk regarding the need for implementing the existing decentralisation responsibilities, organising concurrent responsibilities between municipalities and national entities. Likewise, the legal framework is expected to be reformed in 2009, as part of a proposed formulation of a general Municipal Decentralisation Law.

Planning of a legal framework by means of support from OAP-SETEC, INIFOM, AMUNIC, the Population, Municipalities, and Development Committee in the National Assembly, as well as others could form part of a National Decentralisation Strategy for Local Development to be presented to DPs.

**EVOLUCION DE RECAUDACION / ING. TOTALES
(Incluyendo Managua)**



(ii) Financial resources for municipalities and autonomous regions

The figure shows development in municipalities' tax collection (recaudación) compared to their total income (ing. Totales) in Nicaraguan currency (Córdobas).

The ENDDL contains a chapter on "distribution of financial resources for promotion of development" It points out that a clear definition of financial needs in the country's municipalities is made possible by defining competencies with increased clarity. It includes an analysis of municipal sources of income, which is complemented by other studies. As regards regional governments, the ENDDL indicates that incomes are not clearly defined, since they are classified as any another entity budgeted within the Executive, receives an annual "ad hoc" budget allocation, and has a participation in the rates applied by the state for the use of regional natural resources (concessions).

According to a study supported by UNCDF (2006), the total municipal income in 2004 derives from three sources: 1) **their own income** (an estimated 70%). 2) **Fiscal transfers from the government** (an estimated 20% of total income). National budget transfers have increased since the study was conducted. 3) **Donations** (somewhat less than 10% of total income). Nevertheless, studies have not been conducted recently as regards the financial needs of municipalities in order to meet their competencies. One of the few studies carried out shows that, in addition to their own funds, municipalities would need approximately 16% of the state's current revenues to take on the 16 competencies of their own and the 16 most important share competencies.⁵ Furthermore, other actors hold the opinion that municipalities lack capacity to efficiently implement these funds in areas significant to development, given that these competencies have not been defined. In view of such diverse positions, it would be worth studying financial needs in greater depth.

Own income: the main source of municipal revenue is generated by real estate and road taxes, as well as other tax and non-tax income. Significant growth has been noted (as shown in the figure above), especially as regards the two first items. Overall, it is expected that municipal revenue will have considerable growth potential, especially to the extent that municipalities acquire the necessary capacity. According to the Nicaragua Association of Municipalities, municipal tax collection has increased with each passing year, reaching a 73% increase in 2005 with respect to 2001.

Transfers: prior to 2003 there were no automatic transfer mechanisms from the government to the local level. Moreover, municipalities had to negotiate transfers each year. The Municipal Transfers Law was passed in 2003 and has been in force since 2004. At the time of passage it stipulated a 4% transfer of the national fiscal income that year and a yearly

⁵Róger Gaitán, "La Política de Descentralización Fiscal Viable para la Reducción de la Brecha Fiscal Potencial de los Municipios", citada por Adolfo Acevedo en "Notas sobre el Proceso de Descentralización Municipal", UNCDF (2006).

increase of at least 0,5% up to a maximum of 10%, in 2010. The Law was then reformed first in such a way that 6% was transferred in 2006, and then to mandate that from 2007 onward there will be a 1% annual increase until reaching 10% in 2010. Provided that further reforms to the legal framework take place regarding competencies and transfers, this 10% rate shall be achieved prior to 2010. Resources should be used for both current expenses and investment in order to meet municipal competencies.

Further, the Municipal Investment Fund (FONIM) was put in place as a planning mechanism and a basket fund channel to transfer DPs' funds to municipalities in accordance with the Municipal Transfer Law. The arrangement has worked well in 2005 and 2006, operating with the contribution of various DPs (UNCDF, Danida, DfID and Finland). These contributions have been modest and were equivalent to 5% of transfers in 2005. However, funds have not been allocated in the 2007 national budget for this mechanism, seemingly due to technical budgeting problems.

Resources from the State and the DPs are distributed in line with a formula based on four criteria: i) fiscal equity; ii) population; iii) fiscal efforts (that is, local tax collection and real estate taxes in particular), and iv) budget implementation capacity.

Use of financial resources

As regards investments included in Municipal Investment Plans, it has been noted that two sectors stand out as capturing most municipal investment. These are related to infrastructure projects, such as the building and maintenance of streets, sidewalks, culvert and cement block pavement, as well as markets and parks (22% of investments in 90 municipalities); investment in the building and maintenance of bridges and community roads within the municipalities (16% of investments in 73 municipalities). According to the Association of Municipalities (AMUNIC), these figures clearly indicate the municipal interest in providing maintenance and expanding the road system as an essential element for development of intra and inter-municipal productive, commercial, and communication activities, all of which have given fresh impetus to the economy.

SCHEDULED INVESTMENTS IN ANNUAL INVESTMENT PLANS ACCORDING TO MUNICIPAL COMPETENCIES

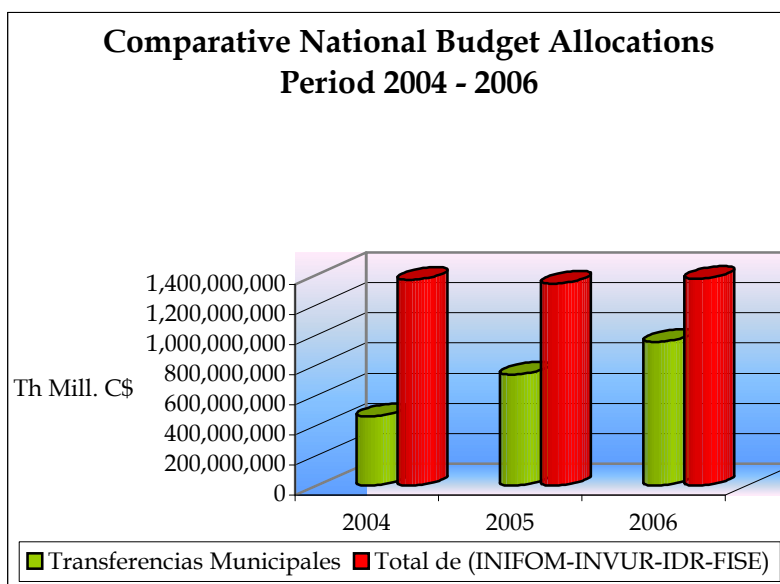
Competencies	No of municipalities	% of investment
Streets, sidewalks, parks, etc.	90	22%
Bridges, community roads	73	16%
Institutional strengthening	66	4%
Sewer system	57	9%
Sports fields and courts	45	3%
Aqueducts and mains	45	6%
Education	43	10%
Housing	36	5%
Construction of markets, slaughterhouses, clothes-washing facilities	30	4%
Construction and maintenance of cemeteries	26	1%
Construction of transport stations	23	2%
The environment and natural resources, forestry	39	4%
Other investments	60	14%

Other sources: further, municipalities receive financing for both investment and technical assistance from many sources of cooperation, as was previously noted, i.e. the Social Emergency Investment Fund (FISE), Rural Development Institute (IDR), including other

institutions such as the Nicaraguan Institute for Municipal Strengthening (INIFOM). In the case of FISE, the financing is mainly community-oriented (water, education, and health). FISE, with funds from KfW and BID, is introducing the modality of competitive selection and a counterpart approach to stimulate better performance. Apart from these sources, there are a number of government, as well as civil society actors, which contribute to local actions in the municipality.

In the case of regional governments in the Autonomous Regions, a much more direct access to income is required as regards the use of natural resources and their inclusion in the various sector laws.

The relationship between municipal transfers and total allocation in the national budget with other sources such as INIFOM, INVUR, IDR and FISE can be seen in the table below. As can be noted, the other allocations have been constant. However, they still exceed municipal transfers.



	2004	2005	2006
Municipal Transfers	459,473,735	738,317,627	955,218,981
Total (INIFOM-INVUR-IDR-FISE)	1,367,059,800	1,342,312,318	1,373,505,690

Comparative table between the amounts allocated to municipal transfers in the national budget, INIFOM, INVUR, IDR and FISE 2004- 2006:

	2004	2005	2006
Municipal Transfers	459,473,735	738,317,627	955,218,981
Nicaragua Municipal Strengthening Institute (INIFOM)	228,875,364	205,413,086	208,107,991
The Nic. Inst. For Urban and Rural Housing (INVUR)	155,109,020	110,729,329	134,358,960
Rural Development Institute (IDR)	469,271,005	479,040,103	558,914,999
Social Emergency Investment Fund (FISE)	513,804,411	547,129,800	472,123,740

Fiscal neutrality problems or financing for necessary functions?

Lack of definition as to the type of joint financing for shared responsibilities between municipalities and government entities has created debate both within and outside

Nicaragua. Some hold the opinion that an increase in funds allocated to municipalities necessarily involves a reduction in expenses for government entities. They argue that municipalities must take over competences from some of the government entities. Fiscal imbalances could result from not reducing expenses at government level. The World Bank and the International Monetary Fund have suggested that municipalities define their competencies more clearly and assign a higher number of tasks locally in order to achieve “fiscal neutrality.” Furthermore, collaboration could increase between government entities (FISE: social infrastructure; IDR: economic infrastructure) and municipalities. Others argue that funds currently transferred to the municipalities as a result of the Municipal Transfers Law barely cover expenses to meet the required competencies.

Unresolved issues as regards the system of budget transfers to municipalities

The goals of the transfers system (as stipulated in the Municipal Transfers Law) include the following:

- Contribute to *decrease imbalances* between the current income capacity and the cost of performance of municipal competencies.
- Stimulate *local tax collection* and efficiency in municipal administration.
- Facilitate management and implementation of local development policies and strategies, including the capacity to administrate national development policies and programmes, as well as *poverty reduction*.
- Contribute to *transparency* in local management by encouraging citizen participation.

Whether these goals are being reached is yet to be documented in detail. In addition, the allocation criteria are being discussed. The ENDDL makes mention of a study sponsored by UNCDF⁶ in which it is suggested that two of the allocation criteria be reviewed in order to stimulate higher tax efficiency and more efficient implementation.

“In sum, two of the four criteria defined by the Law (per capita fiscal equity and population) are correctly aimed at resolving the problem of inequity between the municipalities, by introducing corrections. On the other hand, the other two criteria (fiscal efficiency and implementation) show obvious design deficiencies. Thus, their inclusion in the transfers formula is, at the very least, questionable and ..()..it would be desirable to remove them from the transfers formula and restructure them temporarily (in the case of fiscal efficiency) into a separate system.”

FONIM is an instrument by which to channel cooperation resources to municipalities. Nonetheless, some agencies have mentioned that it is not possible to direct their support to municipal competencies linked to other sectors (the environment, transportation, and health) through FONIM, as this is an instrument for general use. They have proposed a review of FONIM in order to improve this channel.

The ENDDL sums up the challenges regarding financial resources as follows: i) It is necessary to have qualified information concerning the financial needs of municipal and regional governments; ii) it is necessary to better articulate local resources, considering the dispersion of public investment. As part of articulation, it is important to define the roles of INIFOM, FISE, criteria for FONIM allocations, as well as channels of financing to be used by DPs. Therefore, the ENDDL include strategic areas for support, including strengthening of the regional and municipal government so that they may to increase their own income, a review of the transfer systems (including possibilities for adding earmarked allocations to national priorities), a better working division between national and local institutions and an improvement of the national, regional and municipal management systems (including national supervision). These elements must be clarified by the government in a dialogue with

⁶ Document titled “El sistema de transferencias municipales en Nicaragua...” Vásquez y Sepúlveda, 2006.

DPs. They could also form part of a National Programme for Decentralisation and Local Development.

(iii) Human resources and sufficient institutional strengthening at local and regional levels

As regards this element, the ENDDL indicates that important challenges exist. There have been no salary policies at the three levels of government, nor a system for education and training of the public sector. Likewise a clear definition of institutional municipal strengthening has been lacking. Some of those interviewed have pointed out that it is important to better assess the relationship between regional and national institutional strengthening efforts and their concrete results. Support to strengthen the capacity of municipalities and the autonomous regions must translate into improved performance. Strengthening, through INIFOM or specific programmes, has been focused on planning, tax collection, improved services, administration systems, and others. Although some municipal governments are properly staffed, there is wide variation. Of the total of 153 municipalities, the smallest are often understaffed (less than ten members) and employees lack the required specialisation.

Another core problem is the high staff turnover after each election cycle, including at institutions in charge of providing TA to municipalities, i.e. INIFOM and its successive reorganisation processes. In the case of municipalities, there is a bias in favour of locals and trusted persons without taking professional criteria into account. Though no exact data exists, reviews conducted by DPs show that most incoming municipal governments tend to bring in new trusted staff and dismiss a large number of trained human resources from the earlier municipal government. Due to the changes, it is necessary to “begin anew the work of municipal strengthening after each election”, as one of the agencies point out. Moreover, a study conducted by INIFOM to evaluate the situation during the first year in office of current administrations (2004-2007), showed that 50% of municipal technical staff was replaced by new staff.⁷ As regards INIFOM, it is worth mentioning that the problem of reorganisation and staff turnover followed a plan agreed upon by the previous government with one of the sources of financing. The new administration has stated that it expects this problem to be resolved and that TA to municipalities become more stable.

The relatively new Municipal Administrative Career Law (Law 502, June 2004) has for its purpose to provide a system for administration of human resources to implement municipal public policies. This law should be applied to municipal staff in order to ensure continuity and stability in the work of municipal officials and prevent loss of municipal technical competencies. Implementation of the Law requires the creation of national, regional, departmental, and local implementation bodies. However, the first step towards its implementation was taken in 2007 with the establishment of the General Directorate of Municipal Administrative Careers.

Finally, INIFOM, the institute that has been in charge of providing technical assistance to municipalities as part of its key tasks, had previously failed to fulfil its role and now expects to regain its role in this field. Other complementary options are AMUNIC and the regional municipal associations, as well as other private providers of technical services.

According to ENDDL, the main priority is to develop systems that strengthen human resources in the municipalities. Support to INIFOM and the implementation of the Municipal Administrative Career to strengthen municipalities could form part of a National Programme for Decentralisation and Local Development.

⁷ According to a study conducted in 2006 (Budget Support to Nicaragua), 80% of municipal staff in the provinces of Matagalpa and Jinotega were replaced after the 2004 municipal elections.

(iv) Effective mechanisms for local accountability

Local elections are a relatively new event in Nicaragua, with municipal elections being held in 1990, 1996, 2000, and 2004. Overall, these have been characterised as clean and fair elections. At present, the Election Law does not allow the putting forward of “popular subscription lists” headed by local citizens that would participate in the political party system.

Broader participation: the 2003 Citizen Participation Law (475) provides the opportunity to create municipal, regional (Caribbean Coast), departmental, and national spaces to ensure participation in the formulation and accounting for public funds.

The legal framework establishes local accountability mechanisms, such as open meetings of the council, by means of which the mayor’s office provides feedback information to its citizens. Further, it provides that municipal investments must be defined through a participatory planning process. Municipalities must have a consultative body (Municipal Development Committees – MDCs) to promote local economic development and municipal development plans, and to issue opinions on municipal management reports. MDCs are made up of local government, private sector, civil society and community representatives, among others, as well as line ministry representatives. It must be acknowledged that participation varies widely from one municipality to the other. DPs and civil society organisations have promoted the so-called “social audits” to verify proper management of investment funds. Departmental Development Committees function in a similar fashion in almost all of the country’s departments, and meet to discuss investment priorities.

The government has put forward the idea of promoting “development councils” or “citizen power councils”. However, it has yet to be defined whether these councils are being set up to bolster existing structures within the framework of the Citizen Participation Law or have a new approach in this regard.

The **Office of the Comptroller General (CGR)** should, according to its legal framework, conduct annual audits to qualify the use of municipal funds. However, due to lack of resources, this requirement has only partially been fulfilled despite the launching of a Programme for Improved Control and Transparency of Municipal Governments in Nicaragua (PMACT). It has been noted that some of the audited municipalities need to improve administrative and financial management. However, a general balance is still due.

Support to CGR and PMACT could become a sub-programme if the government defines a national Programme for decentralisation and local development, as well as support to a local government transition programme as part of the municipal elections in 2008. Furthermore, support to civil society organisations is needed to conduct social audits.

Accountability is being strengthened by means of the Integrated Financial, Administrative and Auditing Management System (SIGFA), using a module adapted to the municipalities.⁸

2.4. Description of the DP support to decentralisation

The DPs listed below have engaged in decentralisation support programmes. A description of the areas of intervention, partners, and financial amounts involved, in addition to actions by UNICEF and UNDP, is to be found in the annex. The annex only covers the agencies which form part of the sub-table for decentralisation. The KfW does not form part of the sub-table for decentralisation, since GTZ represents the German cooperation. Details regarding KfW’s cooperation through the Social Investment Fund has been added to the matrix.

⁸ SIGFA is a general system designed with latest generation technology. It has been in operation via the Intranet of the Government of Nicaragua since 2002.

A programme should, in principle, be a comprehensive, national programme led by government. Contrary to this, almost all so-called “programmes” by DPs in Nicaragua are individual, DP-programmes which support different national institutions and municipalities. Below these programmes are called “support programmes” or the term “project/programmes” is used.

Cooperation agency	Partner	Technical and financial assistance at local, regional, and national level	Project – support programme (by donor) – Basket fund (with others).
CIDA-Canada.	FISE, OAP-SETEC, Nicaraguan Institute for Municipal Strengthening (INIFOM), Ministry for Environment, municipal associations, a.o.	Technical and Financial Assistance. Local, regional and national.	Four projects/funds.
KfW – Germany	Social Emergency Investment Fund (FISE).	Financial assistance Local through central agencies.	Support programme. Joint financing with IDB and WB.
GTZ – Germany	Multiple partners, including OAP-SETEC (Presidency's Secretariat), INIFOM, the National Comptroller, General, Ministry of Finance, FISE, AMUNIC, municipalities.	Technical assistance, local and national.	Support programme. Joint financing with DfID, UNCDF, Canada.
SDC – Switzerland	Nicaraguan Municipal Strengthening Institute (INIFOM) – regional and selected municipalities, SETEC, National Investment System, civil society and associations of municipalities.	Technical and financial assistance, local, regional and national.	Regional-local support programme. National programme. Basket funding (civil society).
EU	INIFOM and selected municipalities.	Technical and financial assistance. Regional.	Regional-local support programme.
Danida – Denmark	OAP-SETEC, INIFOM, regional governments, Nicaragua Association of Municipalities (AMUNIC), National Assembly, FONIM, and civil society.	Technical and financial assistance, national and regional.	Support programme and basket funding (FONIM and civil society).
World Bank	INIFOM, OAP-SETEC and municipalities.	Technical and financial. local and national.	Support programme (closing process).
UNCDF	INIFOM, AMUNIC and SETEC. Selected municipalities.	Technical assistance, local and national.	Two support programmes and basket funding (FONIM).
Finland	INIFOM, associations of municipalities, departmental development councils, selected municipalities, the Rural Development Institute, and civil society organisations.	Technical and financial assistance, local, regional, national.	Three support programmes (Progestión, TIC, Municipal) and 2 basket funding (FONIM/civil society).
USAID/Casals	Executing agencies: INIFOM and civil society organisations. Beneficiaries: selected municipal.	Technical and Financial assistance. Local	Projects
DfID – UK	SETEC, FONIM – support to activities implemented by Dutch SNV and GTZ.	Technical and Financial National and local.	Support programme. 2 basket funding (FONIM/Civil Society)
IDB	INIFOM, selected municipalities, and FISE.	Technical and financial. National and local.	Support programmes. Joint financing.
AECI-Spain	INIFOM, three municipalities as beneficiaries.	Technical and financial. Local.	Project

3. PRACTICE OF AID HARMONISATION AND EFFECTIVENESS

This chapter describes the conclusions reached on each of the following priority points in the study:

- management of the decentralisation;
- mechanisms for coordination among DPs, including the role of government in coordination;
- alignment of DPs with country strategies; and
- support modalities for DPs.

3.1. Management of the decentralisation process

According to the Paris Declaration, there must be clear ownership on the part of countries receiving aid. For the purpose of this study, this means that Nicaragua must exert effective leadership as regards its policies and strategies in the area of local governance and decentralisation, while coordinating development efforts. In practice, national development strategies must have clearly defined strategic priorities and are to be linked with the Medium-Term Expenditure Framework (MPMP), which in turn must be reflected in the annual budgets.

In an OECD report, ownership on the part of the previous government is considered “low” due to a delay in the PRSP and the change in government, a ranking that generated debate.⁹ Despite the fact that for the first time Nicaragua has an MPMP with a budget defined for each public institution (including the institutions participating in decentralisation), information on budget results related to ENDDL have not been incorporated as of yet (budget 2007 published by Ministry of Finance, Nov. 2006). Though it is understandable that OAP-SETEC, INIFOM, and FISE, as well as regional and municipal governments, lack a common frame of reference since they work on different issues, references could have been made to ENDDL priorities, including regional and municipal governments. These are missing at this level.

There are signs of increasing ownership on the part of the new government. However, according to those interviewed, some agencies at times condition their support. The new government will require increased involvement in formulation and follow-up to cooperation support programmes.

Arrangements with government institutions to coordinate and implement support for decentralisation

According to many analysts, efficient decentralisation is best achieved when there are well-consolidated government entities in charge of promoting the necessary support in the aforementioned spheres in chapter 2 (i.e. legal framework, financial and human resources, transparency). Such entities should provide a guide and technical support from government agencies to improve municipal capacities (i.e. administrative-financial, tax collection, strategic planning, citizen participation, improved services) and coordinate work among the various sectors. However, such entities have not yet been consolidated in Nicaragua.

⁹OECD: Survey on Monitoring the Paris Declaration, 2006 Country Chapter. The previous government stated in a joint letter with the cooperation community (Nov. 2006) that it was in disagreement with this ranking. In line with its National Action Plan for Alignment and Harmonisation, there were six sector plans and 27 institutional plans. Further, there was consistency between these plans and the PRSP.

Background

Successive governments in office from the mid-Nineties to 2004 attempted unsuccessfully to use the INIFOM as the leading entity in the decentralisation process, charging it with providing technical assistance to municipalities. Historically, INIFOM has been used by the various governments as a vehicle for financial support to municipalities under discretionary criteria, and in some cases, as an instrument of election campaigns for the party in office. Over the past years, there has been a decrease in funds contributed by INIFOM donors. Completion of several cooperation projects, including the Second Project of Rural Municipalities, financed by the World Bank, has entailed a substantial reduction of activities. Notwithstanding, the new authorities have evinced the will to renew INIFOM work efforts.

Other key government agencies important to the process of local governance and decentralisation are, as previously mentioned, FISE and IDR. These promote local investment programmes that go hand in hand with efforts to boost citizen participation. FISE has been introducing a “graduation” system whereby municipalities with higher capacity to implement funds would have more control over the use of funds. INIFOM, FISE and IDR have used different reporting and monitoring systems, and many municipalities have claimed the need for a general reporting system. At present, INIFOM and FISE are harmonising their approach to municipal support by means of a Single Municipal Modernisation Plan.

Current status of decentralisation management

The National Decentralisation Strategy for Local Development indicates which areas are still unresolved regarding institutional arrangements at government level. The main core area is the reorganisation of a system of governance and inter-governmental relations.

As regards ENDDL, it can be pointed out that management involves several government institutions:

- From 2004 onward, OAP-SETEC has been the entity in charge of leading the process to formulate and coordinate state reform and modernisation, as well as decentralisation policies and strategies. OAP is, within SETEC, the entity responsible for leading the **Interinstitutional Executive Committee** (with MHCP), the **Interinstitutional Technical Committee** (coordination with sector ministries, i.e. health, education, and others), and the **Extended Interinstitutional Technical Committee** (with civil society, autonomous regional governments, and municipalities, among others).
- INIFOM is in charge of designing municipal management instruments (model service delivery and financial administrative systems) and building administrative capacities. In addition, it is expected to promote coordination between local governments and other government entities, and to operate an independent observatory of annual municipal government performance.
- Government entities, such as FISE, IDR and other entities in charge of substantial investments in the municipalities, have directed resources to provide basic sanitation services and made incursions in technical consultancy and municipal training activities.
- The Ministry of Finance and Public Credit is responsible for formulating tax policies, including follow-up and monitoring of inter-governmental fiscal relations and performance of regional and municipal governments with respect to tax collection efforts and adoption of improved funds management practices.

- The Office of the Comptroller General is in charge of conducting external audits to regional and municipal governments.

Though there is division of labour between the aforementioned institutions as regards the decentralisation management process, there is some overlapping between mandates:

- **The role of OAP-SETEC vis-à-vis INIFOM needs to be confirmed.** Although OAP-SETEC is understaffed with respect to its assigned tasks of conducting the process and building good relations with all actors involved (ministries, regional governments, municipalities, cooperation), it has no executive role as a leading entity. Nonetheless, taking into account that the previous government had transferred the leading decentralisation role previously played by INIFOM to OAP-SETEC, the new government has yet to confirm the latter's role.
- **The roles played by FISE, INIFOM, and associations of municipalities (AMUs) in technical assistance are yet to be defined.** There is overlapping between FISE and INIFOM since the two institutions provide technical assistance and training to municipalities. Thus, it is important – and a first step – that a single municipal modernisation plan is jointly defined in 2007 for each municipality, so as to ensure a unified approach to technical assistance. Moreover, a division of labour with the AMUs must be prepared.
- **The roles played by INIFOM, sector ministries and MHCP regarding investment and pre-investment channels are yet to be defined.** There is overlapping between INIFOM and the Ministry of Finance and Public Credit. The two are in charge of ensuring that municipal performance is appropriate. In practice, some DPs use INIFOM, as well as sector ministries, to channel pre-investment and investment funds, as the Ministry of Finance does not provide channels for specific purposes.
- **Service delivery roles must be defined.** Some actors have mentioned the need to clarify in detail the relation between central government agencies and the municipalities as regards the provision of services. Following central government orders, FISE promotes water in rural areas through the municipal governments. However, this is a service that is a municipal competency, and over the long term the municipalities will have to provide drinking water using their own mechanisms, albeit under supervision. Likewise, IDR finances roads within the municipalities, which is also a competency of the municipal governments.¹⁰
- **The FISE contribution to local governance must be assessed.** Overall, FISE has invested considerable resources aimed at poverty reduction. Originally, it did not give priority to strengthening local governance and democracy, but this element has acquired growing importance in its activities. Furthermore, FISE projects are now allocated based on competitive selection of municipalities, whereby they contribute increasingly higher counterpart funds. However, there still is a perception that management is centralised, thus hindering local priorities from prevailing.
- **Institutions must be rendered operational by means of a mandate to oversee the implementation of transfers.** One of the functions of the Office of the Comptroller General and the Ministry of Finance and Public Credit is to oversee the efficient use of municipal transfers in compliance with requirements defined by law. Nonetheless, follow-up and enforcement of the law could be improved.

¹⁰ The ENDDL (December 2006) mentions the following options regarding promotion of local development: to create a local development fund managed by the local governments; to establish a special development fund for the regional governments, and to fuse IDR, FISE and INVUR into a single institution. However, the present incoming government has not yet expressed, whether it supports these measures.

It is expected that the executive branch, as well as two committees in the National Assembly (Population, Municipalities & Development Committee; and the Economic Committee) will draft legislation related to the decentralisation process.

As pointed out by several actors, municipalities, regional governments, and government agencies are three of the various actors that promote local development. The private sector and civil society play complementary roles. It is important to find a balance for DPs to support all of these actors and ensure that there is no overlapping or duplication of efforts. Notwithstanding, a “support package” could be defined for the aforementioned actors (OAP-SETEC, INIFOM, FISE, MHCP, AMUNIC, and AMUs) within the framework of, or as a step toward, a National Programme for Decentralisation and Local Development.

3.2. Development Partner coordination mechanisms

This section includes assessment of cooperation mechanisms and government leadership in coordinating development efforts.

Context

The “map” of Development Partners is changing in Nicaragua. There are at present 46 registered DPs supporting different sectors. One of the new donor countries is Venezuela, which is now the largest contributor. It is expected that with greater supply and a government interested in defining a clear demand, there will be an increase in government ownership of the formulation of new support programmes.

A number of public institutions and DPs have supported capacity building in municipal management, including administrative and planning skills, investment and tax collection scheduling, for over 15 years. Historically, there have been a variety of local, national and regional coordination mechanisms, including geographical division of labour.

Coordination mechanisms in Nicaragua

In 2003 the Ministry of Foreign Relations (MINREX) set up a system of sector tables, including a global and six sector tables, i.e. governance, education, health, infrastructure, production and competitiveness and social protection. Each of these tables has several sub-tables representing sub-sectors, and each table and sub-table have coordination mechanisms and a liaison donor. A similar structure exists for DPs separate meetings.

As regards decentralisation and local development, a sub-table has been set up under the governance table. Its operational agreement indicates, as one of its objectives, “to promote coordination and alignment of international cooperation with national priorities.”

The sub-table is coordinated by the Public Administration Office at the Technical Secretariat of the Presidency (SETEC) with Denmark and Germany (GTZ) acting as liaisons on the part of DPs.

The main DPs include the WB, UNCDF, Danida, DfID, CIDA, SDC, Finland, EU, GTZ, AECI, IDB, and the consulting firm CASALS in charge of implementing the USAID transparency support programme. Sub-table participants include pertinent ministries (Ministry of Finance and Public Credit, Ministry of the Environment and Natural Resources, and Ministry of Education, INIFOM and FISE, among others). The latter has been defined as a government institution whose main goal is to finance the implementation of small and medium-size projects to benefit poor communities. KfW, one of FISE’s main sources of financing, participates at the state reform table, as part of its division of labour with GTZ. Finally, AMUNIC and civil society participate in the sub-table through two organisations (Nicaraguan

Network for Democracy and Local Development, and Fundemos). Overall, contributions from these organisations have been significant.

The sub-table for DPs and government held five meetings over the 2004-2006 period. No meetings have taken place as yet in 2007. Other technical and consultation meetings have been held with the participation of the aforementioned actors. Participation in the drafting of a National Decentralisation Policy and Strategy for Local Development was rather high in 2006.

The various DPs have held separate meetings every two or three months since 2004. There has been an exchange of information on support programmes and development of the main institutions associated with decentralisation and mechanisms. Furthermore, use has been made of a joint space for analysis linked to the decentralisation process.

Assessment of coordination mechanism

Despite periods of “inactivity” prior to 2005 and earlier, in which the sub-table has been “less active”, and during the first five months of 2007 when the new government took office, its performance is considered to have been good. This was particularly true in 2006 when decentralisation strategy work was conducted as a space for exchange and joint analysis. However, some of the actors in civil society have stated that these events have been too formal to have any influence and promote a proper exchange of ideas.

The OAP-SETEC has confirmed its interest in renewing the sub-table in 2007, with a view toward starting implementation of the ENDDL. Nonetheless, some government representatives have pointed out that there are issues which must be tackled with DPs, within the framework of the sub-table or by other means, as part of increased government ownership. Some government agencies hold the opinion that better use could be made of this space. For instance, they point out that support programme and project budget composition (weight / %) should be reviewed. According to these agencies, there currently is a tendency for participation to be high concerning current or capital expenditure. However, this does not favour direct investment in infrastructure or productive support. Consequently, benefits intended to be derived from the donations do not reach the target sectors or territories to the expected extent. A suggestion put forward by INIFOM is to change the portion of the donation that favours direct investment in both future and current support programmes.

Moreover, an issue to be discussed in the sub-table could be the mechanism and scope of approved global operations plans. They must be reviewed in each institution so as to ensure increased ownership. In some cases, these Operational Plans have been approved by the donor authority, while the government institution authority has not approved either the original version or the changes made to it.

As far as the **donor sub-table** on decentralisation is concerned, its existence and operation as a tool to exchange information, avoid cooperation overlapping, and agree upon joint financing, is regarded with great satisfaction. Nonetheless, some agencies are of the opinion that this space could be made better use of and the liaison report underscores the challenge of advancing toward harmonisation and alignment. The 2006 liaison reports from the global table, as well as the interviews carried out, have stressed that other agencies point to the absence of multilateral financial organisations. For its part, the World Bank would prefer that donor meetings be approached as an exception, rather than as a parallel structure. The government must be present at all meetings in order to ensure its involvement and leading role in the process. However, most DPs also hold the opinion that progress could be made in terms of donor coordination as regards *harmonisation* in several areas, though they agree that the government should play a leading role in the *alignment* process. For instance, a mid-

term agenda might be defined in order to discuss the progress made toward harmonisation and two or three annual thematic meetings could be held on the following subjects:

- **Strategic processes:** Where is cooperation support to decentralisation and eventually a national programme for decentralisation and local development heading? Will it be possible to increase (additional) budget support to municipalities through FONIM, as a complement of the overall budget support? Will it be possible to undertake joint decentralisation programmes or as part of more extensive governance efforts? Will geographic approaches to support remain in place in some of the municipalities agreed to with the government?
- **Municipal strengthening and human resources:** What approaches exist? What are the most suitable institutions to strengthen municipalities (i.e. INIFOM, AMUNIC or other agencies)? Will work in support of institutions be distributed in a more orderly fashion between agencies? How will the Municipal Administrative Career Law be implemented?
- **Technical assistance:** How can technical assistance be provided in a coordinated and institutionalised fashion?
- **Financial resources:** What approaches exist to support municipalities with investment and pre-investment funds? What municipal transfers mechanisms make sense, and what are FONIM and FISE prospects? Could transfers be directed specifically, i.e. to the environment, water resources, or another sector, and could mechanisms be established to monitor results?
- **Sector and local development relationships:** What is the existing approach to the role of municipalities among other sector support programmes? How could internal coordination between agencies and their sectors be achieved?
- At another level, excepting the sub-table, there could be space to **promote increased coordination** between agencies and such institutions as INIFOM, AMUNIC, and OAP, so as to provide support to a dialogue between institutions and DPs as a whole, in line with institutional plans, as has occurred previously (2002).

Given the climate of “expectation” in 2007, including a sub-table meeting that the government has yet to convene, DPs met twice and have agreed to draw up a matrix with information provided by the various DPs. The matrix will be sent to the government as a sign of the willingness to specify supply. Furthermore, there is consensus that the government should be given sufficient time to consider its policy.

3.3. Alignment of DP support to country strategies

As regards decentralisation and local governance, the sector characteristics are complex. The “sector” includes several institutions (i.e. OAP-SETEC, INIFOM, MHCP, FISE, the Office of the Comptroller General, the municipalities and regional governments) and as regards other sectors, there are relevant decentralisation institutions (e.g. the delegations of sector ministries). Nonetheless, the will to create a support programme in line with the Paris Declaration principles exists.

However, to the extent that the government has not set up a programme, DPs have not been willing to promote an “artificial” donor support programme that does not comply with the basic requirements of a “programmatic approach.” Nonetheless, according to several agencies, they are making contributions as joint financing, though not as a basket fund, to “institutional plans or support programmes” (for INIFOM and OAP-SETEC, among others). Oftentimes, these do not comply with the aforementioned requirements and could in the future become a “sub-programme” of a wider programme. For instance, as described in greater detail below, a number of DPs contribute to the “Programme for Improved Environment, Control and Transparency (PIECT)” at the Office of the Comptroller General, while others contribute to plans at the above institutions (OAP-SETEC, INIFOM). KfW and

IDB are closest to programmatic support to the FISE “programme”, though it can still not be defined as a basket fund. It is worth mentioning, as stated in the introduction, that the DP support defined as “support programmes” in the annex are not defined as “programmes” by the government. They include support to different institutions, sectors and a few government programmes/funds (like FONIM, PIECT and FISE).

As regards joint analytic work, it has been noted that information on approaches and studies are shared. Nonetheless, joint missions or complementariness are still scarcely used.

“**Alignment**” means that the agencies must base their support on national strategies, national institutionality and national procedures (in this case in the ENDDL), including the national mechanisms for financial management established in SIGFA.

At present, agencies are “framed” within the ENDDL, though this is still not operational. Thus, in practice, many agencies continue to focus their support on their “own” geographic areas and semi-institutionalised structures, while channelling funds through their own mechanisms.

Harmonisation and Alignment progress regarding a programmatic approach

Persons interviewed indicate that the last great “harmonisation” effort made by some agencies has been the joint analysis and harmonisation surrounding the national debate on the 2003 Municipal Transfers Law. On that occasion a joint statement signed by practically all agencies was presented to the Consultative Group¹¹. It addressed a series of issues relevant to harmonisation and alignment, as well as to the development of a programmatic approach. In reality, however, it has proven difficult to put into practice. Some have indicated that “some DPs seem to have their own agenda and are not willing to share it.”

Finland has put forward a proposal to support the government in designing a National Programme for Decentralisation and Local Development, through technical research assistance, baseline data, information systems, and legal framework reform, among others. DPs have agreed for now to send a supply matrix as a first step in order not to “exert pressure” and give the government the opportunity to define its position.

In this regard, it is premature at this moment to speak of cooperation alignment with country strategies, as these have not been clearly defined. The PRSP and its operational plan are yet to be accompanied by clear plans with indicators and concrete implementation mechanisms.

While actors consulted agree that the ENDDL is a significant instrument to consolidate the decentralisation process, they also indicate a series of challenges that must be overcome if alignment is to be made possible:

- **Continuity:** ENDDL is a visible backup to the decentralisation process, as it provides a reference difficult to revert. On the other hand, this has involved a discussion that has been ongoing for over ten years. The process has remained practically stagnant over long periods, while different forces, including the municipal movement, have promoted a decentralisation process. Thus, it still is a “policy in the works” currently under review and adjusted by the present government. In addition to continuity, another challenge present since the onset is associated with political leadership and the institutional anchorage of this process.
- **Implementation of a national programme for decentralisation and local development:** the putting into practice of ENDDL is not only important but also a challenge. ENDDL itself

¹¹ Joint Donor Statement on the Decentralisation Process in Nicaragua – Meeting of the Consultative Group; 27-28 October 2003, presented by Germany, IDB, WB, SDC, Denmark, Finland, Sweden, UNCDF, UNICEF, and the European Union Commission.

mentions the setting up of a National Programme for Decentralisation and Local Development, which will have implications as regards the formulation of results, indicators and budgets for the government of Nicaragua, as well as for demands made to DPs. The various actors expect the government to follow through on this option, which will be a key element for effective alignment in a wider framework of state reform. Support modalities will be able to adjust to support programme demand, including greater use of basket funding, joint financing and common pockets of technical assistance. Moreover, a programme of this kind may form part of wider support programmes (i.e. governance).

- **Issues in need of a common approach:** some DPs hold the opinion that there are several sub-issues in need of deeper consideration when implementing a National Programme for Decentralisation and Local Development. Whether this occurs or not, agencies working under government leadership require common approaches in alignment with government needs to discuss common approaches, since DP modalities still are different (as will be described in detail in chapter 3.4.)
 1. a common approach and modality of *municipal and regional institutional strengthening* (e.g. planning, tax recollection, municipal financial management);
 2. common approaches and modalities of *technical assistance to build the capacity of municipalities, institutions in the autonomous regions and relevant government institutions*;
 3. common *investment and pre-investment* approaches (modalities and funds) to municipalities and autonomous regions, including definition of mechanisms and channels for cooperation regarding global (FONIM) and specific allocations (water, education, and the environment, including support to FISE);
 4. criteria and modalities of joint support to the formulation of *national decentralisation policies (OAP-SETEC)*;
 5. definition of a link between decentralisation support programmes implemented by some agencies and other sector programmes relevant to the local development and decentralisation process (support to the private sector and civil society, among others);
 6. complementary or common approaches to the promotion of *citizen participation* – although significant progress has been made as concerns harmonisation from six agencies through the establishment of Common Fund in Support of Civil Society, which has among its work areas to provide support for citizen participation processes. However, this support only covers part of the necessity in this aspect.
 7. for all elements, the following must be discussed: *a common monitoring system* to enhance measurement of municipal and regional performance, and ensure *sustainable* efforts under the leadership of municipalities and autonomous regions based on national criteria.
 8. Geographic cooperation approaches to each area must be discussed vis-à-vis sector and national approaches, and to what extent government policy allows for different approaches. Participation of the Ministry of Finance and Public Credit is key to defining some of the tools for swift implementation of a National Programme for Decentralisation and Local Development.

Examples of issues to be addressed in preparation of harmonisation and alignment in the field of decentralisation

Promotion of joint analysis and exchange of approaches: this is an important element and part of the functions of the donor sub-table. The following exchanges have been carried out: i) share information on the progress made by ENDDL and the institutions; ii) conduct joint analysis and studies on specific issues, i.e. the functioning of FONIM and the Municipal Transfers Law (in process of being implemented); iii) conduct joint studies on potential strengthening of coordination. At present there are agencies working on the possibility of coordinating efforts in the governance sector, including decentralisation. Documents, evaluations and so forth, are exchanged to that effect¹². Nonetheless, more formal and automatic procedures could be established so that information is shared between all involved.

As regards the exchange of approaches, there are several examples already carried out, which could serve as inspiration for further work:

- Integrated Municipal Financial Administration System among UNCDF, GTZ, IDB, and other interested DPs such as Danida and Finland.
- Municipal Planning System among these agencies. Furthermore, there is an emerging experience between SDC and GTZ associated with building municipal capacity in tax management and municipal services in Region VI (Matagalpa and Jinotega).
- Exchanges on FISE experiences between KfW, IDB and the WB (when the latter still had an ongoing support programme). Additionally, an exchange was planned with SDC as regards the rural water sub-sector.
- Exchange between AECI-Spain and Finland (through PROGESTION Programme) on the registry tax system for cattle branding irons.

The simplification of procedures and practices has been a step forward as illustrated by examples of joint financing to OAP and CGR, and support to civil society. This entails less time invested by the government in complying with reporting requirements, as it will have to submit only a consolidated report to DPs. Furthermore, donor meetings at the sub-table would theoretically reduce the need to meet with DPs.

Stronger approach to results and national monitoring systems: according to documentary information, data collection should be promoted to gather municipal results achieved by all support programmes and share the information. Currently several government agencies request information, but municipalities have yet to put a monitoring system in place. There also is the experience of SIRDEM (GTZ) and APDEL (Danida), and which has been taken up by INIFOM. Although these cannot yet be considered harmonisation experiences, these signal the onset of the construction / support to national systems (ownership).

Delegated cooperation: there are not very many examples of this practice. In the spirit of the Paris Declaration, this could imply that an agency may not work on local governance and decentralisation, as defined by ENDDL, if it decides to provide support in a “purely” sectoral manner, i.e. overall support to education, leaving it to other agencies to take on previous commitments to decentralisation support. Some DPs in Nicaragua are currently considering

¹² In 2001, prior to the existence of the current table structure, there was a “governance sub-group” that conducted a study on the “identification of needs and potential for greater coordination and cooperation in the area of decentralisation and municipal strengthening in Nicaragua”. It included a number of recommendations, i.e. exchanging experiences and defining a strategy of unification of project cycles, phases, stages, and activities. However, this idea has yet to materialise, particularly because some agencies have opted for a wait-and-see approach to the government’s policy.

“joint assistance strategies” as part of a complementary strategy. Further, the issue of complementariness within support programmes or sectors has not been addressed very frequently, although such specialisation could perfectly well be taken into consideration. In such a case, an agency would support government institutions and eventually provide follow-up to other contributions. Among German agencies, the German Embassy is represented at the sub-table by KfW and GTZ, the former has delegated GTZ to represent both institutions on behalf of German cooperation at the sub-table on decentralisation. For its part, KfW participates at the sub-table on state reform and modernisation.

Common budget support, basket programme or joint financing arrangements:

As has been mentioned, there are few examples of common arrangements¹³. There follow some examples, representing only a small percentage of total cooperation in the field of local governance and decentralisation. Each such arrangement involves between four to six agencies of the twelve agencies active in this field.

Some of the most advanced harmonisation examples include joint contributions to the municipal transfers mechanism in 2005 and 2006 (FONIM), with support from DfID, UNCDF (2005 only), Danida, and Finland. This could be considered basket funding and is regulated through a specific agreement with MHCP. In 2007, a joint support evaluation is being conducted, as pledged in 2006 in order to ensure compliance with support commitments to improve municipal performance.¹⁴

Another advanced example is the Common Civil Society Support Fund for Democratic Governance in Nicaragua, which is made up of six agencies supporting projects linked to decentralisation and good governance (Finland, SDC, DfID, Denmark, Norway and Holland). This fund operates as a mechanism to allocate resources to networks and organisations in Nicaraguan civil society, as well as a space for technical accompaniment. The implementation is carried out by a Technical Secretariat which includes a consortium of non-governmental international cooperation organisations made up of OXFAM-UK, the Dutch Cooperation Service (SNV), the Irish Catholic Agency (TROCAIRE), and NOVIB (OXFAM-Netherlands).

Yet another example is joint support to FISE from IDB, WB (earlier) and KfW. Arrangements between KfW and IDB are harmonised and aligned with FISE. Support to FISE from KfW and IDB may take place in the form of basket funding in the future.

A fourth example is support from 2005 onward to the Office of the Comptroller General in order to ensure municipal audits (GTZ/DfID, Danida, World Bank, Finland, and UNCDF). The Memorandum of Understanding – signed by DPs and MHCP, INIFOM, CGR and AMUNIC – contains a common framework in support of the Programme for Improving Government Control and Transparency and mentions that support falls within the objectives of “harmonisation, alignment, ... as well as within the framework of the National Harmonisation and Alignment Plan being drafted.¹⁵” It is worth mentioning that contributions have not been made in the form of basket funding; rather, contributions have been partial.

Other joint contributions targeted: i) support to the ENDDL consultation process organised among various DPs (GTZ, UNCDF, SNV, Danida, SDC, CIDA, Finland); ii) support to ensure

¹³An analysis of the overall Joint Budget Support to Nicaragua is not included in this report.

¹⁴ Since 2005, SETEC and the Ministry of Foreign Relations have conducted a “sector approach diagnostic study” within the framework of the PAI-NIC project supported by EU, which recommends increased alignment in ten selected sectors, among which is the decentralisation “sector”. The municipal transfers fund (FONIM) has been pointed to as a harmonisation experience. Despite continued work with a sectoral approach in some areas (ProRural in particular), this is not the case as concerns the issue of decentralisation. Some actors maintain that decentralisation is not a sector, and should rather be considered a territorial approach. Nonetheless, ENDDL includes the possibility of drawing up a National Programme for Decentralisation and Local Development.

¹⁵ Memorandum of Understanding for a common framework in support of the Programme for Improving Municipal Government Control and Transparency. Managua, 8 June 2005.

appropriate transition of municipal governments in the 2000 and 2004 elections; and iii) previous joint support to the creation of a variety of planning tools within the framework of INIFOM support.

Joint missions: in fact, practically none of the agencies interviewed conduct joint missions. An exception is KfW, which almost always undertakes joint missions with IDB as regards FISE and always with government representatives. Except a few cases of joint analysis, all other agencies have their own missions and support programmes. However, informants state that the few joint missions and studies carried out have had importance for the process of developing common approaches.

Joint missions have also been conducted in such other sectors as education, made up for instance by World Bank, Canada, and European Union representatives. Mention can be made of joint missions to the extent that these are associated with the issue of decentralisation linked to education.

In other words, despite significant progress noted in terms of a common platform, particularly in 2006, there are only a few examples of harmonisation and alignment.

3.4. Support modalities for DPs

As far as **support modalities** are concerned, it is worth mentioning that decentralisation continues to be an issue of great interest to DPs, though to date the progress made toward becoming a national programme has been limited. This is due to the complexity of the issue of local governance and decentralisation, among other reasons, which is why many agencies have support programmes to a number of institutions (multi-institutional) and encompass a number of themes. The lack of guidelines to design support programmes in a more uniform fashion has led DPs who support decentralisation and municipal strengthening to opt for different approaches. Some DPs with strong support programmes at the start of the new century have decided to decrease their support or withdraw entirely (as in the case of the World Bank /USAID), while others have opted for policy support (DfID, Danida, UNCDF/UNDP, the World Bank, Finland). Further, there is a tendency in some cases to take up or maintain a geographical approach (EU, SDC, AECL, Finland), which would have to be adjusted in the future to the implementation of a programme support approach to decentralisation and municipal development.

At present, there is a diversity in support modalities regarding the following issues:

1. At present, different agencies promote *municipal and regional strengthening* based on a variety of methodologies. Although the methods may share many similarities, and in some cases are being carried out as part of institutional support by INIFOM or other national institutions, there is not a forum for discussing a single, common approach.
2. At present, some agencies provide *technical assistance* which are not fully integrated in the national structures; others provide technical assistance with short-term consultancies outside national structures, and yet others provide institutional budget support so the institutions can contract assistance (see details below).
3. Diversity in modalities for *investment and pre-investment*. At the moment, some of the agencies support FONIM, other DPs support FISE and yet others support municipalities with investments and pre-investment using INIFOM as a channel for transferring funds. Different procurement procedures are used. There is thus a need for an overall strategic discussion on how to best channel funds.
4. Regarding the formulation of *national decentralisation policies (OAP-SETEC)*, it is a positive development that a joint support was provided for the formulation of ENDDL.

However, support is still being given through the modality of co-financing, and not through basket funding or institutional budget support.

5. Lack of link between sector and municipal support programmes. The matrix prepared by the sub-table (annex) reflects present support programmes in decentralisation. But both within some agencies and in the sub-tables coordination meetings, there remains a need to exchange information with other support programmes carried out with importance for the local level.
6. Currently, each agency still has its *own monitoring modalities* and individual reviews of support programmes.

It has been noted in the round of interviews that most DPs have a programmatic approach complemented by efforts to support capacity building and investments. Four DPs promote budget support to municipalities through FONIM as part of their support programmes. Another five DPs base their general interventions on a programmatic approach (i.e. specific donor support programmes). Finally, three DPs and a consulting firm have what they themselves call specific projects related to decentralisation. Most no longer have their own implementation structure to undertake such actions, but rather are integrated to one of the partner institutions.

As regards administrative-financial areas of alignment, it has been noted that most DPs, though not all, have made considerable progress. As will be observed in the examples below, most technical assistance is offered in the form of support to existing structures and short-term consultancy services. The TA does not respond to a non-existent global programme, but attempts rather to reflect the objectives and specific needs for technical assistance of each relevant institution (INIFOM, OAP-SETEC):

- **GTZ:** in the specific case of decentralisation, the experience was that of supporting institutions based on specific requests for TA (capacity development). Previously, the agency had a permanent advisor within INIFOM, which is no longer the case. Furthermore, GTZ provides support to the Participatory Implementation of the PRSP Project (PASE), which receives funds from another German support programme and is jointly financed by other DPs. This contribution is considered a budget support modality in the areas of decentralisation, participation, and consensus-building.
- **GTZ and KfW** have a division of labour, in which GTZ will provide technical assistance.
- **Finland:** technical assistance is integrated to the INIFOM structure and is based on demand. Nonetheless, in practice it has been involved in implementation functions (due to lack of partner action). Since the last National Executive Committee meeting (between partners and Finland for the decentralisation support programme), INIFOM decided to take on a central role as the implementing institution.
- **USAID:** the support programme provides technical assistance through specialised consultancy services, which will have to be in line with the main national strategies.
- **AECI** participates in programmes and/or projects, provided that assistance is required to achieve the expected results. Short-term rather than long-term advisors are used.
- **Dfid** has no long-term advisors; rather, it provides short-term consultancy services and technical assistance, i.e. as regards the issue of audits and other matters it is supporting.
- **Danida** has had international advisors integrated to the structure, but no longer has.
- **UNCDF** has both national and international advisors. The latter undertake periodic visits from the head office in New York. UNCDF provides specific technical assistance at the request of national partners and in general operates within the framework of activities to be developed with programme support. At the level of programme coordination it relies

technically on a review of terms of reference and promotes collective review of outputs at the respective entities, i.e. the Municipal Transfers Commission in the local government.

- **CIDA:** The main technical assistance is channelled through projects that are approved and implemented by the Government of Nicaragua. Specialised technical assistance have been undertaken by Nicaraguan consultants.

Practically all contributions (10 out of 12 DPs) are registered in the national budget. However, only 8 out of 12 DPs use the public financial management system of the Ministry of Finance and Public Credit to channel their cooperation. As mentioned, only a few DPs still have project implementation units for their decentralisation support programmes.

- **GTZ:** the support programmes have their own staff (advisors), most of which have their offices outside partner institutions. However, advisors to some components are physically integrated to the head offices at partner institutions (i.e. CGR and MARENA). Their presence outside the various institutions is justified by the multinational nature of components, lines of work and activities.
- **Finland** has two implementation units for its two support programmes (PROGESTION and TIC). It has been placed in national institutions but is still in a process of transition toward full institutionalisation.
- **KfW, USAID, UNCDF, Danida and Dfid** have no implementation structures.
- **AECI** is integrated to an institutional structure.
- **EU** is integrated to an institutional structure.
- **CIDA** operates under several modalities, but is integrated to an institutional structure. It has a cooperation programme support unit and uses an international organisation (CARE).

Further, there are several DPs with sector support programmes in transportation, the environment, education, health care and local interventions. They could be included in the discussion to the extent that they are important to local governance and decentralisation, but are at present not part of the sub-table's matrix.

As can be noted in the matrix found in chapter 2, DPs have different points of entry for their respective support. There are "groups of DPs" that support the same institution (OAP-SETEC receives support from 4 agencies; INIFOM has been supported by 11 DPs; AMUNIC by 4 DPs; and CGR has the support of 5 DPs). Support to each institution is designed as joint financing or specific support, not as basket funding. However, overlapping is avoided as regards financing. In other cases of support to FONIM and civil society, joint financing and basket funding are – with the exception of support to civil society – in line with the national legal framework and strategies. Despite the variety of partners, agencies agree that support to local governance and decentralisation must be multi-institutional and encompass several areas, including formulation of policies and a strategy that serves as a basis for interventions.

As regards sector support (education and transportation), there are several modalities – from wider basket funding (education) to programmes (transportation) – but in some cases there is a need to articulate them with parallel municipal support programmes.

4. LESSONS LEARNT AND PERSPECTIVES

This last chapter discusses the implications of the specific context for implementing a decentralisation process. Overall, cooperation alignment faces many challenges in the field of decentralisation. Persons interviewed underscore four reasons, among several others: i) Progress has been made as shown by the current policy and strategy, but the government has yet to express interest in alignment by formulating a more operational national programme, with joint results, modalities and budgets, and including relevant key institutions; and ii) DPs have already pledged funds under well-defined modalities that cannot be easily changed; iii) since decentralisation and local governance are cross-cutting issues, there is a large number of national institutions involved. This means that H&A is very complex and needs more time to develop; iv) there has been no clear sign from the head offices of some DPs as to how to harmonise and align cooperation in practice. Results are required at local level, though not necessarily harmonisation and alignment.

Some of the few examples of alignment available include joint inputs to the municipal transfers mechanisms in 2005 and 2006 (FONIM with support from DfID and UNCDF [2005 only], Danida and Finland), though follow-up and accountability mechanisms need to be applied to municipal transfers; joint financing to key institutions in decentralisation, such as OAP-SETEC, the Office of the Comptroller General, and INIFOM (creation of planning tools). In other words, there exist only a few examples of harmonisation and alignment, though significant progress has been made, particularly in 2006, in terms of a common platform.

Nicaragua is in a transition period. This will affect the H&A process. The present government has yet to express to what extent it will accept the former government's decentralisation strategy. Meanwhile, the following lessons learnt have been noted as regards the process of harmonisation:

- **Support to local governance and decentralisation must be (A) multi-institutional and (B) encompass several areas**, all of which are significant to the process. As regards Nicaragua, it includes the Presidency, the Parliament, INIFOM, and the Office of the Comptroller General, as well as regional governments, the municipalities, AMUNIC, and civil society. Furthermore, interventions must be complemented in several areas relevant to development, the legal framework, institutional strengthening (including human resources), development of national policies, financial resources for investment and improved services, as well as accountability and monitoring. Interventions by DPs in Nicaragua involve five areas and have encompassed everything since the time when municipalities as we know them today were non-existent (1990) to municipalities with local authorities and which are in the process of developing their competencies.
- **Support to (1) policy and (2) strategy development and its link to state reform is a key issue for harmonisation and alignment, given the lack of a clear national framework:** The absence of a government policy and strategy has encouraged several DPs to facilitate and support the drawing up of such a framework, though leaving it up to the government to decide the pace and speed at which to proceed. There is at present an improved framework for alignment, though it has involved a long-term process that has lasted for years, and putting the ENDDL in place remains a challenge. An opinion held among the various DPs is that it is possible to advance toward harmonisation. Some DPs are even considering the possibility of linking their support to decentralisation with a broader framework for support to governance consistent with state reform.
- **Promotion of a (3) National Decentralisation Strategy for Local Development to achieve concrete alignment** seems to be a logical way to render the ENDDL more operational, with well-defined results and an allocated budget. This approach points in a common direction, though the programme has not as yet materialised. The complexity of

such a programme is acknowledged, as it would involve several institutions, in addition to sector-wide and cross-cutting coordination mechanisms.

- **The Transfer Law is an important tool for alignment, but continuous fine-tuning is needed:** The Municipal Transfers Law of 2003 and the support mechanism used by a handful of DPs represent the most advanced examples of a public policy for the alignment of cooperation. Nonetheless, implementation of mechanisms for contributions and monitoring of use of funds has been slow, thus leading to exiguous contributions on the part of DPs. Monitoring systems must be put in place in order for government and DPs to jointly assess the mechanism and to promote efficient management and poverty reduction efforts.
- **Joint arrangements in progress. However, more government backup is needed:** though progress toward joint arrangements has been slow, there are encouraging examples of several common funds, as well as overall budget support. In the field of local governance and decentralisation, the “Civil Society Common Support Fund for Democratic Governance in Nicaragua,” functions as a mechanism for allocating resources to civil society organisations and networks, including those that work in citizen participation and accountability at local level. This is an example of harmonisation in an area that lacks national policies.
- **A shift from International technical assistance to increased use of national human resources:** Long-term international advisors are currently few in the field of local governance and decentralisation. Some DPs have even reduced their use. The role of international advisors is valued and justified wherever and whenever they can contribute with a particular type of knowledge. Instead, national short and long-term advisors have been financed as part of supported institutional plans. While the practice of an increased use of national human resources seems suitably justified, the issue of the sustainability of national advisors also merits attention.
- **If detailed alignment is not possible, then harmonisation could be achieved.** The government has decided to review previous policies during the first months of 2007. DPs in the decentralisation sub-table have decided, as a joint proposal, to present a matrix of DPs working on decentralisation in Nicaragua, considering that the will exists to gradually harmonise cooperation regarding specific issues and institutions. This is a way to advance toward “micro-alignment”, given the absence of a broader national programme. Furthermore, the few joint missions and studies, as well as programme steering committees, have had concrete importance in the process of harmonisation and development of more common approaches. The Civil Society Support Fund is another example of harmonisation.
- **The coordination mechanism is useful for dialogue, though it must be deepened:** the sub-table coordination mechanisms have been useful for exchange, joint analysis, and to build consensus as regards joint financing. There is interest in and potential to use these mechanisms for promoting alignment and harmonisation by discussing common approaches to technical and financial assistance to municipalities.
- **The growing ownership of the process by the government is seen as positive. There is a need to clarify how to involve government more in the formulation process of DP support programmes/projects.** In interviews with government representatives the demand for increased government participation in programme formulation, implementation, approval, and monitoring was noted. Missions scheduled with little lead time to define a programme are not appropriate, as they adjust to the DPs’ timeline and involve significant amounts of technical assistance, thus not benefiting the

municipal population. There are examples of cooperation proposals that have been rejected.

- **Broad participation by and a complement to civil society.** Civil society and the Association of Municipalities have been important factors to maintain and insist on a priority policy. Agency support has been complemented by international NGOs.

Some government institutions, and INIFOM in particular, have provided specific recommendations that could be relevant to other countries. INIFOM has noted i) that annual operations plans must always be approved by the government, and not as is presently occurring with some DPs, at which plans are approved by DPs; and ii) that they want a change in the make up of expenditures. Some programmes spend large sums on current or capital expenses, which do not favour direct investment in infrastructure. Thus, the following is recommended:

- programmes must be set up with institutionalised implementation modalities (though not with Project Implementation Units), in order to strengthen institutional ownership, leadership and strengthening;
- DPs must contribute to build consensus and agree upon actions and resources for process development and achievement of local governance and decentralisation goals, without directly intervening in their implementation;
- cooperation support programmes must be aligned, always respecting the institutional framework and organisation of the government entity (INIFOM) to draw up plans and distribute resources;
- DPs must favour increased allocation of cooperation funds to direct investment in contrast with current or capital expenses; and
- DPs must ensure increased participation of government representatives in formulation missions.

Potential scenario to deepen harmonisation and alignment: in a scenario of continuity of the ENDDL implementation process, the government will be expected to put forward an alignment proposal. In any case, regardless of such a scenario, DPs will be able to draw up a harmonisation agenda among DPs (sub-table) that includes the use of tools and addresses issues relevant to the decentralisation programme, as follows:

(1) Tool formulation, implementation, and monitoring:

- exchange of information / “supply” matrix;
- joint studies and analysis. Joint evaluations of key issues, including assessment of institutional capacity and financial resources systems, among others);
- establishment of micro-workshops to review issues that are key to decentralisation as a precondition for common cooperation approaches to policy support;
- joint missions (with the government), joint technical assistance, increased participation and ownership on the part of the government to define programmes and annual operations plans;
- review of financing and procurement of goods and services (technical assistance and audits) with a view of defining common procurement procedures;
- joint projects and programmes (municipal, sector-wide, as part of broader governance programmes, and as basket funding for specific institutions (INIFOM, OAP and others); and
- Results-based joint Programme monitoring with a view toward strengthening dialogue in all phases of the development and introduction of harmonisation and alignment.

(2) Issues/joint government and donor approaches to be addressed at micro-workshops:

- municipal institutional strengthening;
- investment approach, including targeted investment and investment channels;
- technical assistance approach;
- national local development and decentralisation policies;
- citizen participation;
- relationship with other sector-wide programmes; and
- geographical approach vis-à-vis sector and national approaches.

Once there is a clear request from the government, it will be possible to proceed with the formulation of a National Decentralisation Programme for Local Development. While this task is beyond the purview of this report, a few of the steps that a process of this type normally includes is outlined below:

Government commitments

- Strengthening of sector-wide (decentralisation and local governance) priorities, that facilitate alignment and harmonisation.
- Consolidate leadership and promote a process of cooperation, harmonisation and alignment.
- Agree upon priorities and measure results together with DPs.
- Design and adjust to a plan and budget for a medium and long-term commitment.
- Multi-annual budgets within the framework of the Operational National Development Plan and Follow-up Matrix.

Methodology and road map

- Operation and use of the sub-table to devise common approaches.
- Permanent dialogue among DPs, the government, and civil society.
- National programme presented by the government.
- Detailed and quantified work plan (budgeted in order to be negotiated with DPs, or in any case the most important ones). Definition of technical assistance.
- Action Plan or Road Map for the alignment process managed by the government in dialogue with DPs, and involving municipal authorities.
- Preparation of a Letter of Intent between DPs and the government (requires DPs to prepare a common Position Paper).
- Memorandum of Understanding between the government and DPs with a view toward finding better aligned and harmonised ways of providing finance (for instance through basket funds).
- Support and accompaniment from the group of DPs, including the establishment of mechanisms for joint review, evaluation, audit, and leadership.
- Follow-up and progress indicators defined and agreed upon.
- Sector-wide approach (SWAP).

Finally, there follows some advice regarding the principles to be incorporated to the dialogue as mentioned in the 2005 study on harmonisation carried out by the Ministry of Foreign Affairs and the Secretary of the Presidency:

- Start up a dialogue with stakeholders without waiting until all DPs commit themselves to Harmonisation and Alignment (H&A).
- Evaluate periodically the progress made by DPs toward harmonisation.
- Harmonisation takes time.
- Require each DP to draw up H&A strategies, though each is free to make sovereign decisions.
- It is difficult to achieve a common technical assistance plan, but would represent a great step forward.
- Use external technical assistance only when there is a lack of government or national capacity.
- The establishment of joint monitoring, evaluation and audit mechanism is a key issue.

In a scenario where no continuation is given to the ENDDL strategy, the DPs' focus will be on harmonisation, while the alignment process will take even longer time.