DAC Working Party on Development Finance Statistics

REVIEW OF RECENT TRENDS IN DECENTRALISED COOPERATION: MAPPING AND ANALYSING FINANCIAL FLOWS, ACTORS AND MECHANISMS IN EU COUNTRIES

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This Room Document is submitted to the WP-STAT for INFORMATION. It presents the scope and ambition of an innovative joint project undertaken by the OECD/GOV Regional Development Policy Committee (RDPC) and the OECD/DCD Development Assistance Committee (DAC), in co-operation with the European Commission’s Directorate-General for International Cooperation and Development (DG DEVCO).

The central objective of the project is to take stock of recent trends and evolutions in development co-operation provided by regional, state and local governments, also known as decentralised co-operation (D.C.). The work seeks in particular to understand how D.C. can help strengthen local efforts to achieve the global commitments taken by governments as part of the 2030 Agenda for Sustainable Development, COP 22 or the New Urban Agenda (Habitat III). The project will include data collection on flows extended by local and state governments, an assessment of recent trends and persistent governance gaps, 4-5 pilot case studies, and recommendations on effective D.C. policymaking.

A survey will be circulated to DAC members shortly following the next DAC meeting (9 March). Consultations and workshops will be conducted throughout the year with D.C. providers and recipients, including on the margins of the 5th Assises of Decentralised Cooperation in Brussels July 2017. The official OECD publication is slated for completion by late 2017/beginning 2018. The concept note of the project is joined for information (pdf format only).

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Annex I – Description of the Action

Review of recent trends in decentralised cooperation: Mapping and analysing financial flows, actors and mechanisms in EU countries

Scene setting

There is not a unique definition\(^1\) of Decentralised Cooperation (DC) as development cooperation provided by subnational administrations of providers countries, but common denominators can be identified: (a) the lead actors (local governments)\(^2\), (b) an overarching objective (e.g. sustainable local development) and (c) the nature of activities carried out (e.g. exchanges and support). While it is true that various donor agencies are increasingly supporting DC activities, the theme of administrative decentralisation does not form the thrust of DC—although linkages between DC and decentralisation issues exist. Nor does DC refer to any type of cooperation between decentralised bodies such as local governments.

Over the past 20 years, the concept of DC evolved from simple forms of co-operation, mainly based on exchanges of competences and skills (twinning) to more complex, comprehensive and professionalised forms of co-operation, with a greater employment of financial mechanisms (EU, 2008). Some drivers, in particular, played a strong role in spurring this shift of paradigm:

- the importance of **partnerships** in international development as opposed to the concept of “donor-recipient” relationship;
- the increasing recognition from the donor community of **local and regional authorities** as key actors in international development, together with non-governmental players; and
- the **decentralisation process**, which allocated greater policy and administrative responsibilities to local and regional authorities as well as financial means.

Recently, more attention has been devoted to DC in **Europe**. The European Union has dedicated financial programmes and strategic frameworks to DC, throughout the programming framework 2007-2013 and 2014-2020. These include for instance the **Agenda for Change**\(^3\), which identifies local authorities as key actors for the accomplishment of **democratisation, human rights and good governance and inclusive and sustainable growth for human development**. An analysis of 149 projects set up through 9 programmes within the financial period 2007-2013 showed that DC projects funded under EC programmes covered mainly **“soft” initiatives** for reinforcing local authorities’ capacities, accompanying

\(^1\) The World Bank refers to DC as formal partnership between local authorities in different countries who engage in a programme of exchange and collaboration aimed at improving the social and economic circumstances of their respective communities and enhancing the skills and competence of the partners involved. The EU refers to DC as the publicly and privately funded aid provided by and through local authorities, networks and other local actors (EC, 2008). And the OECD has been measuring DC through the contribution of sub-national authorities to DAC member countries’ foreign assistance.

\(^2\) In the EU context, the term "local authority" encompasses more than 91,000 authorities at local level (municipalities), 1,150 intermediary level organisations (districts, counties) and more than 100 regional bodies. See [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0626:FIN:EN:PDF](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0626:FIN:EN:PDF)

\(^3\) For more information, see [https://ec.europa.eu/europeaid/policies/european-development-policy/agenda-change_en](https://ec.europa.eu/europeaid/policies/european-development-policy/agenda-change_en)
processes (decentralisation and local self-government) and providing services. As for the sector, “local governance” absorbed almost 50% of EC funds, while “environment” and “sustainable development” also gained increasing importance. In terms of the geographic scope, Latin America, African, Caribbean and Pacific (ACP) were the main areas of intervention. Concerning modalities of intervention, the EC operated mainly through call for proposals to finance projects and, exceptionally, providing direct grants.

However, despite recent trends above-stated, DC represents only a small share of total development assistance. For example, over the years 2007-2011, DC accounted for 0.3% only, of the 45 million euros spent by the EU in the framework of its development cooperation policy. In Spain, while the contribution of DC (19%) remains high compared to other EU countries, a decrease from the 26% in 2005 is noteworthy (OECD 2013). In Germany and Belgium, DC has increased from 2003 to 2006, reaching respectively 10% and 4% of ODA in 2006 (EC, 2008). In 2005, France allocated 115 million EUR for DC and increased the budget to 150 Million EUR in 2007 (EC 2008), making it the second major donor worldwide⁴. In 2010, 0.8% of the French ODA was coming from local and regional authorities, this is to say, more than 100 million EUR (OECD 2009). Last but not least, the analysis of the distribution of different official actors of total bilateral aid disbursements carried out by the OECD in 2012 reveals that the majority of disbursements are divided among only a few agencies: on average, less than half of all aid extending agencies are responsible for over 90% of total bilateral aid (OECD 2014).

Recent developments in the Global Agenda provide a window of opportunity to broaden the base and scale-up the impact of DC to foster the territorial implementation of national commitments and enhance the effectiveness of place-based policies. This holds particularly true for the localisation of the 2030 Sustainable Development Goals, as well as the implementation of the Paris Agreement from COP 21 and the new urban agenda from Habitat III. In addition, DEVCO B2 has launched an initiative on the Territorial Approach to Local Development. In all these cases, subnational governments play a significant role either because they handle most of related policy fields (in co-operation with upper levels), or because they are responsible for large shares of public investment and related levers of action. Ensuring no-one is left behind when translating these global processes from vision to action requires co-operation across levels of government but also solid partnerships between north-north, south-south and north-south to build capacity, transfer know-how, provide technical assistance and implement concrete projects that can contribute to better lives. These global frameworks have also underlined the need for better disaggregated data to be able to spot inequalities at territorial level.

For this to happen, a number of multi-level governance bottlenecks need to be removed not only to catalyse the needed finance and expertise at local and regional levels; but also to search for value for money, to ensure that the absorption capacity is in place, and to develop projects sufficiently bankable to be attractive and to deliver expected outcomes. DC interventions are often the result of project-based, ad hoc international co-operation efforts; the short timelines and narrowly targeted nature of such projects can lead to fragmented policy and programme interventions and generate local dependency on external aid. The importance of the multi-level governance and the need to link those interventions to the institutional framework of the beneficiary countries is often overlooked.

Objective and tasks

Time has come to take stock of decades of DC so as to track related financial flows, to learn from what has worked or not, and to suggest ways forward to guide the action of donors, governments and stakeholders in a shared responsibility. The momentum is particularly opportune at a time when the post-

⁴ http://www.diplomatie.gouv.fr/fr/sites/cooperation_decentralisee/en/#/
crisis fiscal pressure on local and regional governments is severe in many EU countries, which are required to do more and better with less.

With the above objectives in mind, it is herein proposed to carry out a **review of recent trends in decentralised cooperation** from EU members. This would imply mapping and analysing the evolutions in the scope and nature of financial flows (aid extended by local and state government in each EU country where data is available) as well as the types of actors and mechanisms used for decentralised cooperation, and the beneficiaries in terms of sectors/policy area and countries. In practice, the exercise would require:

- **Data collection** in the largest possible number of countries to track financial flows related to decentralised cooperation (origins, destination, sectoral breakdowns, etc.)

- **Analysis** of targets and promoters of decentralised cooperation, scales at which it is carried out, and tools used to that effect. To the extent possible, an analysis of the impact and sustainability of the DC projects would help assess if current DC models are effective and sustainable or not. Also, a data analysis would be carried out concerning DC interventions in European countries in the context of the refugee crises and the in-donor refugee costs\(^5\).

- **Case studies** to zoom in-depth in selected EU countries and draw lessons from the achievements/challenges of different governance models for decentralised cooperation;

- **Workshops** to discuss the findings with different stakeholders and actors of decentralised cooperation, and to build consensus on the policy recommendations.

The OECD is well-equipped to carry out such a review and provide policy guidance, building on the expertise and networks of the **Regional Development Policy Committee (RDPC)**, which is the premier OECD forum dealing with sub-national governments through its work on territorial statistics, rural/urban/water policies, public investment, sub-national finance and multi-level governance. The project would be carried out in cooperation with the **Development Assistance Committee (DAC)**, which produced valuable data on aid extended by local and state governments, published in a dedicated report in 2005 and to be updated and extended in the framework of the first pillar of activities below detailed. The subsequent sections detail the content and scope of each pillar that the project will encompass.

### 1. Updating data on aid extended to local and state governments

Building on the 2005 OECD/DAC study, the project will provide for all possible EU countries:

- An **updated statistical overview** of aid extended by local and state governments, in particular
  - Budget allocations for development cooperation;
  - Information on the international relations of local authorities and coordination with Central Government;
  - Political and administrative organisation of DAC members that report the aid of LAs;
  - Geographical areas of intervention of local authorities’ aid.

- A **disaggregation of data** (whether it is possible) per:

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\(^5\) Building on the work being developed by the “DAC temporary working group on refugees and migration”
- Type of actors (Regional Governments, Provinces, Municipalities);
- Type of activities carried out in partner countries;
- Type of themes/sector normally covered by DC.

2. Analysis of flows, players, mechanisms, sectors and recipients

The analysis will cover recent trends and shifting paradigms in decentralised cooperation in terms of who does what, at which scale, beneficiaries as well as strengths and weaknesses of mechanisms used. This will require a mapping of stakeholders, beneficiary sectors (potentially using the SDG framework), as well as financing schemes. The subsequent analysis is expected to update and deepen, more particularly, evidence and research on:

- the nature of DC players involved in DC projects, ranging from the promoters (lead actors), to the targets (recipients), enablers⁶ (supporting and coordinating) and facilitators (intermediaries)⁷;
- the contribution of DC mechanisms to local administration and decentralisation;
- the core motivations for local authorities’ contribution to development cooperation (e.g. know-how transfer to empower local authorities in partner countries);
- the range of options in terms of (co-)financing schemes (e.g. central governments transfers to associations of local authorities, calls for proposals etc.);
- the returns on investment of DC for both northern and southern local authorities, be they direct (e.g. exports, migration) or indirect (e.g. intercultural dialogue, social cohesion);
- the transaction cost of DC (usually considered very high);
- the achievements or tangible benefits (mobilising stakeholders, building capacity, etc.);
- the main multi-level governance gaps hindering DC effectiveness (e.g. fragmentation, capacity, information, scale, accountability, etc.) and the range of mechanisms to bridge them⁸;
- the impact and long-term sustainability of DC projects to identify what happened after the project/funding and whether follow-up actions/funding were put in place.

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⁶ A number of agencies, generally located within the Ministry of Foreign affairs, accompany the DC process and implementation. For example, in France, local authorities receive support from a dedicated ministerial structure called Delegation for the External Action of Local Government (DAECT), which helps implement partnerships with local government and assess DC. In Italy, the coordination of DC depends directly on the Directorate General for Development Cooperation. In Denmark, the Danish Development Cooperation Agency is the primary interlocutor of local authorities and DC processes.

⁷ A range of actors facilitate the implementation of DC. In Spain, for instance, it is mainly channelled through NGOs; while in Denmark, it occurs through the Danish Municipalities Association, which collaborates with public or private organisations and local structures. In the UK, DC is carried out through global partnerships and national and international networks such as United Cities and Local Governments (UCLG); The Commonwealth Local Government Forum (CLGF); Local Governments for Sustainability (ICLEI).

⁸ The project could provide an inventory of useful tools for overcoming selected gaps. For example, in terms of the information gap, noteworthy are the CeR Atlas of Decentralised Cooperation for Development (monitoring Local and Regional Authorities development cooperation), the Platforma and the Observatory of Decentralised Cooperation UE - Latin America (providing information on decentralised cooperation at EU level) and the Informative System about the Decentralised Co-operation of Tuscany (database of decentralised co-operation projects).
From the analysis above and case studies below suggested, **policy recommendations** will be provided to support the European Commission’s reflection on decentralised cooperation and potential follow-up to the outcomes of the 5th Assises of decentralised cooperation (July 2017).

### 3. Case studies

A zoom on 4-5 case studies will provide insights on the diversity of governance models for operating within and across EU countries, be they decentralised, centralised or mixed. For instance, Spain and Belgium have a rather **decentralised model** since regions are autonomous and can decide on international agreements and manage related financial resources; Sweden and Italy have a more **centralised model** whereby the Ministry of Foreign Affairs plays a more important role; France and Germany have a **mixed model**, whereby local authorities plays a key role together with ministries and their agencies. Scandinavian countries operate DC through partnerships. Also, some networks of local authorities are increasingly active in DC, as is the case of ORU-FOGAR, UCLG, and ICLEI.

It is proposed to draw a **typology from such cases and lessons learned** from EU members in terms of approaches (e.g. traditional aid-oriented twinning programmes, subsidy programmes, support to awareness raising activities, financial participation in international campaigns), their core objectives (e.g. poverty reduction, small-scale citizens initiatives, local governance, social cohesion) and other actors likely to be involved (NGOs, local business, citizens groups, public authorities etc.).

**Tentative list to select 4-5 case studies/pilots**

<table>
<thead>
<tr>
<th>Country</th>
<th>Decentralised cooperation model</th>
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<tbody>
<tr>
<td>Belgium</td>
<td>Communities and regions have the power to sign international agreements on matters which are within their jurisdiction. The Flanders International Cooperation Agency, for instance, is very active in DC.</td>
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<tr>
<td>Denmark</td>
<td>Local authorities work through the Danish Municipalities Association in partnership with the Danish Development Cooperation Agency</td>
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<tr>
<td>Finland</td>
<td>Partnership between the Association of Finnish Local and Regional Authorities and the central government</td>
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<tr>
<td>France</td>
<td>Regions, departments, municipalities and other forms of inter-municipal or inter-regional public bodies are very active in the framework of a national strategy to support and coordinate LAs international cooperation activities.</td>
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<tr>
<td>Germany</td>
<td>The Bundesländer and the municipalities count with a self-tradition and their own approach to build relationships with developing countries LAs. In this framework, the key actor in terms of coordination and professionalisation is the Federal Ministry for Economic Cooperation and Development (BMZ), with an important the role of GiZ.</td>
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<tr>
<td>Italy</td>
<td>Local authorities have no jurisdiction in these matters, and DC coordination depends on the DG for Development Cooperation in the Ministry of foreign Affairs. However, though the model is rather centralised, some cities and regions have budgets for DC.</td>
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<tr>
<td>Netherlands</td>
<td>The International Cooperation Agency of the Association of Netherlands Municipalities, VNG International, has become the central pillar of a professionalised municipal cooperation offering training, tools to strengthen the ties with local governments in third countries.</td>
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<tr>
<td>Spain</td>
<td>Regions have defined their policies in the field of international cooperation following central governments schemes, acting as donors, enacting specific laws, defining programmes, strategies and priorities, articulating private and other public actors, allocating important amounts of aid and signing agreements with multilateral organisations. AECID is also a prominent actor in the DC field.</td>
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The legal competence of development cooperation belongs to the central government (Ministry of Foreign Affairs), with 60% of the total expenditure managed by the Swedish International Development Agency (SIDA). Development cooperation is generally centralised which means that the other government levels do not have an active role in financing related activities.

Case studies should also strive to address a range of sectors that are recipients of DC initiatives and projects. DC often concerns projects in local public service management (water, energy, health, waste), infrastructure, rural development, urban planning, transport, tourism, digital administration, and environmental. Analyses carried out at European level concluded that the value added of the DC goes beyond the support in the provision of services and the building of the infrastructure, towards a long term perspective which is achievable by building knowledge and capacities. DC project help strengthen the political agenda of local and regional authorities involved and the scope of their actions, through the interaction with international counterpart. DC projects thus contribute to sustainable development through supporting economic development, local governance, regional integration, agriculture and food security, water, sustainable tourism and historical and cultural heritage. Most of these dimensions are embodied in dedicated sustainable development goals.

A prominent example is water, which has been an emblematic catalyst of DC in many EU countries over the past two decades. This is mainly due to the existence of a range of mechanisms offering an innovative and alternative source of financing to support the implementation of the UN Resolution on the human right to drinking water and sanitation. For instance, the Oudin-Santini law in France allows municipalities and water agencies to allocate up to 1% of their water and sanitation budget on water solidarity projects; Solidarit’eau platform in Switzerland evaluates NGOs projects and matches them with interested municipalities and water utilities; Dutch water utilities can contribute up to 1% of their annual turnover in cash and/or in technical assistance to international activities for improving access to safe water and sanitation for the poor. A Global Water Solidarity Platform\(^9\) was also set up as an international hub for DC partnerships in water under the auspices of UNDP.

### 4. Multi-stakeholder discussion and peer-review

The implementation of the project will be supported by multi-stakeholder workshops and peer-review discussions in technical workshops, and relevant OECD committees and working parties.

- **A first workshop** (April-May 2017) will be organised to discuss the preliminary findings from the statistical overview;

- **A second workshop** (July 2017 as part of the 5\(^{th}\) Assises of decentralised cooperation) will discuss findings from the case studies selected and cross-cutting analysis from recent trends and evolutions;

- **A third workshop** will consist in a policy seminar (October 2017) to build consensus on the findings and recommendations from the Review in the final stage of the project;

- **A peer-review** (November 2017) will be held within the Regional Development Policy Committee and Development Assistance Committee and/or relevant subsidiary bodies.

- **A Launch event** will be organised to release the final publication and database.

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\(^9\) See [http://www.globalwatersolidarity.org/who-we-are#sthash.7Zhq0FgL.dpuf](http://www.globalwatersolidarity.org/who-we-are#sthash.7Zhq0FgL.dpuf)
Outputs

The Action will deliver two main outputs:

- An official publication “Review of recent trends in decentralised cooperation: Mapping and analysing financial flows, actors and mechanisms in EU countries” in English.

- An online database containing statistics on decentralised co-operation and related benchmarks for all EU countries covered

Action management

The Action will be managed by the Regional Development Policy (RDP) Division of the OECD’s Directorate for Public Governance and Territorial Development, and involve the contribution of DAC Secretariat (Statistics and Monitoring Division, Development Co-operation Directorate) on the first pillar of activities above-stated. The OECD will be responsible for day-to-day management of the Action, to include supervising the organisation of missions, preparation of the reports, organisation of workshops and financial administration. The report will be written by the policy analysts assigned to the action and will involve external consultants in formatting and preparing the work for publication, ensuring that it meets OECD standards. OECD staff will be responsible for the organisational, logistical and communication aspects of the workshops conducted as part of the Action, as well as organising mission travel for OECD staff and invited experts in accordance with OECD rules and travel policies.

The Commission will make available to the OECD the relevant data provided by the EU member states that are not members of the OECD and ensure all relevant contacts with their authorities.

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