

### From project to policy reform: experiences of German development cooperation

Altenburg, Tilman (Ed.)

Veröffentlichungsversion / Published Version  
Sammelwerk / collection

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SSG Sozialwissenschaften, USB Köln

#### Empfohlene Zitierung / Suggested Citation:

Altenburg, T. (Ed.). (2007). *From project to policy reform: experiences of German development cooperation* (DIE Studies, 27). Bonn: Deutsches Institut für Entwicklungspolitik gGmbH. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-109895>

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# From Project to Policy Reform

## German Development Institute (DIE)

The German Development Institute (DIE) is a multidisciplinary research, consultancy and training institute for Germany's bilateral and for multilateral development co-operation. On the basis of independent research, it acts as consultant to public institutions in Germany and abroad on current issues of co-operation between developed and developing countries. Through its 9-months training course, the German Development Institute prepares German and European University graduates for a career in the field of development policy.

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From Project to Policy Reform  
Experiences of German Development Cooperation

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Studies / Deutsches Institut für Entwicklungspolitik  
ISSN 1860-0468

**From project to policy reform** : experiences of German development cooperation / Tilman Altenburg (ed.). With contributions of Nand Kishor Agrawal ...  
Bonn : Dt. Institut für Entwicklungspolitik, 2007. – (Studies / Deutsches Institut für Entwicklungspolitik ; 27)  
ISBN: 978-3-88985-344-8

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## Abbreviations

ADB	Asian Development Bank
AFD	Agence Française de Développement
AIDS	Acquired Immune Deficiency Syndrome
AMA	Apoio ao Monitoramento e Análise
AME	Asociación de Municipalidades Ecuatorianas
ARD3D	Associates in Rural Development – Decentralisation, Democracy and Development
ASMED	Agency for Small and Medium Enterprise Development
BASA	Banco da Amazonia S.A.
BIBB	Bundesinstitut für Berufsbildung
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung
CAF	Corporación Andina de Fomento
CENAFLO	Centro Nacional de Apoio ao Manejo Florestal
CIM	Centrum für internationale Migration und Entwicklung
COIAB	Coordenação das Organizações Indígenas da Amazônia Brasileira
CONAM	Consejo Nacional de Modernización del Estado
CONCOPE	Consortio de Consejos Provinciales del Ecuador
CSOs	Civil Society Organisations
COSUDE	Coopération suisse pour le développement
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
DED	Deutscher Entwicklungsdienst
DFID	Department for International Development
EMTP	Educación Média Técnico-Profesional
EZ	Entwicklungszusammenarbeit
EIA	Environmental Impact Assessment
FAM	Federación de Asociaciones Municipales
FC	Financial Cooperation
FVPP	Fundação Viver, Produzir e Preservar
Flona	Floresta Nacional
FNO	Fundo Constitucional de Financiamento do Norte

FOPROD	Formación Profesional Dual, Dual Vocational Training
FUNAI	Fundação Nacional do Índio
FVPP	Fundação Viver, Produzir e Preservar
GDP	Gross Domestic Product
GESPRO	Gestión Subnacional de Proyectos
GFATM	Global Fund on AIDS, Tuberculosis and Malaria
GoI	Government of India
GoT	Government of Tanzania
GTA	Grupo the Trabalho Amazônico
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HDP	Hospital development plans
HIV	Humanes Immundefizienz-Virus
HRH	Human Resources for Health
HSR	Health Sector Reform
HSSP	Health Sector Strategic Plan
IADB	Inter-American Development Bank
IARA	Instituto Amazônico de Manejo Sustentável dos Recursos Ambientais
IBAMA	Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis
IFPRI	International Food Policy Research Programme
IGWDP	Indo-German Watershed Development Programme
IMI	Inventario Municipal de Infraestructura
INECI	Instituto Ecuatoriano de Cooperación Internacional
INPE	Instituto Nacional de Pesquisas Espaciais
InWEnt	Internationale Weiterbildung und Entwicklung
KfW	Kreditanstalt für Wiederaufbau
MDGs	Millennium Development Goals
MECE	Mejoramiento de la Calidad y Equidad de la Educación
MI	Ministério da Integração Nacional
MINEDUC	Ministerio de Educación y Cultura
MMA	Ministério da Integração Nacional
MoH	Ministry of Health
MPI	Ministry of Planning and Investment

MTEF	Medium Term Expenditure Framework
NABARD	National Bank for Agriculture and Rural Development
NGO	Non-Governmental Organization
NMSF	National Multisectoral Framework for AIDS
NRPP	Natural Resource Protection Programme
NSGRP/MUKUTA	National Strategy for Growth and Reduction of Poverty
PADEP	Programa de Apoyo a la Gestión Pública Descentralizada y Lucha contra la Pobreza
PAS	Plano Amazônia Sustentável
PDA	Programa de Desenvolvimento de Área
PORALG	President's Office for Regional Administration and Local Government
PPP	Public Private Partnership
PPG7	Pilot Programme to Conserve the Brazilian Rainforests
PPTAL	Projeto Integrado de Proteção às Populações e Terras Indígenas da Amazônia Legal
PRI	Panchayati Raj Institutions
PROMANEJO	Projeto Apoio ao Manejo Florestal na Amazônia
PROVÁRZEA	Projeto Manejo de Recursos Naturais da Várzea
PRS	Poverty Reduction Strategy
PSC	Program Steering Committee
PT	Partido dos Trabalhadores
SDPL	Sector Development Program Loans
SENAPE	Servicio Nacional del Patrimonio Estatal
SENCE	Servicio Nacional de Capacitación y Empleo
SME	Small and medium-sized enterprises
SNV	Stichting Nederlandse Vrijwilligers (Netherlands Development Cooperation)
STRR	Sindicato de Trabalhadores Rurais de Rurópolis
SWAP	Sector-Wide-Approach
TACAIDS	Tanzanian Commission on AIDS
TGPSH	Tanzanian-German Programme to Support Health
TC	Technical Cooperation

UNCED	United Nations Conference on Environment and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
USAID	U.S. Agency for International Development
USD	U.S. Dollar
WB	World Bank
WOTR	Watershed Organisation Trust
ZTC	Zonal Training Centers

# From project-based development cooperation to policy reform: Introduction and main findings

Tilman Altenburg

## 1. Introduction

Donors have long recognized that good governance and appropriate sector-wide incentive systems constitute key success conditions for the efficiency, outreach and sustainability of development projects and programmes. Typical project-based aid often helps to improve local situations or the functioning of particular partner agencies, but only rarely does it impact on a whole sector or the quality of governance structures in general. What is more, project achievements at the local level may be undermined and rendered unsustainable if the overall policy environment deteriorates. Conversely, improvements in the policy environment – such as property rights reforms, simpler regulations for microfinance providers, or civil service reforms – may prompt considerable social and economic dynamism. Hence there is a strong rationale in favour of tackling overall governance problems and inappropriate sector policy frameworks rather than focusing on local projects. This is one of the key lessons learned from previous decades of development cooperation.

Achieving this, however, is a challenge. Most development agencies have no difficulties in demonstrating project-related improvements at the level of certain villages or municipalities, in individual institutions or groups of enterprises. When it comes to changing framework conditions and basic incentive structures in developing countries, however, their track record is less clear. Not many cases have been documented in which a) substantial improvements of governance and overall economic indicators, or at least improved sector policies and outcomes, have been achieved and b) these improvements can plausibly be attributed to the work of development agencies.

This is, of course, not least a problem of measurability. In multi-actor politico-economic systems causal relationships tend not to be linear and unidirectional. It is therefore always difficult to analytically isolate the

impacts of a particular intervention. Moreover, there is the problem of the counterfactual, that is, one never knows how a specific political process would have evolved had certain measures not been taken. It should be stated, though, that even qualitative case studies that try to trace success stories back in order to find plausible links between policy interventions and outcomes are rare. This suggests that not many projects achieve their objective of improving the respective (sector) policy frameworks. In any case there is a need for better documentation of processes and outcomes, both to account for taxpayer money and persuade constituencies and to create a knowledge base for organizational learning and improved service delivery in the future.

Donor agencies pursue different strategies to induce and influence policy reform processes in developing countries. These include, inter alia,

- long-term secondment of experts who are fully integrated in strategic government institutions like the office of the president, ministries of finance, or powerful economic planning units;
- secondment of independent advisors who act as ‘knowledge brokers’, helping to identify specific needs and finding appropriate consultants;
- short-term missions by high-level officials such as the presidents of regulatory authorities, antitrust agencies, or central auditing authorities;
- high-level workshops for government decision-makers from industrialised and developing countries as well as international experts,
- training programmes for decision-makers (actual or on the career ladder), and
- networking among policy think tanks from North and South.

This study deals with one specific form of donor support for policy reform, namely donor-financed policy reform programmes that are based on a combination of pilot projects and high-level advice – so called **multi-level approaches**. German development agencies argue that policy reform processes involve complex societal changes and can therefore not be decreed and implemented through top-down processes. According to their argument, high-level policy advisory services that are not embedded in processes of societal change can offer blueprints but not tailor-made solutions and are therefore rarely able to bring about lasting change. They insist that good policy solutions need to be tested in practice, and stake-

holder support needs to be built through participatory learning processes. GTZ in particular claims to have a competitive advantage vis-à-vis other donors that do not offer as much “multi-level competence” and process-based policy support.

The purpose of the present volume is to see how successful multi-level approaches work in practice, especially to what extent good policy support actually requires a micro- or project-level foundation. This gives rise to questions regarding the operational setup of such processes: E.g. how feedback loops between implementation of pilot projects, capacity-building in service delivery, and policymaking are best organized; what role formal and informal procedures play in the policymaking process, and who the most influential change agents are; how a succession of micro-level experiments, codification of experiences, norm-setting and enforcement of new rules should be timed and sequenced, and what time spans are required to manage such iterative processes.

Special attention is given to the question of whether multiple-level approaches are compatible with the new donor principles codified in the Paris Declaration on Aid Effectiveness. The declaration, which was adopted in 2005 by ministers of developed and developing countries responsible for promoting development and heads of bilateral and multilateral development agencies, encourages developing countries to adopt poverty-reduction and similar overarching strategies and commit themselves to aligning their support with partner strategies. According to the Paris Declaration, it is the partner countries who should design policies and build institutions to implement, monitor and account for policies. Accordingly, donors should increasingly support country-led strategies and use country systems, especially in poor, aid-dependent countries. In particular they should “*avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes.*”<sup>1</sup> Furthermore, donors are urged to harmonise their activities with those of other donors, “*reduce the number of separate, duplicative, missions to the field and diagnostic reviews*”<sup>2</sup> and use programme-based aid modalities. The Paris Declaration thus substantially limits the autonomy of bilateral aid programmes. Although there

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1 High Level Forum (2005).

2 Ibid.

is still need for policy advisory and practical support in implementation, the new aid modalities clearly restrict the scope for micro-managed bilateral programmes that set their own goals, carry out their own diagnostics, establish their own procedures for implementation and monitoring, and use their own programme funding. This is why we have included both case studies on multi-level approaches within traditional bilateral programmes and within country-led and multi-donor-financed sector-wide approaches and draw conclusions on the role of donors in countries that adopt the new aid modalities (“PRSP countries”) and in non-PRSP countries.

This volume presents seven case studies on programmes that pursue successful, or at least promising, approaches to changing sector policy frameworks using specific project-level expertise. These programmes are being implemented by GTZ and KfW, Germany’s largest providers of technical and financial development cooperation. The idea for this volume came about after several assessments of German cooperation programmes had blamed development agencies for implementing too many isolated micro-level interventions that have remained stand-alone activities, without any verifiable impact on the broader policy environment.<sup>3</sup> Even where they were labelled “pilot cases,” the channels through which these “pilots” were expected to impact on policies or to induce massive replication had only rarely been specified, and the assumptions on demonstration and spill-over effects often appeared quite heroic. In addition, several recent studies highlight the enormous administrative burdens associated with the proliferation of small aid projects.<sup>4</sup>

GTZ and KfW have responded to this critique. Both organizations decided to screen their portfolios and to identify a number of good practice programme approaches which use project-based interventions systematically and successfully to initiate policy reforms. The results of this effort have now become available. The present volume documents seven case studies on cooperation programmes that claim to have substantial impacts on the host country’s sector policy.

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3 E.g. Altenburg (2003); Faust / Messner (2007).

4 See example Roodmann (2006); Acharya / de Lima / Moore (2006).

## 2. Selection of case studies and methodology

The purpose of this compilation of case studies is to show how multi-level approaches work successfully and to provide lessons for practitioners. GTZ and KfW were for that reason asked to identify programmes which they themselves consider to be exemplary in integrating project level support and policy reforms. It should be noted that the cases are therefore not representative of German, or international, development cooperation. The examples gathered in this volume prove that multi-level policy approaches *can* be very successful in influencing policy; but we do not know to what extent the case studies reflect generalized practice.

Case studies were selected on the basis of the following criteria:

- Impacts at the policy reform level should be visible and attributable to a donor programme operating at the local level. “Local level” here implies interventions with limited regional outreach (e.g. village or district level) or aimed at capacity-building in a particular implementing (as opposed to legislative or regulatory) agency.
- It is possible to retrace the process that linked the project level to the policy impact. As these processes take time, this required a good personal or institutional memory.

No particular sectors or policy areas were pre-selected, reflecting our interests in *general insights in processes* rather than peculiarities of particular sectors. Accordingly, the documented cases cover a broad range of topics and comprise programmes of technical cooperation (implemented mainly by GTZ), financial cooperation (implemented by KfW) and so-called cooperation programmes which combine technical and financial cooperation.

Some of the programmes have a quite long history. E.g. the Brazilian forest protection programme, the watershed development programme in India, and the vocational training project in Chile all date back to the early 1990s. This is due to a selection bias, as we asked for mature programmes with documented policy impacts. The cases that were selected to demonstrate the policy impacts of country-led sector-wide approaches are more recent, given that these aid modalities are still relatively new, and are therefore unable to demonstrate as much policy impact. The Tanzanian and the Vietnamese examples are cases in point.

<b>Selected case studies by implementing agency</b>			
	Technical cooperation (implemented by GTZ)	Financial cooperation (implemented by KfW)	Joint programmes
Vocational education & training in Chile	x		
Decentralization in Ecuador	x		
Decentralization in Bolivia	x		
Forest protection & sustainable resource management in Brazil			x
Watershed development in India			x
Co-financing SME development in Vietnam		x	
Hospital development in Tanzania			x

Neither of the two agencies has a monitoring system that would make it possible to systematically identify successful policy reforms and to attribute them to its projects or programmes. The editor therefore addressed his enquiry to planning / policy research units, and they then sought to identify appropriate cases and project or programme officers who were willing to write down their experiences. One of the challenges was to find persons who were familiar with the genesis of the respective project or programme. As the history of some of the programmes covered in this volume extends over two decades, this was not an easy task. In several cases, authors withdrew their offer to document a programme because, as they noted, it was too difficult to demonstrate lasting policy changes or to show plausibly how such changes could be attributed to their programme.

Most articles have been written by authors who were for many years engaged in project implementation. Such insider perspectives may be less objective than independent evaluations. But this bias was deemed acceptable in order to capture the richness of practitioners' experiences and to learn from the difficulties involved in such a process. The authors were

therefore encouraged to document processes of trial and error, learning steps, detours and failures. To avoid an overly optimistic assessment of perceived successes, for instance attribution of any positive policy change to one's own donor programme, the authors were asked to provide as many verifiable facts as possible and to draw on external evaluations wherever feasible. Only in a limited number of cases, however, were such external evaluations available. In particular, the case studies on Brazil and Chile build on independent evaluation reports to underpin their arguments. In addition, all the reports were reviewed by another person, usually one from another institution without an direct stake in the programme, but one nevertheless familiar with the respective programme and its genesis. These persons' comments were taken into consideration for the final versions. I would like to thank the following reviewers who provided very substantive and in some cases extensive comments: Gottfried von Gemmingen, Philipp Knill and Kathrin Oellers (German Ministry of Economic Cooperation and Development, BMZ); Dr. Edgar von Knebel, Harald Lossack and Janos Zimmermann (GTZ); and Dr. Peter Wolff (German Development Institute, DIE).

### **3. Main findings**

The presentation of findings is structured along six groups of questions:

1. Is there evidence of policy changes that can be traced back to successful local projects?
2. How important has project-based aid in specific localities and particular implementing agencies "on the ground" been for achieving policy reforms? Would it have been possible to achieve the same policy reforms without such project-level interventions?
3. What were the relevant channels through which micro-level information was transferred to the policymaking process? How was the link between project-level and policy reforms established? Did policymakers spontaneously pick up on project experiences, or was this transfer designed as an integral part of programme design? What lessons can be learned with regard to the knowledge management of multi-level programmes?

4. How did projects deal with the uncertainty of open-ended processes? To what extent did programmes stick to original plans, and how much flexibility was required to adapt to political changes? Was it better to work with a limited number of key institutions or with open partner networks?
5. Which institutions and individuals were especially important as change agents, and how did the programmes engage them in the process?
6. What relevance does an integrated multi-level approach have when donors commit themselves to country-led programmes and abstain from creating new bilateral programme structures for budgeting, dialogue, implementation and performance measurement? Can the principles and methods of integrated and iterative multi-level reform processes be applied to country-led sector-wide approaches?

### 3.1 Evidence of policy changes that can be traced back to successful local projects

All the programmes documented in this volume have led to policy changes in the partner countries.<sup>5</sup> Admittedly, it is not easy to attribute encompassing policy changes to one particular development programme. However, all of the case studies presented here describe, in a detailed and convincing manner, how programme activities were used to test policy options, how they influenced legal reforms, the creation of new funding mechanisms or other country-wide policy reforms.

In the following, we will sum up some of the most impressive achievements in terms of country-wide policy changes. It should be noted that this study only looked into whether local projects had an impact on policy reforms. Whether these reforms were implemented effectively and whether they have had the desired effect is beyond the scope of this study.

- In Bolivia, GTZ helped to implement governance reforms in different pilot municipalities. One of the reforms was a rule-based procedure for a transparent hand-over of municipalities following changes of

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5 In Vietnam and Tanzania, where programmes are still at an early stage, these changes are even less clearly demonstrated than in the other, very mature programmes.

government. This procedure was later applied in more than 60 % of Bolivian municipalities. Another reform aimed at speeding-up public investments. The corresponding procedures were introduced in selected municipalities and later introduced nation-wide. Likewise, a country-wide system was introduced to register local conflicts and monitor agreements between government and civil society; this led to a situation where the percentage of unfulfilled government obligations declined significantly.

- In India, German support (since 1992 ) for decentralized and participatory watershed development projects facilitated the transition from a largely technical approach to a more holistic strategy that combined community involvement with the development of high-quality technical solutions. KfW provided finance and advisory support for a participatory process involving self-help organizations. Based on successful Indo-German pilot projects, the Indian government set up a multi-million-euro National Watershed Development Fund and tasked the National Bank for Agriculture and Rural Development to support nation-wide reforms in this field. The bank now uses an approach very similar to the one it developed jointly with German development cooperation. For example, one unique feature of the Indo-German programme was its emphasis on a capacity-building concept. Such a concept was made mandatory in all central government-sponsored watershed development programmes. Furthermore, local and democratically elected institutions were authorized to take decisions bearing on watershed development.
- In Brazil, the Pilot Programme to Conserve the Brazilian Rainforest helped to integrate community co-management into the new law on the management of public forests in the Amazon and facilitated the first legal authorization to be provided for community forest management. Furthermore, previously informal fishing agreements are now used as an officially endorsed instrument for regulating fishing quotas. A new government loan programme for smallholder agriculture was set up to compensate for the extra-costs of environmental services. New procedures were formalized to identify and demarcate indigenous land; these provide for the participation of indigenous people and have led to an increase of registered indigenous lands. And finally, new procedures for issuing deforestation permits were introduced in the state of Mato Grosso. More generally, the programme claims to have created new policy spaces for civil society participation and to have bolstered environmental concerns in federal

and several state governments, e.g. by contributing to strengthening the Ministry of the Environment.

- In Chile, GTZ helped to build up a system of dual vocational training. Across the country, 25 % of vocational-technical secondary schools now offer dual vocational training. The development of the institutional structure for dual vocational training at the micro- and meso-level can be attributed indirectly to the German contribution. Furthermore, different models were tested, and these have now been placed on a normative footing and enjoy legal recognition.
- The Ecuadorian government passed a Law on Fiscal Responsibility in 2002 and adopted a Municipality Law in 2004. GTZ consultants were heavily involved in advising the government during the drafting process. GTZ also contributed to the establishment of a national monitoring system in the Ministry of Finance; this has enabled the ministry to gather and evaluate fiscal data from municipalities and provinces.

The processes in Vietnam and Tanzania are more recent, and it is therefore more difficult to demonstrate substantial changes at the policy level that may be attributed to donor intervention. However, the Vietnam case shows that the previous approach, one centred on providing long-term funds, proved unsustainable due to a lack of policy reforms, and in particular because no structural reform of the fiscal system materialised. With SME promotion as a cornerstone of the country's Comprehensive Poverty Reduction and Growth Strategy, and with coordinated donor support for the relevant reforms, there seem now to be much better prospects for transferring know-how and generating impacts on policy processes. An intensive discussion process between the government of Vietnam, the private sector and donors has now been established, leading to an agreement on reform priorities. The government is committed to implementing the "policy matrix" for the SME Sector Programme, which was developed in a structured and participatory process. Similarly, German development cooperation is now participating in a sector-wide approach under the Ministry of Health of Tanzania, where it contributes the experiences it gained from previous projects that introduced participatory Hospital Development Planning as an innovation.

### 3.2 The role of micro-level projects in policy reform processes

In sum, the donor programmes documented have thus had considerable impact at the policy level. The question is, however, whether micro-level interventions such as activities at the level of individual municipalities were needed to achieve these successes.

All studies concur in emphasizing that policy reforms would not have been achieved to the same extent if the policy advisory support provided had not been rooted in practical local level projects. To cite one example, Faust et al. argue that *“improvement in the context of fiscal decentralization was due to closely connected interventions at several levels of government. Neither an isolated perspective on the subnational level nor an exclusive focus on the national level would have effectively promoted a national fiscal monitoring system.”*

How do the case studies explain this need to engage in micro-level projects? All studies portray policy reforms as complex, non-linear and socially embedded processes. Good policy advisory support is therefore much more than any simple conveyance of blueprint solutions to decision-makers. Rather, policy reforms

1. are highly contentious political processes that always reallocate gains and losses among groups of society and therefore have multiple supporters and opponents. Different groups of society tend to have different attitudes towards reform, either pursuing different change agendas or trying to veto any change. As a consequence, reforms can not be decreed in a top-down manner – or if they were, they would not be successful, not even under authoritarian regimes. Shaping and advancing reform processes thus involves dialogue, consensus-building, and formation of reform coalitions. Some reforms are especially sensitive. Scholz and Schönenberg, for example, note that influential nationalist stakeholders, including the military, fear that donor efforts to conserve the Brazilian rainforests may ultimately mean placing large parts of national territory under international custody, and entail loss of access to its wealth. Likewise, intended reforms of the banking sector in socialist Vietnam would have strong impacts on the political balance between market-oriented reformers and traditionalists.

2. include large numbers of stakeholders. The rainforest conservation programme in Brazil, for example, involved, on the public side, state environmental authorities, the ministries of agriculture and health, the police, the prosecutor, the land-use planning authorities, and representatives from municipalities, among many others. In addition, involvement of manifold civil society organizations was crucial, including environmental groups, smallholder farmer associations and organizations of indigenous people. Reform processes need to take all these interest groups into account and to develop consensus-based solutions if they are to achieve equitable and sustainable results.
3. lack coherency because most stakeholders pursue particular interests rather than supporting the best welfare-enhancing reform programme. In mature democracies governments may be expected to take different stakeholder interests into account, to be open for compromise and to draft reasonably coherent reform agendas. Many developing countries, however, lack a powerful organizer of compromises, and governments often fail to resolve coordination problems and distribution conflicts. Consequently, donors often need to ensure broad participation in reform processes, engage in consensus-building and support institutional coordination.<sup>6</sup>
4. are open-ended iterative processes that require experimentation in order to adapt general concepts and tailor them to country conditions. In Chile, for example, the original model of dual vocational education was changed extensively after the first experiences had been made. According to Krammenschneider, “*establishing a normative base without a trial period would have resulted in a less practical model.*” Orlik confirms this for Tanzania. He demonstrates how the experience gathered with the previous drafting and implementation of particular Hospital Development Plans provided the country-specific knowledge required to improve guidelines for national hospital reform.
5. require credibility of policy advisors. Several authors highlight that their ability to demonstrate the practical viability of reform elements was crucial in gaining influence on policymakers. Krammenschneider e.g. states that one factor “*important for the success of political advis-*

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6 See especially Faust / von der Goltz / Schloms in this volume.

*ing on all levels was the concrete and result-oriented implementation that produced tangible and presentable results.”*

Due to these characteristics of reform processes, pilot projects at the level of individual schools, communities, local NGOs or districts are crucial. They create networks with different groups of stakeholders, test the feasibility of alternative concepts, help to identify the most appropriate context-specific solutions, and, on that basis, enhance the credibility of policy advisors. Some case studies also mention that project-level engagement has created pools of experienced multipliers without whom it would not have been possible to replicate reforms country-wide. Krammenschneider shows this for vocational education in Chile, and Scholz / Schönenberg provide evidence from Brazil, where personnel of the federal environmental authority, IBAMA, received training in best practices for co-management of forests with local communities, which could then be diffused through IBAMA's country-wide activities. Decentralization augments the number of stakeholders involved, as reforms imply changes at different levels of government and institutions, e.g. the local, the provincial and the national level. This is clearly demonstrated in the Faust et al. study on what the authors refer to as “*subsidiarity-oriented decentralization*”. They show that

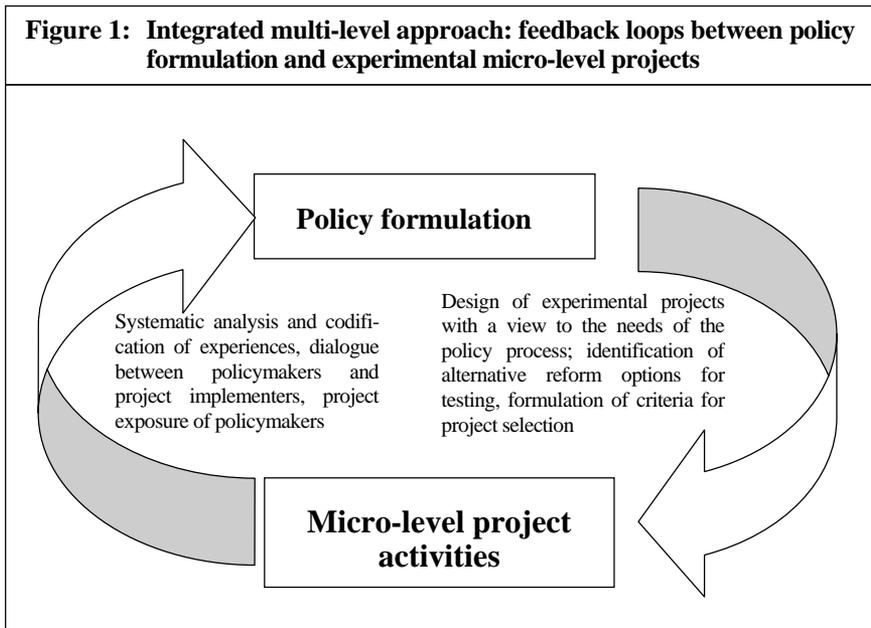
*“early attempts to promote decentralization have put emphasis on local empowerment via strengthening local civil society. These approaches have encountered serious problems because they failed to recognize that the national level strongly influences decentralization processes. Political actors at the national level take the most important decisions, shaping the general pathway of decentralization processes. However, an exclusive focus on the national level would also be problematic, because it would ignore the need for well-articulated demands from local and regional actors, which then must be carefully embedded into a national framework.”*

### 3.3 Management, diffusion and scaling up of knowledge

Even if micro-level project activities are important to tailor policy reforms to specific country needs, codification of project experiences and transmission of this into the policy formulation process do not happen automatically. They require a well-planned programme design that

- identifies and implements pilot projects on the basis of the requirements of the policy process, e.g. the need to test and compare alternative models and to adapt them to local conditions;
- systematically evaluates the experiences gathered at the project level;
- draws generalized policy conclusions from these experiences; and
- establishes channels to feed these conclusions regularly into the policy process.

This may occur in several consecutive feedback loops. New policy solutions are proposed and implemented, receive support or are rejected by relevant stakeholders, and amendments are made that need further testing or dissemination. Reforms are thus an open-ended process of continuous learning and political negotiation (Figure 1).



In practice, programmes are not always designed *ex ante* in such a systematic way. The Brazilian PDA sub-programme, for example, “*relied heavily on micro-projects without establishing from the start the political or institutional channels through which policy changes could be stimulated once*”

*the proposals for reform were formulated.*” (Scholz / Schönenberg in this volume, p. 97). Also, in the case of the Indian watershed development projects, systematic activities designed to influence policy processes were not intended at the beginning of the programme cycle. In Tanzania, KfW started out supporting a limited number of hospitals. Only when the government and donors embarked on a coordinated sector-wide approach did the opportunity emerge to feed these experiences into the new policy dialogue. In most of the programmes documented in this volume, however, upscaling mechanisms have been applied deliberately and systematically.

The review of programme experiences holds the following lessons for future programme design:

1. Programme management should specify the role of micro-level projects in the overall process at an early stage. Micro-level projects may serve different purposes within a broader policy reform process. They may, for example, be necessary to test alternative models before laws and procedures are changed or a new funding mechanism is set up. But they may also be employed to enhance stakeholder support or to adapt recently introduced policy changes to different regional conditions. If projects are a means for testing alternative models, then they need to be crafted in a way that makes it possible to draw policy conclusions at a very early stage. In Vietnam’s SME programme, for example, pilot programs were designed as models for further implementation on a broader level. This requires a realistic time frame that clearly establishes a phase for setting up the pilot and a subsequent phase to organize outreach activities.
2. There needs to be a procedure and methodology for the documentation of pilot experiences. Several case studies note that standards for the documentation of pilots were defined (e.g. Bolivia and Chile) and learning experiences were systematically analysed (e.g. Brazil, Vietnam).
3. A methodology is needed to evaluate project findings and to choose among different policy options. If, for example, several models of vocational training coexist – which is indeed likely because project level implementation also serves the purpose of adapting general concepts to specific local conditions – then there need to be criteria for selecting the most appropriate model for future diffusion.

4. Learning experiences should be systematically conveyed to politicians and other decision-makers, both to demonstrate what policy options work best and to create commitment for the reform process. In India's KfW-financed watershed development projects, politicians were regularly invited to exposure visits in the villages. The fact that the Government of India set up a national watershed development scheme on the basis of these pilot projects has been attributed in part to the fact that high-level decision-makers were impressed by the visible village-level successes. For the Tanzanian health reform experience, Orlik proposes that existing hospital development plans be made available to the reform commission, that hospital managers who have undertaken a participatory hospital planning process be invited to report to the commission, and that visits be organized to these hospitals. Also in Vietnam, the SME sector programme built on an intensive dialogue with government in order to enhance ownership for reform and to transmit lessons from implementation. Unfortunately, this is not common donor practice. For Ecuador, Faust et al. show that most international donor agencies focus on the municipal level alone, that is, without addressing the changes necessary at the national level. A COSUDE report confirms that "*the ongoing local development initiatives have not been able to make themselves heard by other levels of government (provincial, national).*"<sup>7</sup>
5. In addition to feeding "vertically" into the policy process, there is also a need for horizontal replication. In most of the case studies mechanisms were established to disseminate results widely. Dissemination enables reform agents to replicate successful projects elsewhere and helps to raise general acceptance for reform. In several programmes (e.g. Chile, India and Brazil) marketing and training materials were prepared and distributed to implementing agencies in other regions or institutions. Learning experiences were incorporated into a continuously updated training programme and widely used in seminars for policymakers and/or multipliers. In Chile senior teachers who had successfully introduced vocational training at their schools were recruited and trained as promoters. The programme in Ecuador teamed up with universities as multipliers of knowledge on decentralization

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7 COSUDE (2004).

policy. In Brazil workshops were organized to exchange experiences with promising new initiatives within the ProVárzea sub-programme. Field days in communities, publication of leaflets on important subjects, and even participative street theatre sessions in communities and schools all contributed to the visibility and impact of the programme. In general, the programme managers maintained a close relationship to the mass media.

6. Finally, timely financial support for the development of innovative showcases and their replication contributed greatly to policy impact and outreach. In India's watershed development KfW co-finances a national fund that is now used to help upscale the successful projects.

In sum, managers of successful programmes did not wait for project spillovers just to happen. Instead, they deliberately adopted an array of measures conceived to learn from project experiences, codify this knowledge and both transfer it “vertically” into the process of policy formulation and transmit it “horizontally” with the aim of massive replication.

Since policy advisory support through multi-level strategies requires consecutive phases of micro-level experimentation, assessment of results and redesign of policies, the process needs time. Several case studies therefore highlight the need for a long-term engagement of advisors acting as knowledge brokers in the process. Advisors need to be familiar with different policy alternatives, able to tap into pools of knowledge in their home country and elsewhere, and to adapt the available knowledge to the host country's requirements. Also, given the intrinsically political character of policy reforms, advisors need to understand how decision-making works in the respective countries, what interests different groups have, how influential they are and through what channels change can be induced. Becoming familiar with, or even embedded in, local political processes and building trust with different stakeholders obviously takes time. It is therefore not surprising that those programmes that succeeded in inducing policy change all have trajectories of more than ten years.

The reform trajectories of the documented case studies are heterogeneous. In most cases programmes started out with project-level experiences. Reform of the vocational training system in Chile, for example, went through three clearly defined phases: it started with support for several schools, then intensified, with support being provided to institutions at the meso-

level, and finally provided advice on national curricula and other normative aspects. KfW helped to accumulate experiences at the hospital level before engaging in the overall health reform process. Here, micro-level activities had initially not been implemented with a view to triggering broader policy reforms. Others, like PADEP in Bolivia, adopted a multi-level approach from the very beginning.

### 3.4 Dealing with uncertainty in open-ended processes: The need for flexibility

All of the case studies show that policy reforms are anything but the mere technocratic implementation of pre-existing blueprints. Reforms necessarily involve search processes that are socially embedded and thus subject to socio-cultural traditions and preferences as well as political interests of manifold stakeholders. As such, they usually entail elements of trial and error, negotiation and consensus-building, and are necessarily open-ended with regard to outcomes.

Policymakers and external advisors thus need perseverance to successfully implement reforms. The political institutions in charge of these processes are, however, often weak and short-lived. In Bolivia, for example, the GTZ's PADEP programme had to cooperate with five different governments (each change usually involving an extensive reshuffle of government employees in the partner institutions) between 2002 and 2007. Still, it was possible to sustain the reform steps undertaken by previous governments (such as the newly introduced conflict monitoring system) and push the decentralization agenda forward, because PADEP had created a comprehensive network of partners in local governments and state and civil society institutions. In fact, the diversification of partner institutions had been a deliberate strategy to survive the frequent changes in the national government and helped to stabilize the reform process. This experience suggests that donor programmes should work through institutional networks, rather than tying themselves to one particular partner institution, seeking to maintain the flexibility they need to adapt their networks and modes of cooperation to changing political circumstances. Several reviewers of the case studies in this volume however noted that networking should not be an end in itself and criticize insufficient output-orientation and efficiency in some programmes.

Even if partners are not subject to major reshuffles, it may be necessary to substantially redefine programme goals. In Chile, for example, it was originally planned to completely replace the existing system of school-based vocational education with a dual vocational training system. As this proved to be unfeasible due to specific labour market conditions, the objectives were adapted, with the old system being reformed and strengthened (by improving business linkages and incorporating learning opportunities within firms), rather than replaced.

Agrawal's example of watershed development in India confirms the advantage of flexible programme design. He observes that donors tend to be more flexible than the host country's government institutions, which are often constrained by quite rigid guidelines. Hence the former have an advantage in experimenting and bringing about innovations, such as community-based participatory watershed management. Faust et al. show how advances in the Ecuadorian decentralization process depended on the capability of donors to understand political cycles and identify windows of opportunity to feed into policy processes. They conclude that programme requirements by donor organizations "*which bind local project managers with too many official requirements and inflexible indicators are ... ill suited for reacting quickly and effectively to political changes.*" (pp. 39 f.).

Hence programmes need to find the appropriate balance between efforts to

- design an appropriate sequence of pilot projects, careful evaluation and documentation of results, and systematic conveyance of experiences into the policy process, and
- maintain the flexibility needed to adapt targets and procedures, work with changing partners and exploit windows of opportunity.

### 3.5 The role of change agents

As the previous sections have shown, policy change is always and necessarily a multi-stakeholder process, especially in democratic countries. This systematically limits the effectiveness of donor projects that rely *only* on placing high-level advisors in core agencies such as offices of the president, ministries of finance or economic planning units. Advisors are more likely to have an impact if they can build on a project base in experiment-

ing with and showcasing viable solutions and moderating multi-actor processes.

Nevertheless, in most case studies certain institutions and/or individuals proved to be crucial for making project-based knowledge available to policymakers and influencing reforms. In Brazil, the federal environmental authority IBAMA proved to be an especially important multiplier due to its good relationships with different stakeholders, including local communities and enterprises as well as federal ministries. Therefore IBAMA staff members were trained as promoters of participatory forest management practices. In India, trust-based relations between project staff and the rural development bank NABARD, which has the backing of influential politicians, were instrumental in creating ownership on the government side.

In some cases cooperation with outstanding personalities was critical for programme success. In the Brazilian case the leaders of some sub-programmes of the PPG7 later became involved in leading government positions. Likewise, several national programme staff members in Bolivia's PADEP were appointed to high-ranking positions, e.g. as ministers. Furthermore, PADEP managed to mobilize a number of eminent persons in support of the decentralization process, including the mayors of several large and medium-sized cities, several bishops, a former ombudswoman, a former president of the central bank, and several ex-ministers who were then working abroad but were still influential in Bolivia. In the case of Vietnam, no particular persons are mentioned, but the report states that the programme provided targeted support for advocates of market-oriented reforms in government.

Last but not least, the studies portray the experts in bilateral development programmes themselves as important change agents. In several cases, most notably in Bolivia and Ecuador, the experts acted as neutral, fair and competent brokers who managed to bring stakeholders with conflicting interests to the negotiating table. This was the case in Bolivia, where the programme encouraged nine prefectures to present a joint proposal on the issue of regional autonomy to the Constituent Assembly. The authors of the Brazilian case study also highlight the role of donor agencies in creating and strengthening networks of social movements, trade unions, scientists and environmentalists in order to balance out traditional powerful interest groups and help them to forge alliances with those parts

of the traditional forces that were likely to have an interest in reforms and change. This role as change agents is based on the neutrality of donor agencies – which, unlike national interest groups, do not have a direct stake in the reform process – and enhanced by their ability to bring in external advice bearing on technical solutions. There is a trade-off, however, between the expert's mandate to promote general developmental concerns (e.g. to advocate interests of the poor, who often do not have a voice in reform processes) and his or her role as an honest broker, one that requires such persons to keep a low profile and abstain from pushing particularist interests.

### 3.6 Linking project-based aid and policy reform in PRSP and non-PRSP countries

Traditional project-based aid that is negotiated and delivered through bilateral agreements has recently come under severe criticism. The main point of criticism is the lack of coordination among national government programmes and donor projects, creation of parallel agencies and procedures, lack of country ownership, the cumbersome coordination procedures that donors impose on partner institutions, and the limited predictability of aid funds.<sup>8</sup> The case studies in this volume provide evidence of the practical relevance of this criticism. For example, Orlik speaks of more than 1,200 aid projects in the Tanzanian health sector, carried out by over 30 donor agencies. Faust et al. give an example of two donor agencies that adopted different approaches with regard to reform of municipality law and supported pro- and anti-reform coalitions, respectively, although they later joined forces to foster a consensus-seeking process. Given the often severely limited resources of a host country's administration, it is obvious that donor fragmentation and inconsistencies in donor reform concepts can easily undermine any effort to design and implement a coherent sector strategy.

Donors therefore reached agreement on the Paris Declaration with the aim of harmonizing their contributions and aligning them with host country procedures. According to the declaration, preference should be given to

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8 Most prominently in the 'Paris Declaration on Aid Effectiveness' (High Level Forum, 2005).

general budget support or other approaches that support locally owned development programmes such as national development strategies or sector programmes. Programme-based approaches (PBAs) respect the following principles:<sup>9</sup>

- leadership by the host country or organisation;
- a single comprehensive programme and budget framework;
- a formalised process for donor co-ordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement;
- efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation.

The German Ministry for Economic Cooperation and Development describes programme-based approaches as a seminal innovation for increasing the quality of development cooperation in terms of effectiveness, efficiency and significance. It calls for a speedy and significant increase of programme-based approaches (especially in the form of budget support) for countries that qualify as good performers.<sup>10</sup> International donors such as the European Commission, Great Britain, the Netherlands, and the Scandinavian countries are even more determined to strengthen PBA as a key element of their programmes.<sup>11</sup>

The PBA philosophy conflicts with the multi-level approach of a bilateral cooperation programme in two important aspects:

1. An intensified policy dialogue on sector policy frameworks is expected to take place *with a coordinated group of donors* (in particular those that contribute to budget or programme funding) rather than on a one-by-one basis. Particular donor agencies are urged not to set up their own independent advisory and dialogue mechanisms and seek to influence general policy frameworks individually. The PBA philosophy thus limits the scope for establishing direct feedback loops between projects and policy reform within bilateral programmes.

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9 Lavergne / Alba (2003).

10 BMZ (2007).

11 Proksch (2006).

2. Donors are expected to *use country systems for planning, budgeting, implementation and impact measurement* rather than create parallel programme-specific mechanisms. This again constrains the autonomy needed to set up independent knowledge management and learning processes within bilateral programmes.

In the following, we thus distinguish between countries that embark on the process of drafting Poverty Reduction Strategy Papers (PRSPs) and Sector-wide Approaches (SWAPs) as a framework for external funding (“PRSP countries”) and countries that do without such plans (“Non-PRSP countries”).

**PRSP countries:** In countries that embark on programs to promote growth and reduce poverty, improve their governance, and invite donors to fund their country-owned programmes, donors should refrain from implementing non-integrated activities that apply their own systems. The logic of PRSPs or SWAPs does not rule out the implementation of experimental or capacity-building projects by particular donors, but such projects should be aligned with country-led programmes. Ideally, projects should be conceived as part of the jointly agreed sector approach, be funded from a common budget, and be implemented and monitored using dedicated local institutions.

A recent large-scale evaluation of ten years of general budget support in seven countries finds predominantly positive effects for such support. Among other results, the evaluation report states that general budget support contributed to better policy alignment of aid. The fact that funds were made available through the regular government planning and budgetary systems helped strengthen public financial management, including planning and budgeting. The prospect of obtaining predictable funds to finance policies provided an incentive for policy review and development and served to increase transparency and public participation. Furthermore, public spending for pro-poor purposes appeared to have increased.<sup>12</sup> With respect to impacts on broader policy processes, the evaluation states, rather vaguely, that “*acting judiciously, [donors] can help refine and accelerate*

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12 IDD and Associates (2006); see also Hubbard (2006).

*reforms for which there are already domestic proponents, but the local political and institutional context is crucial.*"<sup>13</sup>

The case studies in this volume provide evidence for the advantages of integrated programmes that implement micro-level projects as “laboratories” for innovative solutions, systematically feeding their results into the policy reform process. The question therefore is whether the lessons learned from such integrated programmes also apply to programme-based approaches in PRSP countries. Two case studies in this volume deal with such approaches in PRSP countries. In Vietnam, KfW and two other development banks are jointly providing SME Development Programme Loans, but each of the funding partners also contributes specific expertise; and in Tanzania KfW is contributing to a sector-wide approach to implementing reforms in the health sector. These two studies provide the following lessons:

1. Both studies claim that the chances to impact on the broader policy framework are now greater than in the past, when KfW’s activities were confined to micro-level projects. Donors now agree on certain goals, expected outcomes and conditionality and enter in a structured dialogue with national decision-makers. In Vietnam’s SME loan programme emphasis was given to reaching a consensus among the participating donors beforehand in order to be able to present a unified position in dealing with the Vietnamese partners during the coordination process. All three international funding partners agreed that disbursement of funds would be contingent on positive results of joint evaluations and reached agreement on transparent terms for this conditionality.<sup>14</sup>
2. In both cases, KfW not only contributed to the programme budget but also offered technical support for specific instruments and procedures: development of leasing instruments in Vietnam and participatory hospital planning processes in Tanzania. Both cases demonstrate that it is possible to integrate micro-level technical support in a meaningful way in country-led programme-based approaches. This approach

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13 IDD and Associates (2006, 6).

14 Proksch (2006) mentions the example of Nicaragua, where donors were unable to agree on such terms. As a result, some donors stopped the disbursement of funds, whereas others continued to pay.

make it possible for each donor agency to contribute specific know-how in accordance with its comparative advantages. In the case of Vietnam's SME loan programme the funding partners defined exactly what each partner would contribute in terms of technical programme support.

3. Donor coordination initially involves transaction costs. However, the case of Vietnam in particular shows that a clearly defined division of labour among donors in design, implementation and monitoring can also save transaction costs. For example, ADB, AfD and KfW now carry out joint missions and negotiate jointly with government partners.

Orlik sees a cause of potential conflict in situations where some donors contribute to basket funding whereas others introduce competing approaches in the framework of bilateral projects. Basket partners, he argues, will usually not accept having their funds used to replicate approaches introduced by other donors. He proposes a structured process conceived to limit the number of pilot projects and reduce the degree of donor fragmentation. One solution would be to organise a "competition for ideas" and then to test the most promising ones, instead of testing a great number of approaches simultaneously and without a common evaluation framework.

**Non-PRSP countries:** Usually only countries that are strongly dependent on foreign aid undertake the effort involved in preparing a PRSP and/or formulating SWAPs. Countries that receive only a small portion of their GDP from Official Development Aid mostly do not accept the conditionality that goes along with PBA. Other countries are too unstable and politically fragmented to set a national PRSP process in motion, or they do not qualify for PBA because they have failed to put in place a financial management system designed to ensure that funds are used for the intended purposes and properly accounted for.

Even democratic recipient countries are often politically fragmented, and many of them are incapable of formulating and implementing coherent sector strategies. In their case study on decentralization in Ecuador, Faust et al. state that "*development assistance becomes involved in a conflictive political process, where it cannot simply align itself with a strong 'owner' because no such 'owner' exists.*" (p. 38). In the 1990s even the Brazilian government was, according to Scholz and Schönenberg, unable to coordinate the many stakeholders who had interests in the Amazon region and its

natural resources and to formulate and implement a coherent strategy. In such cases donors may have an important role in supporting a democratic and participatory negotiation process, building consensus and creating ownership for a coherent country-owned strategy. The PPG7 programme in Brazil is a case in point. One of its main aims was to create inclusive social networks and to strengthen the technical knowledge and capabilities of stakeholder groups (such as indigenous people and environmental NGOs) with a view to enabling them to better participate in and influence political processes. In contrast, the Chilean vocational education policy and Vietnam's SME policy were characterized by high levels of country ownership and strategic competence, making it much easier to align with national policies.

Lack of donor coordination is a problem in both PRSP and non-PRSP countries. In Tanzania only a limited number of donors participated in the country's PBA for the health sector, whereas many others did not even express an interest in joining. In Ecuador different donors vied to "sell" competing concepts for decentralization. For Brazil, Scholz and Schönenberg state that neither governments nor donors paid sufficient attention to coordinating the PPG7 programme. Lack of harmonization of objectives, approaches and procedures among donors weakened the coherence and efficacy of the programme as a whole and created an additional workload for the sub-programmes, especially those that were financed by several donor countries. Many sub-programmes had to deal with several evaluation missions per year.

There were several reasons for this lack of coordination. On the host country side, the competent institutions were often too weak to develop and impose a coherent country strategy. In such situations *"it is of special importance for aid agencies to coordinate and harmonize their actions among each other in order to prevent further incoherence of the decentralization process by donor fragmentation."* (Faust et al. in this volume, p. 32). However, this is easier said than done. Scholz and Schönenberg find that *"diverging opinions on strategic priorities, on methodologies and approaches were one reason, but organisational self-interests in securing autonomy and visibility also played an important role."* (p. 120).

Bolivia's PADEP and Vietnam's SME Loan Programme show that better coordination is feasible. PADEP, for example, cooperated intensively with other donors throughout its whole programme cycle. In several cases other

donors helped to finance the country-wide replication of policy innovations that had been developed in PADEP's pilot projects. Comments from the independent reviewers of several case studies however point out that the practice of direct service provision, where funding is tied to delivery, weakens the incentives of German development agencies for working closely with international donors. Some even expressed their view that implementing agencies attached more importance to getting approval from the German Ministry of Economic Cooperation and Development than to ensuring the pertinent coordination with host country institutions. The critique expressed in the Paris Declaration that some programmes of technical cooperation are still too much donor-driven thus seems not to be entirely unfounded.

#### **4. Conclusions**

The examples gathered together in this volume confirm that multi-level policy approaches can be very successful in influencing policy. The technical quality of reform processes as well as ownership on the part of governments and affected stakeholders are likely to increase if policy options are tested in pilot projects and adapted to country needs.

To achieve this within a particular development programme is, however, no easy task. The cases presented in this volume are selected success stories. Each required considerable time and manpower to develop and, even more importantly, each involved clear policy targets and an excellent programme management. In particular, it was necessary to specify clearly why certain micro-level projects are necessary and how they are expected to contribute to the policy reform process; to establish procedures for the documentation of pilot experiences and criteria for the assessment of findings; and to ensure that learning experiences are systematically conveyed to politicians and other decision-makers. In sum, a complex system of knowledge management is required, one with special emphasis on feedback loops from projects to the policy level and vice-versa. Without knowledge management and an upscaling strategy, it is unlikely that micro-level activities will truly become "pilots" with effective impacts on policy.

The advantages of multi-level approaches are relevant both within traditional bilateral programmes with non-PRSP countries and within the new

modality of country-led programmes in which donors co-finance national programmes and align with country systems for planning, implementation and monitoring. The examples of Vietnam and Tanzania show that it is possible and promising to carry out micro-level projects as a means of testing specific policy solutions and injecting the related expertise into policy reforms in PRSP countries. It goes without saying that this requires enhanced donor coordination and alignment with country procedures.

Many countries are still unwilling or unable to develop PRSPs and SWAPs and to encourage donors to align with these programmes. Where there are no clearly defined sector policies in place, donors may adopt a more active role in bringing stakeholders together, discussing policy options, supporting micro-level experiments, and coordinating policy formulation. In the long run, however, donors should make sure that host country institutions assume responsibility for managing these processes. The case studies provide evidence that this is happening. German support for watershed development in India, for example, started at a time when there was no coherent national policy in place for the purpose, but today the Government of India has set up national policy guidelines and funding mechanisms on the basis of the lessons learned from these early donor-financed pilot projects.

Finally, it should be noted that donors have different options for influencing policy reforms at their disposal. Well managed multi-level programmes are an especially promising one. However, there is much scope to combine this approach with other policy instruments, such as programmes to intensify international high-level policy dialogue or to create networks of leading academics and policy think tanks, training programmes for future decision-makers, and tailor-made expert hearings. Making judicious use of all these instruments is likely to ensure enhanced impact on the policy level.

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# Promoting subsidiarity-oriented decentralization in fragmented polities – some lessons from Ecuador <sup>1</sup>

Jörg Faust / Nicolaus von der Goltz / Michael Schloms

## 1 Introduction

Decentralization is considered as a cornerstone of development assistance's efforts to foster state modernization. This applies particularly to Latin America, where multiple donor agencies have attempted to promote decentralization since the beginning of the 1990s. Nevertheless, despite a variety of projects via technical and financial cooperation, aid agencies have been facing serious difficulties in promoting political, fiscal and administrative decentralization.

These difficulties derive from the fact, that decentralization as a process of redistributing political legitimacy, fiscal resources and administrative competences among different levels of government has to be considered as intrinsically political. Aid agencies have to be prepared to enter political processes and to adjust their technical interventions according to the constellation of political actors and the conflicts among potential winners and losers of reforms.

Furthermore, promoting state modernization via subsidiary-oriented decentralization requires multi-level-strategies that encompass different levels of government: namely the local, the provincial and the national level. Early attempts to promote decentralization have put emphasis on local empowerment via strengthening local civil society. These approaches

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1 The opinions expressed and arguments employed herein reflect the personal views of the authors only. This essay is mostly based on the results of a research project on decentralization and development assistance in Ecuador, which took place in 2004 and 2005. Thus, most empirical evidence presented here, refers to events prior to 2006. Members of this research project have been: Florian Arneth, Jörg Faust, Nicolaus von der Goltz, Imke Harbers, Judith Illerhues, and Michael Schloms. The authors would like to thank Santiago Ortiz and Janos Zimmermann for their most valuable support during the period of field research.

have encountered serious problems as they failed to recognize that the national level strongly influences decentralization processes. Moreover, it is today widely acknowledged that successful decentralization requires a strong and functioning centre. A precondition that only few countries – particularly in Latin America – actually fulfil. Political actors at the national level take the most important decisions, shaping the general pathway of decentralization processes. However, an exclusive focus on actors at national level would also be problematic, because it would ignore the necessity for well-articulated demands from local and regional actors, which then must be carefully integrated into a national framework.

Given this background, this paper attempts to demonstrate how the political context in a recipient country matters for designing coordinated, multi-level strategies in order to promote decentralization. Although our empirical analysis is focused on the special case of Ecuador, we also aim at providing some general lessons for policy-makers and practitioners. The reason for this is that many emerging democracies in Latin America (and elsewhere) are characterized by a fragmentation of political actors at the national level, which makes it difficult to develop a coherent and subsidiary-oriented strategy of decentralization. Rather, in a fragmented political context, political actors will often fail to solve coordination problems and distribution conflicts, endogenous to every decentralization process.

Therefore, it is of particular importance that aid agencies take into account these specific features of the partner country when promoting decentralization in such a political context. Development assistance has to address the systematic weakness of a fragmented polity by promoting coordination among actors of different levels of government and among actors at the same level of government. Furthermore, development assistance should enhance continuity of the process due to the generally high degree of volatility in fragmented contexts. This also implies interventions at different levels of government. Finally, in politically fragmented contexts, it is of special importance for aid agencies to coordinate and harmonize their actions among each other in order to prevent further incoherency of the decentralization process by donor fragmentation. Thus, on the one hand, such slogans as “scaling up” or “multilevel-approaches” point into a promising direction, as they tend to recognize the need for interventions at different levels of government. On the other hand, coordination among do-

nors and process-oriented policy consulting is of equal importance for successfully promoting subsidiary-oriented state modernization.

## **2 Challenges for subsidiary-oriented decentralization**

### **2.1 Normative expectations**

In a normative political perspective, decentralization processes aim at bringing state services closer to the citizen to deepen democratic legitimacy and political transparency. In addition, subnational entities should enjoy high levels of fiscal and administrative autonomy in order to compete for investment and human capital among each other. Increased fiscal and administrative manoeuvring at the subnational level does not only limit discretionary attempts of the central state to politically allocate financial resources and administrative responsibilities. At the same time sustainable competition fosters policy innovation and imitation among subnational entities, thereby promoting socioeconomic development.<sup>2</sup>

Yet, successful decentralization also has to take into account that certain competence has to remain at the centre to prevent “market failure” of subnational competition. For instance, central governments need strong fiscal responsibilities, oriented at preventing subnational governments from becoming excessively indebted.<sup>3</sup> Central governments also have the important task of guaranteeing the free flow of capital and human resources within the national territory and to organize at least a subsidiary-oriented framework for all kind of social policies.

Thus, successful decentralization is closely connected to subsidiary. Accordingly, subsidiary-oriented decentralization leaves as much resources and administrative competences as possible at the subnational level. Only when certain collective goods such as macroeconomic stability, security against external threat, the free flow of goods, finance and persons cannot be guaranteed by subnational entities, the central government has to take

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2 On the potential benefits of decentralization see for example Weingast (1995); Oates (1999).

3 On hard budget constraints and macroeconomic challenges in the context of decentralized states see among others, Wibbels (2000); Rodden /Eskeland / Litvack (2003).

over such functions. It is a normatively and empirically highly debated issue, which exact administrative responsibilities fall under the latter category and where the line between subnational and national responsibilities has to be drawn. However, the fact that subsidiary fosters economic development and political legitimacy is highly accepted among scholars and political practitioners.

On the one hand, at least in Latin America, many subnational entities today have significantly increased their democratic legitimacy and have more fiscal resources and administrative competences than three decades ago. Furthermore, decentralization processes have opened new political avenues for members of formerly excluded social groups and have helped to broaden the social basis of national political elites in many Latin American countries. On the other hand, however, decentralization processes have been plagued with different kind of deficiencies.

## 2.2 Empirical challenges and the political economy of decentralization

Unfortunately, decentralization processes in many developing countries have often failed to follow the basic principles of subsidiary. The following deficiencies are among the most common challenges of decentralization, at least in Latin America.<sup>4</sup>

- Increased political and fiscal autonomy of subnational governments has often weakened national governments' capability to impose credible budget constraints. This, in turn, often has provoked excessive debt levels at the subnational level, subsequently being followed by a "transfer" of such debt to the national level.
- Incoherence among different dimensions of decentralization has often characterized decentralization processes. In many countries, the distribution of administrative competences among different levels of government remains unclear, which makes it extremely difficult to provide an appropriate distribution of fiscal competences and resources.

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4 For a recent overview on decentralization in Latin America see Daughters / Harper (2006).

- The opaque mixture of administrative and fiscal decentralization reduces the accountability of political leaders at the national and subnational levels and therefore works in favour of traditional clientelism.<sup>5</sup>
- Fiscal decentralization is still strongly based on fiscal transfers, while the percentage of own incomes at the subnational level has remained low. Consequently, subnational entities' little reliance on own fiscal revenues has sustained vertical dependency and has set incentives for central governments to use transfer systems for political purposes.<sup>6</sup>

From a political economy perspective, the distribution and coordination problems of decentralization can explain these deficiencies.<sup>7</sup> Organizing a coherent decentralization process, where political, administrative and fiscal decentralization are crafted in a consistent manner is difficult, because most actors involved follow rather special interests instead of promoting the broader goal of coherency. Because decentralization encompasses all state levels, several conflict lines might obstruct the coherency of the process (Falletti 2005).

- The most prominent conflict line is between different levels of government. In Latin America, for example, political decentralization (subnational elections) is rather advanced, so that the struggle between government levels centres on the distribution of resources and competences.
- The conflict between levels of government is aggravated by conflicts among actors positioned at the same state level. At the national level, conflicts between different ministries are usual, when it comes to craft

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5 For instance, if administrative competences have been delegated to lower levels of government without adequately taking into account the subsequent increase of financial needs, subnational entities become politically more dependent on the discretionary provision of fiscal transfers from the government.

6 While there is a trend of regulating such transfers in a more transparent manner, the political battles on how to specify the rules of fiscal transfers, takes place at the national level. In many cases, the dependency on fiscal transfers from the centre has created bazaar-like situations, where political actors from the national and subnational levels continuously haggle over quotas and amounts, making such fiscal arrangements prone to rather erratic political bargaining processes.

7 The Literature on the political economy of decentralization has been increasing. See for example Prud'Homme (1995); Panizza (1999); Falletti (2005); O'Neill (2003); Faust / Harbers (2006).

transfer systems and/or the distribution of administrative competences.<sup>8</sup> The existing heterogeneity among subnational entities with regard to economic development also creates strong conflicts. For instance, while relatively wealthy municipalities prefer more fiscal autonomy, relatively small and poor municipalities tend to prefer transfer systems, which focus on compensating poor subnational entities.

- Finally, the notion that civil society groups automatically pursue collective interests is rather naïve. This is not to say, that civil society groups have no role in increasing participation and transparency, at least at the subnational level. However, such a perspective puts too much emphasis on the pro-reform attitudes of civil society. Often, local communities have been led by leaders dependent on vertical structures of clientelistic networks, whose potential as subnational democratizers is consequently limited. Additionally, powerful social groups at the national level, such as labour unions, have often played an obstructive role in decentralization processes.<sup>9</sup>

Given this heterogeneity of interests among political actors, it is of little surprise, that one of the major deficiencies of decentralization processes in Latin America has been a high degree of incoherence. While a certain degree of incoherence is probably endogenous to all decentralization processes, highly incoherent arrangements with regard to political, fiscal, and administrative decentralization are incompatible with subsidiary-oriented decentralization.

The above-mentioned challenges highlight the collective action problems of successful decentralization. As members of subnational and central executive bodies often follow rather special interests, one must ask, which political actors could organize a more coherent process. Unfortunately,

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8 For instance, fiscal decentralization encompasses a reorganization of fiscal accounts within the finance ministries, which tend to influence sector ministries, which might lose specific revenues. Even if finance ministries today are among the most influential organizations within the national executive, the existence of coalition governments and parliamentary fragmentation strengthens the veto-power of sector ministries.

9 The results of a recent survey made by the Interamerican Development Bank shows, that labour unions are perceived as important opponents to decentralization across Latin America (Daughters / Harper 2007).

civil society is only to a limited extent capable of bringing together diverging interests. The important function of a vivid civil society consists in articulating the political concerns of citizens rather than aggregating these interests into consistent political strategies. Instead, the aggregation of interests in a representative democracy is the central task of political parties. Especially in decentralization processes where central governments pursue their own special interests, political parties have a crucial role as potential organizers of more coherent decentralization. As political parties should play an important role on each level of government and party elites will include successful politicians from each level, party structures seem to be the most adequate place to develop coherent strategies of decentralization.

Unfortunately, most Latin American party systems are ill equipped for such a demanding task. Many party systems in Latin American democracies are experiencing a problematic process of fragmentation. When party systems split into many small organizations, each party will represent a rather small percentage of sector- or region-specific interests, thereby losing its capacity to provide coherent strategies for decentralization.<sup>10</sup> If relatively small parties are characterized by hierarchical and traditional *Caudillo*-structures impeding intra-party democracy, these organizations will be even less likely to take over the role of organizers of a coherent respectively successful decentralization process.<sup>11</sup> Consequences of such fragmented polities are rather volatile governments, which are built on fragile coalitions in parliament. As the executive is not based on a programmatic majority, which has defined at least some common core policy contents, policies will be over proportionally guided by special interest politics.

## 2.3 Challenges for development assistance

The above-mentioned political problems of organizing successful decentralization are common to many developing countries, especially in Latin

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10 The decentralization process itself frequently includes incentives for further fragmenting party structures and party systems because it tends to give local and regional actors more voice. This again will make it more difficult to organize encompassing political programs.

11 For empirical evidence, see Faust et al. (2007).

America's young democracies. On the one hand, these problems should not be used as an excuse in order to stop promoting subsidiary-oriented state reforms, because constructing such state structures is an important precondition for a development-oriented state and its democratic legitimization. On the other hand, donors should not expect easy progress. Instead, they face at least a combination of three severe challenges, when attempting to promote subsidiary-oriented decentralization in polities with high levels of political fragmentation:

- To start with, an exclusive focus on traditional forms of capacity building will only prove to be helpful – if at all – for some aspects of local governance. Thus, traditional capacity building has to be combined with political consultancy, aiming at promoting the improvement of the national decentralization framework. Consequently, *development assistance becomes directly involved in a conflictive political process.*
- Since several years, development assistance highlights the principle of ownership without recognizing that a large percentage of democratic recipient countries are characterized by serious political fragmentation. Since most of the governments neither dispose of a solid programmatic basis nor of stable majorities, there is no solid ownership. Consequently, *development assistance becomes involved in a conflictive political process, where it cannot simply align itself with a strong "owner" pursuing encompassing interests because no such "owner" exists.*
- If the possibilities for aligning with a strong government and possessing "ownership" to promote a coherent decentralization process are very limited, development assistance itself should attempt to promote such ownership. Unfortunately, the usual organizational set-up of development assistance is ill suited for such an ambitious endeavour, because the donor community itself is regularly characterized by fragmentation. Consequently, *if "coordination" among donor organizations does not go beyond information-exchange, the multiple decentralization programs and projects can easily worsen policy incoherency on the recipient side.*

Given these challenges for effectively promoting subsidiary-oriented state reforms in fragmented polities, three basic recommendations can be deduced:

- First, development assistance should attempt to *provide a combination of expertise-based consultancy and capacity-building to the political process at all levels of government*. This should include assistance for negotiation processes at the national level: for instance, with regard to important legislative projects at congress or administrative reforms in the finance and sector ministries or other national state agencies. Furthermore, such process oriented consultancy should also address the subnational levels, when it comes to consensus building among subnational entities, for instance among municipalities and/or regional governments. It is important that these consultancy processes should not be disconnected from each other but rather attempt to promote potential linkages of reform attempts on several levels. While, by doing so, donor organizations will automatically become involved in the political process, they must be careful to avoid being perceived as a stakeholder. Instead, the metaphor of “honest brokerage” describes best the role that donors should attempt to play, if they want to offer demand-driven consultancy.
- Second, major decentralization programs are to be organized in a way, that allows high degrees of flexibility. Decentralization reforms in general, but even more in fragmented polities, are often iterative, volatile and open in character. For instance, while today a certain project might be viable with a given ministry, tomorrow the same ministry might face changes in administrative or political staff, which can easily have other priorities. At the same time, a window of opportunity for consultancy could open up in another area of decentralization. Consequently, donors must be apt to react to a rapidly changing environment with flexibility. Procedures, which bind local project managers with too many fixed bureaucratic requirements, official requirements and inflexible indicators are ill suited for reacting quickly and effectively to political changes. However, donor organizations will have to walk a thin line between a flexible approach and an activist “any-thing-goes-attitude”. On the one hand, strategic priorities, respectively continuity and capacity-building, are crucial for the success of multi-level-relevant initiatives with regard to subsidiary-oriented

decentralization. On the other hand, concrete operational capacities should be organized in such a way to allow flexibility with regard to concrete consultancy projects.

- Finally, there is a need for harmonizing activities among donors as long as the programmatic coherency and political capabilities of the recipient government are insufficient to effectively enforce alignment of donor organizations. Moreover, given the usual high number of donors involved in subnational governance and decentralization issues there is a strong need for a division of labour and silent-partnerships. This challenge is probably the most serious one, given the permanent turf fighting among donor-agencies, which compete for scarce local personnel, prestige and funds.

### **3 Incoherent decentralization and development assistance in Ecuador**

#### **3.1 The decentralization process in Ecuador**

Ecuador has often been overlooked in the debate about decentralization. Nevertheless, the country offers some particularly relevant aspects with regard to the analysis of decentralization processes in fragmented polities. Ecuador's transition to democracy in 1978 kicked off a wave of democratization in Latin America. Despite its head start, however, the country has struggled to establish stable and accountable patterns of democratic governance. For instance, over the course of the past decade seven different presidents have governed the country. One origin of weak central governments is Ecuador's long history of well-entrenched regional interests. The regional cleavages are also reflected in the party system, as parties are generally associated with specific regional interests. Electoral support for the main parties is distributed highly unequally across the country. In a comparative study of 17 Latin American democracies, the Ecuadorian party system's average nationalization score was the lowest of all countries considered (Jones / Mainwaring 2003, 148). Additionally, the party system is also among the most fragmented ones in the region. Furthermore, the number of effective parties is one of the highest in Latin American and especially traditional parties are strongly hierarchical and show a high degree of vertical patronage politics.

Decentralization often has appeared to be a promising strategy for state modernization. The decentralization process has been, however, rather erratic, volatile, and characterized by a high degree of incoherence.<sup>12</sup> Political decentralization (elections at the subnational level) was achieved immediately following the return to democracy. Yet, only in the second half of the 1990s under the impression of the economic downturn and the emergence of the indigenous movement, fiscal decentralization gained momentum. Since 1997, 15 % of the central governments revenues are distributed among municipalities and provinces. As the law explicitly states that these transfers cannot be tied to an increase in policy and spending responsibilities, it strengthens subnational governments financially but without conferring additional administrative competences upon them. Furthermore, several additional transfer regulations gave room for discretionally allocating resources from the centre to subnational entities. In contrast, fiscal autonomy of subnational entities has remained low.

The 1998 constitution, which emerged in a period of national political crisis, gave way to one of the most curious cases of administrative decentralization. While the constitution represented a significant step towards administrative decentralization, which had lagged behind political and fiscal decentralization, the constitutional assembly failed to establish a uniform distribution of policy responsibilities. Furthermore, the central government was unable to force local governments to accept increased spending responsibilities. Instead, Article 226 allows provinces and municipalities to apply for policy responsibilities currently executed by the central government. Only very few policy sectors, among them defence and foreign policy, are exempt from the administrative transfer regime. According to Article 226, all other responsibilities can be transferred to local governments upon request. In principle, the central government is obliged to grant requests for the transfer of administrative competences. Only in cases where the subnational government does not have the administrative capacity to carry out the responsibility, the central government can refuse the transfer.

The implementation of this principle of one transfer at a time has led to a variety of problems and has provoked a rather chaotic structure of administrative decentralization. It has often been unclear which ministry or

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12 On decentralization in Ecuador see, among others, Frank (2003); Faust et al. (2007).

which administrative unit within a ministry would be in charge of handling the requests. In many cases, subnational governments did not receive an answer to their application for administrative competences. The avoidance of a response appears to have been employed as a strategy by central government bureaucrats unwilling to engage in decentralization.<sup>13</sup>

The latter problem was to a certain extent rectified in 2004 by the new Ley de Régimen Municipal which establishes that if there is no response from the central government within 90 days, the responsibility is considered to have been transferred automatically. In such cases, an additional problem arises because the additional transfer of resources to the subnational level has been highly contentious. While the constitution obliges the central government to transfer policy responsibilities along with resources, the issue of further financial decentralization has been conflictive. On the one hand, it is often difficult to determine which amount of money would constitute “adequate resources”. The ministry concerned might not even be aware how much money it had been spending on the execution of a particular responsibility in a given municipality. Therefore, determining an adequate amount of resources, which is called for by the law, is difficult. On the other hand, the central government has seen its financial resources dwindle in recent years due to different transfer laws.

In short, Ecuador’s decentralization process, while showing a certain dynamic over the past decade, is seriously incoherent and confronted with three major weaknesses:

- Fiscal and administrative decentralization are not properly connected. This problem is mainly due to two factors: First, the isolated dynamic of fiscal decentralization during the 1990s did not establish a link to administrative decentralization. Second, the ill defined article 226 of the constitution triggered a process of – chaotic – administrative decentralization without linking this process to the previous proliferation of transfer laws. Both developments therefore failed to create an effective regime of binding administrative to fiscal decentralization.
- There remains a strong incoherence within the administrative dimension of decentralization. Article 226 created a chaotic distribution of administrative competences among subnational entities without any

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13 On the politics of administrative decentralization in Ecuador see Faust / Harbers (2006).

overarching policy guidelines on how to distribute policy responsibilities according to the principle of subsidiarity.

- Fiscal decentralization also confronts several challenges. Even if the formula driven allocation of transfers has helped to decrease the potential of the central government for discretionally allocating resources, serious problems remain. The overall transfer system still encompasses too many parallel transfer regulations, some of them explicitly created for political purposes. In addition, Ecuador's subnational entities, on average, face a high degree of dependency from transfers. The share of own revenues has remained far below 10 % of total income. Beyond sustaining fiscal dependence from the centre, this imbalance also makes subnational entities vulnerable to the fiscal volatility of the central government.

As a consequence, the developmental dividend of subsidiary-oriented decentralization remained low. Given the lack of clear distribution patterns of fiscal resources and administrative competences, low levels of state actors' accountability have remained. Hence, the decentralization process did not result in a strong system of incentives for state entities to orient their actions towards the collective interests of their respective constituencies. The origin of these weaknesses of the overall decentralization framework can be traced back to the highly fragmented actor constellation at the national level. The decentralization process in Ecuador has not been based on programmatic parties with encompassing concepts and strategies. Instead, the leaders of most political parties have tended to follow special interests of their specific clientele. Therefore, a highly fragmented and polarized congress and populist coalition governments have impeded coherent policy-making. Thus, the dynamic of the Ecuadorian decentralization process is better described as several, only loosely connected reform steps, which often emerged in times of economic and/or political instability.

While the national level has failed to provide continuity and consistency to the decentralization process, the situation at the subnational level has been more heterogeneous. On the one hand, several municipalities, in general closely connected to civil society groups, have used their increasing manoeuvring space to engage in serious reform efforts at the local level. On the other hand, as the overall decentralization framework did not seriously challenge traditional forms of local clientelism and patronage, reform efforts of many local governments remained low. Furthermore, given the

strong heterogeneity at the local and provincial level with regard to levels of development and regional characteristics, collective action among entities of the same level of government remained low. Here again, the national level failed to provide appropriate incentives to reduce such collective action problems.

## 3.2 Development assistance and decentralization in Ecuador

The brief overview of the barriers to successful decentralization in Ecuador already highlights the challenges for development assistance, when promoting subsidiary-oriented state structures. Referring to the main challenges identified in chapter 2, the Ecuadorian case reflects certain advances but also remaining problems of development assistance.<sup>14</sup>

### 3.2.1 Donor coordination, harmonization and alignment

In Ecuador, many donor organizations have been involved in state modernization and decentralization activities. Among others, the Deutsche Gesellschaft fuer Technische Zusammenarbeit (GTZ), Coopération Suisse pour le Développement (COSUDE) in Switzerland, the Dutch agency for international cooperation, Associates Rural Development – Decentralization, Democracy and Development (ARD3D), financed by USAID as well as several Spanish agencies, United Nations Development Programme (UNDP), the European Union (EU) and the Interamerican Development Bank (IADB), only to name the most prominent, have had programs directly related to the promotion of decentralization and “good” local government. The general level of coordination and harmonization among donors at least until 2005 has been low. While a coordination table on decentralization existed and more or less frequent meetings have been held, the major function of this table still was to exchange information.

Until 2006, there was almost no evidence that donor organizations have attempted to engage in more long-term oriented cooperation, including joint strategy-building and implementation. In some cases however, we

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14 This section is primarily based on confidential interviews with members of different bilateral and multilateral donor organizations and representatives from state agencies. For more information see Faust et al. (2007).

could at least observe cooperation and co-financing agreements, especially with regard to the GTZ, the Swiss agency COSUDE and IADB. Most of these agreements, however, were built on an ad-hoc basis, sometimes because local donor representatives did not have the decision-making-capacity to credibly engage in long-term-oriented cooperation. In accordance with this observation, there were no signs of a strategically designed division of labour among donors. There was some division of labour among some donor organizations due to their different nature of being technical respectively financial cooperation. But within the realms of technical respectively financial cooperation, division of labour was almost inexistent or artificially constructed. For instance, representatives of the World Bank (WB) and the IADB have argued, that they came to a division of labour: the WB being responsible for sector approaches in the fields of education and health, while the IADB concentrating on state modernization and decentralization, among others.<sup>15</sup> Such a division of labour, which has not been supplemented by common strategies, can nevertheless prove to be rather artificial. As administrative decentralization tends to strongly affect health and education policies, the thematic overlap between the activities of both banks is potentially huge and thus requires coordination.

Donor harmonization has also been seriously hampered by the fact, that the Ecuadorian government itself has had no clear and coherent strategy on how to align donor organizations active in the field. Given the circumstances of a fragmented polity, the incapacity to align donors is of no surprise. With no majority in congress, a divided government and an atomized party structure, the governments failed to provide a coherent strategy to foster decentralization and state modernization. Thus, the relevant state agencies for aligning donors, for instance the *Consejo Nacional de Modernización del Estado* (CONAM) or the *Instituto Ecuatoriano de Cooperación Internacional* (INECI), could not fulfil the task of aligning donor organization according to a common strategy. This illustrates a dilemma, which can be observed in many developing countries. On the one hand, there is a need for a strong partner government able to adopt ownership, align donors and to set incentives for donor harmonization; on the other hand, many developing countries are characterized by rather weak gov-

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15 The following evidence is at least partly based on more than 50 confidential interviews with political decision makers and representatives from donor organizations. Interviews were held in several cities in Ecuador between February and April 2005.

ernments, which lack political and technical capacities to formulate and implement coherent policy reforms.

### 3.2.2 Local bias vs. multi-level-approach

Due to donor fragmentation, the donors have pursued diverse approaches and strategies with regard to decentralization. For instance, Spanish agencies have attempted to promote the idea of “regional autonomy”, while other agencies have focused on working with civil society groups. Furthermore, most donor agencies still have been focussing on the municipal level. As such, their support was rather concentrated on local capacity-building and local development in a limited number of Ecuador’s municipalities. Addressing the provincial or the national level in order to promote subsidiary-oriented decentralization has rather been the exception than the rule (Frank, 2003, 317).

The Dutch agency Stichting Nederlandse Vrijwilligers (SNV) for instance, argued, that its focus on local governance and local development is an attempt to “*bring decentralization down to earth, to make it effective. Improving local governance will have an effective impact on the level closest to poverty*”.<sup>16</sup> This traditional focus, however, is only of limited use for overcoming the major deficiencies of the decentralization process, which are caused by serious defects of the national framework. Working with the subnational level does not automatically foster the decentralization process. An INECI official summarizes that “*in many cases, projects carry the label ‘decentralization’ when they are in fact something else*”.<sup>17</sup> Additionally, a focus on selected municipalities might easily produce “aid darlings” at the subnational level. The overall decentralization process, however, only benefits from such interventions when good practices are transferred to a broader range of subnational entities or when such experiences are transferred into the national policy-making process. This, however, has only rarely been the case. A typical example for a subnational “donor darling” in the Ecuadorian context is the municipality of Cotacachi.

The case of Cotacachi illustrates, that focusing on specific rather successful cases of local governance does not necessarily promote the process of

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16 Confidential Interview, Quito, April 2005.

17 Confidential Interview, Quito, February 2005.

decentralization as a whole and might even endanger the sustainability of improved local management and governance. The municipality of Cotacachi in Imbabura province is a success story in many aspects. It serves as a model for successful local development and the effective provision of public services, for local democracy and participation. It is an example of the indigenous movement's potential and appears as an island of relative political stability in a crisis-stricken country. The predominantly mestizo and indigenous canton has become a national and international reference for the local participatory mechanisms that had been established under the mayor Auki Tituaña from the indigenous movement. Regarding decentralization, Cotacachi has been active in terms of demanding administrative responsibilities, being the first municipality in Ecuador to demand competences in the public health sector (Ortiz 2004). Thus, Cotacachi has been the ideal project area for a broad range of donor activities including local governance, local economic development and poverty reduction as well as activities that seek to foster democracy and the political weight of the indigenous movement. As a result, Cotacachi has received increasing funds from international assistance. In 2003, about 55 % (3.6 Mio USD) of its overall budget have stemmed from contributions from governmental and non-governmental donors. As such, the success of Cotacachi has become somewhat ambiguous. The municipality continues to play a prominent and visible role in the national decentralization process so that choosing Cotacachi as a pilot promises to produce results with impact on the national process. In addition, donors can be sure that their money will be spent efficiently in Cotacachi in comparison to most other municipalities. On the other hand, given the dependence of Cotacachi on external resources, the sustainability of the success is doubtful. Moreover, Cotacachi has been criticized as a "propagandist case" since many donors seek to be present while many other municipalities – where needs might be greater – are left aside.<sup>18</sup>

Nevertheless, there has been an increasing awareness among donors, that such an exclusive focus on the local level does little to improve the general framework of decentralization. The Country Strategy Paper of COSUDE, for instance, explicitly describes the shortcomings of the focus on local initiatives as follows (2004, 10):

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18 On local government and participation in Cotacachi see Ortiz Crespo (2004).

*“The richness of local development initiatives did not pay off in favour of the national decentralization process, not only due to their operational geographic dispersion but also because of their particular characteristics in reaction to local problems. This weakens possibilities to duplicate and generalize their experiences in other contexts. In this sense, the ongoing local development initiatives have not been able to make themselves heard by other levels of government (provincial, national).”*

Most donors have argued, at least informally, that it is necessary to be active on different levels of government. Representatives of ARD3D, for instance, have stressed the importance of crafting both, interventions of “bottom-up” and “top-down” support. Members of UNDP have expressed their attention to widen their focus on decentralization by also including the provincial and the national level. Yet, many donor agencies have also noticed a preference to work with selected municipalities since an engagement in the national policy-making-process is perceived as being extremely difficult due to the polarization and the volatility of the national process. Thus, most donor agencies have had no strategic response regarding the characteristics of Ecuador’s political system.

Nonetheless, experiences of some donor agencies show that the concept of abandoning an isolated municipality-approach in favour of more encompassing strategies has turned out to be more successful. A joint COSUDE/GTZ program, for instance, has sought to strengthen universities and their role as capacity builders in the area of decentralization. Thus, universities in Quito or in provincial capitals were used as multipliers for capacity-building, helping to spread horizontally good practices.<sup>19</sup>

In general, some experiences of the GTZ offer lessons where a multi-level-approach has successfully promoted decentralization. Recognizing the fact that causes and solutions of problems in the field of decentralization generally require linkages between several levels of government had strategic consequences for the agency. As one GTZ manager in Ecuador noted, “without inputs on one or even two additional levels, many problems cannot be addressed in a reasonable manner”.<sup>20</sup> Therefore, GTZ often attempted to accompany local level projects by promoting reform on re-

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19 In a more narrow manner, COSUDE has helped to organize the exchange of good practices in the province of Azuay by promoting reciprocal visits municipal delegations.

20 Confidential Interview, Quito, February 2005.

gional and/or central level. Likewise, interventions on the central level generally required additional consultancy on the intermediate and/or local level in order to facilitate the transfer of central measures to the local level. This strategic attempt can be characterized by two examples, which are perceived as major advances in the Ecuadorian decentralization process in the 2000–2005 period: The Law on Fiscal Responsibility (2002) and the Municipality Law (2004).

The Ministry of Finance became a central counterpart for GTZ's activities in the field of fiscal decentralization and GTZ consultants were heavily involved in consulting the government with regard to the drafting of the "Fiscal Responsibility Law". One important aim of the law was to reduce risks of subnational moral hazard, namely the potential for excessive debt-taking by subnational entities. Yet, the incentives for prudent fiscal behaviour at the subnational level set by the law could not work without an adequate monitoring system. Thus, GTZ contributed to the establishment of a national monitoring system in the ministry of finance, which enabled the latter entity to gain and evaluate fiscal information of municipalities and provinces. Finally, following the legal advance at the national level and progress with regard to fiscal transparency achieved by the monitoring system, GTZ and other donor agencies intensified capacity-building (using multipliers) of municipalities in order to foster the latter capabilities to cope with the requirements of the fiscal responsibility law respectively to improve their fiscal management. As these examples clearly show: the improvement in the context of fiscal decentralization was only possible because of closely linked interventions at several levels of government. Neither an isolated perspective on the subnational level nor an exclusive focus on the national level would have effectively promoted a national fiscal monitoring system.

Since GTZ has played an important role with regard to the Fiscal Responsibility Law, the Decentralization Commission of the Ecuadorian congress requested the agency to provide consultancy services for the pending reform of the Municipality Law (*Ley de Régimen Municipal*). The reform was intensively discussed among political parties. Two earlier initiatives in the 1990s with similar objectives had already failed (Suing Nagua 2004, 1–6). During the second reading in Congress, the reform of the *Ley de Régimen Municipal* was again rejected. By this time, the Commission contacted GTZ. At the same time, the USAID-financed ARD3D consultancy was

cooperating with the *Asociación de Municipalidades Ecuatorianas* (AME), which was opposing the law. Interestingly, both agencies began to cooperate and organized a consulting committee including representatives from national and subnational key players, deputies and consultants. The principal aim was to keep the project on top of the political agenda. The GTZ provided technical assistance and helped to redraft the law. Nevertheless, the drafting and redrafting of the text did not provide a breakthrough in congress. Therefore, in June 2004, the two donor agencies agreed to invite 95 mayors and to inform them about the details of the law. Several donors jointly financed this effort. The event of organizing a joint visit of mayors to parliament created the dynamic needed to overcome the deadlock in Congress. The mayors exerted pressure on the President of Congress and on the deputies of their respective provinces to introduce and approve the law. As a result, the law was adopted after four years of intensive debates. Thus, on this occasion, the cooperation of different donors working with different counterparts helped to push through an important step in the country's decentralization process by bringing key players from several state levels together.<sup>21</sup> Perhaps, the incentives for cooperation between donor agencies have been that both were involved in the process but each with a different counterpart. As none of the counterparts – neither AME nor the congress commission – had enough political power to advance the reform, the two agencies decided to cooperate.

### 3.2.3 Process-oriented consultancy and honest brokerage

Beyond demonstrating the usefulness of providing assistance at different levels, the latter two examples also point out the effectiveness of process-oriented political consultancy and honest brokerage. Political reforms, especially in fragmented polities, are often characterized by iterative processes, where different actors have to meet several times in order to agree on a common agenda and to engage in a constructive negotiation process. Such iterative processes between political and technical actors with different interests and diverse perspectives on a given problem can be fruitfully accompanied by technical cooperation. In the best of all cases, effective “honest brokerage” can bring diverging interests together and thus help to

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21 Interestingly enough, after the law was passed, both donor agencies informally claimed a prime role in the successful conclusion of the process.

craft consensus and ownership necessary for urgently needed reforms. Functioning as an “honest broker”, who provides technical guidance to conflictive issues nevertheless requires, first and foremost, the capability of donors to identify political windows of opportunity. In the words of one GTZ official, “*if you do not play with political cycles and opportunities, you take part in nothing*”.<sup>22</sup> In addition to this political knowledge, “honest brokerage” also requires a technical capacity to offer “technical” solutions.

For instance, in the case of the Municipal Law reform, most of the conflict was a result of rather technical than political divergence and of general mistrust in a fragmented political context. In this situation, only the combination of technical expertise and the political know how of GTZ consultants made honest brokerage possible. Furthermore, with respect to the promotion of decentralization, donor agencies need to offer technical and political expertise to several levels of government, if they want to be accepted as “brokers” by the negotiating partners. As such, probably the GTZ would have not been able to mediate the reform processes related to the *Ley de Responsabilidad Fiscal* and the *Ley de Régimen Municipal* without its earlier working contacts to the Ministry of Finance, Congress and a variety of actors at the subnational level.

Additionally, the case of the *Ley de Régimen Municipal* shows how cooperation among donors (GTZ and ARD3D) added value to the process. Both agencies had special relations with the opposing sides of the negotiation process (Congress and AME respectively). Thus, on the one hand, their course of action was also influenced by the negotiating behaviour of the respective agencies’ counterpart. Their joint trouble-shooting activities definitely helped to bring formerly divided actors together. On the other hand, this example also illustrates that honest brokerage does not take place in a vacuum. Even as a mediator, donors cooperate with specific domestic actors and are generally closer to one actor than to other(s). Hence, impartial and “honest” brokerage may hardly be realized in practice.

Finally, a note of caution. At least in highly fragmented polities, even donor agencies with substantial political knowledge and mediating experience will not totally overcome the deficiencies of a fragmented actor con-

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22 Confidential Interview, Quito, March 2005.

stellation. In the context of the rather chaotic process of administrative decentralization, GTZ consultants managed to bring together almost all regional governments to formulate a joint request for administrative competences within three policy areas. The key counterpart in this process was the *Consortio de Consejos Provinciales del Ecuador* (CONCOPE), which was interested in overcoming the fragmentation of regional governments. The negotiation process was a very promising initiative since it organized unified demands of responsibilities at a large scale. The framework agreement basically aimed at strengthening the provincial level and, initially, faced resistance at municipal as well as at national level. Nevertheless, the responsible negotiating partner of the national government, the *Consejo Nacional de Modernización del Estado* (CONAM), could also be included in the negotiation process.

During the process, GTZ played a crucial and active role as mediator between the several regional governments and the national level. Because the agency's consultants were regarded as "honest brokers", they could provide technical assistance (agreement drafting in cooperation with CONCOPE and CONAM, capacity building/training for CONCOPE and CONAM staff and for provincial councils and mayors). In addition, GTZ facilitated the negotiations, in particular by providing a scenario analysis for the consequences of demands and transfers of responsibilities. The iterative consultancy process, including several levels of governments, led to a unified provincial request of 17 regional governments in order to transfer responsibilities in four sectors. Nevertheless, the convention did not come into effect, because some of the most influential actors from regional governments as well as from the central government lost interest in advancing the process any further. Even the well-connected GTZ consultants were not able to figure out potential hidden agendas of the key players. Thus, on the one hand this example reflects an appropriate intervention strategy for development assistance in fragmented polities. On the other hand, it also highlights the limits of donor agencies to shape political processes within such difficult political environments.

## **4 Conclusion and outlook**

On the one hand, countries gain economically and politically if they are able to decentralize according to the principles of subsidiary. On the other

hand, decentralization itself represents a conflictive political process, where actors at different levels of government and even actors at the same level of government often pursue different strategies. The resulting collective action problems to advance coherent decentralization are seriously aggravated in fragmented polities. Here, the absence of programmatic political parties, which pursue rather encompassing interests, tends to produce serious deficits of decentralization. Unfortunately, a relatively high degree of political fragmentation is often a common feature of emerging democracies struggling with advancing decentralization. Therefore, if development assistance wants to promote subsidiarity-oriented decentralization, it has to adopt its strategies to the political context. In this regard, the Ecuadorian experience provides some interesting lessons.

First, advancing donor coordination and harmonization should be one of the priorities in fragmented polities because a highly fragmented donor context would add further centrifugal tendencies to the decentralization process. However, donor coordination and harmonization is especially difficult in fragmented polities, because partner governments will be less likely to build coherent policy approaches on which donors can align. Second, donors must attempt to develop and implement multi-level strategies, which attempt to connect political dynamics on different levels of government. The traditional approach of most donor agencies to advance decentralization via exclusively focusing on the local level has proved to be rather misleading. This, because the course of decentralization processes tends to be heavily influenced by negotiations at the national level. Thus, if donors want to influence the decentralization process as a whole, they need to supplement their attendance at local level by professional representation at national level. Third, in fragmented polities, development assistance should attempt to link its capacity-building, respectively financial cooperation, with attempts to organize an iterative consultancy process, which assembles actors from different levels of government. If donor agencies are able to position as “honest brokers” in a politically fragmented context, their assistance might contribute more coherencies to the decentralization process. Finally, it is worthwhile to mention that implementing such a strategy demands politically experienced local staff as well as specific organizational skills in program management in order to arrange iterative consultancy in a flexible, but still goal-oriented way.

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# Decentralized governance in support of the national poverty-reduction strategy in Bolivia (PADEP)

Dieter Kattermann / Thomas Kampffmeyer / Ulrich Müller

## 1 The multilevel approach as a programme conception

The program “Decentralized governance in support of the national poverty-reduction strategy” (PADEP) has the following outcome goal: “The democratic governance and the responsible participation of civil society in the partner regions have been strengthened and facilitate the implementation of the national development plan.” The program consists of five components:

- Decentralization: Distribution of competences and resources among the various levels of public administration.
- Institutional reform and civic participation: Change of institutional structures with a view to improving cooperation between the different levels of public administration and with the population.
- Social equity: Efforts designed to strengthen disadvantaged groups (women, indigenous people) at the different levels of public administration.
- Crisis prevention and conflict management: Conflict monitoring, peace education, and policy advice on the basis of a good-governance indicator at the local level.
- Constitutional reform: Efforts to strengthen regional autonomy in the Constitution, support for the members of the Constituent Assembly from priority regions of the German development cooperation (DC).

All five components aim to promote the interplay between actors and institutions at various levels. This includes both the relationship between municipalities, department administrations, and the national government and the relations between citizens and administrations at various levels.

The program pursues a multilevel approach whose features include:

- efforts to draw on local experience as a basis for national public programs on the one hand and

- provision of support for the local implementation of national policies on the other.

## 2 Documentable impacts

Examples of impacts attributable to the activity of the multilevel program include:

1. Nationwide use (in 200 of 325 municipalities) of the method of transparent transfer of office developed by the program as a pilot project in a number of municipalities. This method consists in essence in systematizing the documentation to be handed over to incoming officeholders. The *Ministerio de Participación Popular (Ministry for Decentralization)* and PADEP together elaborated a program and a presidential decree on nationwide implementation, which was then co-financed by several donors. This served to substantially boost the legitimacy of municipal administrations. The results of a representative poll on the trustworthiness of institutions in Bolivia show that following the 2004 municipal elections, the municipalities greatly improved their standing, coming in second only to the Catholic Church. (Impact directly attributable to the program.)
2. The program introduced nationwide a new method designed to accelerate the transaction of public investments at the municipal level by outsourcing project management to specialized private companies (*Gestión Subnacional de Proyectos – GESPRO*). During a pilot phase in the prefecture of Chuquisaca, a procedure involving running costs of US \$ 45,000 was used to accelerate the approval of investments amounting to some US \$ 3 million. This was made possible through cooperation with the municipal umbrella organization, the *Federación de Asociaciones Municipales (FAM)*. Since November 2006 the Netherlands government has contributed substantial funding to efforts aimed at replicating GESPRO: Provision of combined financing amounting to US \$ 4 million has made it possible to implement the procedure in seven of nine departments. Potentially, this has made it possible to reach 227 municipalities (of a total of 329). (Impact directly attributable to the program.)
3. In Bolivia the usual practice is that the national level does not meet its commitments to civil society organizations. This regularly leads to

conflicts between local civil society and government institutions. With a view to resolving these conflicts, a system was adopted for the purpose of identifying local conflicts and monitoring agreements reached between government and civil society organizations. The heightened transparency achieved has already led to an appreciable rise in the percentage of the commitments actually met by the government, from 6.5 % (2002–2003) to 21.4 % (2006 – after the last change of government). Furthermore, the overall number of conflicts reported has decreased from 1,393 (2005) to 710 (2006). (Effect indirectly attributable to the program).

4. Citizens participation in relevant political decisions at the national level has been increased by means of:
  - Support for “National Dialogue Productive Bolivia” – a consultation process aimed at determining the priorities in the formulation of politics in the public sector – with direct participation of 70,000 people.
  - Support for the elaboration of a regional proposal for the Constituent Assembly that was broadly coordinated with the population of the *Norte de Potosí* region (direct participation of 1,800 representatives of civil society between 2006 and May 2007).
  - Support for the dialogue (*encuentros territoriales*) between all 21 commissions of the Constituent Assembly with the population in all regions of the country (some 10,000 participants nationwide). This was achieved through a joint program approach with Sweden, Denmark, and Spain, with PADEP assuming the lead role and engaging, in nine commissions, in a jointly coordinated technical advisory approach, part of which involved the use of combined financing. (In all cases, impacts indirectly attributable to the program.)
5. Development of the municipal umbrella organization FAM, which has evolved into an acknowledged discussion platform for municipal issues, an effective representation of municipal interests vis-à-vis executive, legislative, and department administrations, and the Constituent Assembly, as well becoming a service provider for municipalities. (Impact directly attributable to the program.)

6. The Municipal Infrastructure Inventory IMI (*Inventario Municipal de Infraestructura*) is an instrument that enables municipalities to estimate and budget the maintenance needs for their infrastructure, to enter these data into their annual operational plan, and to register their fixed assets, all of which are conditions required for access to public investment funding. This approach has been implemented in a total of 18 municipalities in program regions, and the approach is currently being diffused throughout the country by the state assets administration service, SENAPE (*Servicio Nacional del Patrimonio Estatal*). (Impact directly attributable to the program.)

### 3 Success factors

The program's success at the policy level is based in essence on five factors:

1. the systematic linkage of experiences made at the micro- and meso-level with a sector-policy dialogue;
2. the long-term nature of the advisory support provided to the process by the professional consultancy teams;
3. the diversified institutional structure involved;
4. a differentiated planning and monitoring system; and
5. an approach coordinated with other donors.

**Linking experiences made at the micro- and mesolevel with a sector-policy dialogue:** There is every reason to regard the experiences made at the micro- and mesolevel as extremely important. Local experiences are used as inputs for discussions at the ministerial level, in this way becoming the basis for national programs. What is presupposed here is both knowledge of local working and framework conditions and trust-based working relationships with the ministries involved. This is what led to the success of e.g. the national "Transparent Transition" Program.

The diversity of the experiences gained in PADEP at the micro- and mesolevel marks the crucial difference to the approaches pursued by other donors, and it is at the same time the reason why it is widely acknowledged in donor circles and has gained the confidence of the partners in-

volved. One factor of great importance here is that these experiences are planned, implemented, and documented with a view to their sectoral relevance. Conversely, the sector-policy dialogue also influences the projects at the micro- and mesolevel in that the criteria used to decide which local and/or regional project ideas are best suited for support are derived from the dialogue in close cooperation with the partner concerned.

It is possible in this connection to incorporate experiences made by other organizations into the interplay between projects and sector-policy dialogue. One potential that has thus far been exhausted only in part must be seen in the cooperation between GTZ and CIM/DED. A joint strategic planning process recently completed by the German DC “State and Democracy” priority-area team is concerned with optimization potentials keyed to the idea of a coherent, “all in one” DC.

**Long-term advisory team engagement:** The program has regional offices in the priority areas of German DC. These offices have national experts whose expertise is highly acknowledged in the country and who maintain contacts with all relevant political movements. The long-term support they have provided for various ongoing processes has served to create a trust basis for the advisory teams among many social groups.

This trust, built up over the course of time, opens doors. For example, the present government has decided to embark on an ambitious process of change designed to benefit the indigenous population; however, it lacks the operational program development and implementation capacities it needs for the purpose. Following some initial hesitation, the government is now making use of the program’s wealth of on-the-ground experience and contacts in order to initiate implementation processes with pilot character in the priority regions of German DC.

**Diversified institutional structure:** The political instability – Bolivia has had five governments since 2002 – set limits to the possibility of any longer-term cooperation, on a continuous basis, with high-level change agents in government. Given these conditions, it proved to be advantageous that, due to its size, the program has a broad network of contacts. Several of the program’s national experts have been appointed by different governments to high-level positions (e.g. ministerial). The mayors of larger and mid-sized cities, many of whom are partners of the program, have ensured that a certain continuity was given among change agents, as did a number of

“eminent persons” such as several bishops, a former ombudswoman, and the former president of the Bolivian Central Bank, who exercised their functions capably and successfully for many years, achieving national and international renown. Other high-level change agents included ex-ministers who, even though they are currently serving in high-ranking positions abroad, continue to play an important role for domestic policy; these would include e.g. R. Blattmann (judge in Den Haag) and E. García (President of the Andean Finance Corporation (CAF)).

The diversified institutional structure involved has boosted the program’s effectiveness. This is also acknowledged by those counterparts who, for political reasons – opposition politicians also having considerable weight at the department and municipal level – have tended to have reservations about the cross-cutting work in which PADEP is engaged. The most important benefits of institutional diversification are:

- Actors in conflict with one another can be brought together with the support of the program, which is accepted as a neutral, fair, and competent broker. This was, for example, the case during the process involved in working out, in the Constituent Assembly, a joint proposal by the nine prefectures on the issue of regional autonomy. While the proposal was not adopted by all of the prefects, today it is considered to be the best-founded discussion document on the issue and is used as such in the Constituent Assembly.
- It is in this way easier to preserve existing instruments (e.g. the conflict-monitoring system) in situations of political change – like a change of government – because these instruments are familiar to various state and civil society actors at different levels, not all of whom are replaced when e.g. a new government comes to power, and these actors can continue to work for the further use of these instruments in course of the next political cycle.
- Diversification of the institutional structure across multiple levels provides for conditions conducive to the development and implementation of systemic advisory approaches. This makes it possible e.g. to link sectoral policies politically and programmatically with regional development policies and to incorporate civic participation, a focus on poverty, and intercultural approaches into the policy-making process.
- The working relationships it has developed at various levels enables the program to speak a language understood by all, and this serves to facilitate good communication between the different levels involved.

- The network of contacts resulting from the diversified institutional structure makes it easier for the program to assume a lead role in the circle of donors involved (e.g. as regards reform of the Constituent Assembly) and to harness the benefits of the multilevel approach for the entire donor community, to obtain combined financing, and to gain rapid access to new political actors (e.g. in efforts to support the Constituent Assembly or to further diffuse GESPRO).
- The program is more readily able to adapt to the varying working rhythms of the different partners involved. For instance, the dynamic and speed of change in indigenous communities often differ quite substantially from those of the country's short-lived governments. Another advantage here is that temporary problems with individual implementing partners and/or levels (e.g. in the heat of municipal election campaigns) do not bring program efforts to a halt. Furthermore, if – for whatever reasons – ownership is lost, work with these implementing partners can be reduced or even suspended, and this can lead to substantial efficiency gains. Instead of a need to replace partners, what we have in this case is a healthy competition between the implementing partners in which the most committed and active partners are given the most support.
- An additional advantage of the flexible multilevel approach is that working at different levels allows the program to continue to work with actors at other levels on important political issues when uncondusive situations emerge (crises, changes in personnel).

**Planning and monitoring system:** The internal PADEP's planning and monitoring system subjects all subprojects to an internal quality audit. This means, among other things, that even before a so-called change project or process gets underway, a concept is presented on how the project/process is later to be politically anchored and diffused throughout the country. Furthermore, there are standards for the documentation of pilot projects.

All change processes and projects initiated in the PADEP framework have a fixed timeframe of – on average – 12 months. Their implementation and effects are constantly observed and supported in cooperation with the respective partner in the framework of a joint monitoring and evaluation system. This is a condition that a partner must meet to be eligible to propose new projects. However, emerging political developments, over which the program has little control, do influence timing and sequencing.

A close dovetailing of sector-policy considerations and pilot projects is required for the sequencing of the activities in the various program components. To take a simplified look at the matter, the process starts out with some basic sector-policy considerations that may give rise to pilot projects, and these in turn may lead to national programs, legislative initiatives, etc. The sequence then begins anew. In the PADEP program several such processes, slightly staggered, run in parallel to one another, the one stimulating and enriching the other.

**Coordination with other donors:** The program has cooperated intensively with other donors throughout the entire duration of its activity. In a number of cases, some of which have already been mentioned, this enabled the program to increase its leverage and multiply the funds available to it (e.g. in providing support for the Constituent Assembly; a combined financing from the EU, Sweden, and Denmark increased the funds available to the program from some EUR 450,000 to over EUR 700,000; or a Dutch combined financing of US \$ 4 million made it possible to replicate GESPRO countrywide). A further multiplier effect results from that fact that foundations and NGOs use instruments developed by PADEP (e.g. a governance index that measures the quality of local public administrations and can be used to identify measures suited to improving governance).

However, in some cases the cooperation with other donors was less successful, because it proved impossible to bring coordination processes to completion or the measures agreed on were not implemented. The reasons for this included:

- involvement in reform projects that were too complex and politically unrealistic (example: civil service reform);
- problems that emerged when individual donors pulled out in response to changes in the basic political conditions given in the country. The World Bank in particular proved to be an unpredictable partner in this regard;
- overly forceful attempts by the donor community to induce the agenda. In one such case the Bolivian partners were unable to identify sufficiently with certain aspects of the agenda, e.g. the donor community's attempt to use the "carrot" of debt relief to impose a poverty strategy on Bolivia;
- Inadequate adaptation of donor initiatives to partner working rhythms and performance capacities as well as political factors that influence

the change process in the country. (Examples: reform of the civil service career system, in part education reform as well).

The advantages of PADEP, with its multilevel approach, must be sought above all in its good knowledge of the situation on the ground, its excellent network of contacts at all levels, and the availability to it of presentable and well-processed local experiences and its ability to feed them into national programs. All this earned the program a special position of trust in the donor community.

One disadvantage was the program's complexity in its initial phase and the cost and effort this has entailed when it comes to demonstrating, to changing partners, what the program is all about. This problem has now largely been overcome by consolidating the program components and engaging in close coordination with the political institution responsible for the program (the planning ministry).

On the whole, German DC has successfully positioned itself in the policy dialogue and found support among other donors. Only a small part of the deficits noted in some donor coordination approaches (see above) are attributable to German DC.



# Projects to policy reform: Watershed development in India

Nand Kishor Agrawal<sup>1</sup>

## 1 Introduction

*“... It is important to unify the multiplicity of watershed development programmes within the framework of a single national initiative – a National Movement of Watershed Development that fosters implementation ability at the local level and creates community infrastructure for micro watershed projects through active involvement of Gram Panchayats, Local Self Help Groups and Non-governmental Organizations (NGOs). For this, a Watershed Development Fund will be established with NABARD to cover 100 priority districts within 3 years.....”*

Mr. Yashwant Sinha, Union Finance Minister of India, annual budget speech, 1999–2000

On 28th February 1999, when the Union Finance Minister of India held his budget speech in Parliament, he entrusted NABARD<sup>2</sup> to lead a national movement of Watershed Development. This announcement constituted a major shift in policy for a programme which traditionally had been implemented by central or state governments. It was the result of NABARD's successful implementation of the Indo-German Watershed Development Programme in Maharashtra. This programme, probably the only bilateral programme in the country, was to be replicated 'exactly' by state's own money! The Ministry of Agriculture and NABARD were asked to contribute equally to set up this fund. This was a unique and most precious ac-

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1 Programme Officer, Kreditanstalt fuer Wiederaufbau (KfW) Delhi, India; with inputs from Dr. Anne-Juliane Huennemeyer, Project Manager, KfW Frankfurt; Mr. Michael Glueck, Coordinator, Natural Resource Management, GTZ India; and Ms. Rukmini Parthasarathy, Programme Officer, KfW Delhi, India.

2 National Bank for Agriculture and Rural Development (NABARD) is a public sector national level bank fully owned by the Government of India and is mandated for promotion of rural development in the country. The Watershed Development Fund at NABARD is managed by NABARD under the supervision and guidance of the Ministry of Agriculture.

knowledge of the success of the programme besides the several other policy impacts the programme had already made on other national watershed development programmes implemented by central Ministries!

This case study reflects on the process that led to the unique contribution of a multi-level and multi-organizational approach by German Development Organisations to the Indian Watershed sector. The case briefly captures the Indian context in which the programme has been implemented to date, the background of the Indo-German Watershed Development Programme (IGWDP) and its various processes at the different levels of interventions. The case concludes that a 'multi-level and evolving approach' of IGWDP, i.e. high-quality at the micro-level, effective networking at the policy-level, both on state as well as union level, and strong leadership of an organization with a national mandate for rural development at the macro-level, led to visible and attributable structural changes in Watershed Development policies and implementation in India.

## **2 Watershed development in India**

### **2.1 The context**

There are three main reasons why watershed development in India is very significant:

1. **Widespread land degradation:** The union Ministry of Agriculture estimates that out of the total 328 million hectare geographical area of India, about 175 million hectare, i.e more than half, is under some form of degradation and need preventive and curative measures to enhance and maintain agricultural productivity.
2. **Opportunities for agricultural intensification:** Over 70 % of India's 1.2 billion population live in rural areas, depending mainly on agriculture including a vast majority that depends upon subsistence agriculture on drylands which are either already degraded or very prone to degradation. The watershed based treatment of lands opens up new opportunities by supporting agricultural intensification process.

3. Rural poverty in rainfed areas: With approximately 350 million people in India below poverty line (income below 1 US \$ a day),<sup>3</sup> Watershed Development appears as one of the major anti-poverty strategies for rural areas in the official documents of the Government.

## 2.2 Indian initiatives

Most of the rural development programmes of the Government of India (GoI) have, very appropriately, focused on the treatment of degraded lands through soil and water conservation measures. Yet, in spite of all the noble objectives, the programmes implemented before 1980s suffered from two notable deficiencies: (i) the lack of an integrated approach to land management and (ii) the highly limited to negligible management role of the beneficiaries.

In the 1980s, several NGOs and community groups started small pilot projects on watershed development with support from corporate organizations and international donors. By early 1990s, based on the countrywide experiences and feedback, the Government of India adopted the approach of integrated watershed management. With substantial funds from the government and international donors around, the programme started evolving as NGOs experimented with programme design and delivery models. These experiences ultimately fed into the development of national policy guidelines of Watershed Development. One of the key inputs for the national guidelines was the IGWDP, which was universally acknowledged as one of the most successful watershed projects.

By the late 1990s, as all the positive experiences began to mount, watershed development was officially recognized as one of the main anti-poverty strategies for rural areas. The enhanced importance of watershed is reflected both in terms of policy focus and funds flow. Three nodal ministries of the GoI – Agriculture, Rural Development and Environment and Forests – implement the programme under common guidelines. Investment on the development of degraded lands has shot up. In the 46 years between 1950 to 1996, total investment was EUR 970 million,<sup>4</sup> however, in the four years between 1997–2000 (4 years) it was EUR 916 mil-

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3 UNDP (2004).

4 Exchange rate: EUR 1 = INR 50.

lion!<sup>5</sup> The programme has been evolving for the better but there is still scope for further improvement. The main constraint now is not the lack of adequate financial resources, but rather the efficient use of these resources.

### 2.3 Donors' contribution to Indian watershed

In the Indian context, the importance of donor supported efforts stems less from their overall financial contribution and more from their flexibility to experiment with and 'pilot' new approaches – a flexibility which government norms and procedures do not easily permit (Turton, ODI, 2000). Based on data obtained from various sources, Table 2.3.1 provides an 'indication' (and not the exact figures) of donors' financial contribution to India's Watershed Development Programme.

Donors' category	Amount (EUR million)	Annual investment (EUR million)	% of total investment in the sector
Government of India between 1997–2000 (4 years)	631	158	76 %
External Donors between 1991–2000 (10 years)	471	47	23 %
Germany between 1991–2000 (10 years)	17	1.7	1 %

Note:

1. Planning Commission, GoI, working group report, 2001; Figures do not reflect donors' annual commitment but are based on financial achievements as reported by Project Executing Agencies to the line ministries responsible for 'Watershed Development'.
2. Conversion rate: EUR 1 = INR 50.

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5 GoI (2002).

3. Germany's contribution to Indian watershed increased substantially (to EUR 77 million) in early 2000s as a result to the success of Indo-German Watershed Development Programme, Maharashtra.
4. There are many other poverty alleviation programmes of the GoI having watershed development as one of the project components. According to an estimate, annually Watershed Development (including implemented as part of other livelihood programmes) attracts about EUR 450 million of GoI funding and EUR 110 million of international funding (Turton, ODI 2000). In addition, state governments also invest at least 25 % of the GoI investment as state share to the central programme.

As evident, the financial contribution of external agencies to the Indian Watershed sector is less than 25 %, but this fails to capture the developmental impact of these interventions. The contribution of external agencies in terms of developing new models has been immense, a fact which is widely recognized in government documents.

## 2.4 Future direction of watershed in India

As the Watershed Development guidelines are probably the most dynamic among the guidelines of rural livelihood based developmental programmes in the country, the most prominent issues which need to be addressed, and widely recognized in the Government of India's documents are the following:

**Decentralisation:** As per the 73rd Amendment to the constitution of India, the local and democratically elected Panchayati Raj Institutions (PRIs – village council)<sup>6</sup> have been mandated to take decisions related to village development. In the most recent draft watershed guidelines, the Watershed Development Programme is proposed to be implemented by PRIs who will be free to decide whether to involve service providers (e.g. NGO, government departments or private sector) for supporting the implementation or not. This would be an advancement of the current model of watershed implementation by specifically selected village committees.

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6 Democratically elected local government institutions at village level.

**Sustainable financial model and convergence:** The 20-year perspective plan of the Government of India seeks to move Watershed Development programmes away from the culture of grants and subsidies by increasing people's contribution up to 50 % by 2017. In addition, the GoI is targeting convergence of all other relevant programmes that promote rural economic development by generating increased employment opportunities and ensuring increased land access for the landless.

In summary, these land-based investment programmes address the still enormous rates of rural poverty by the application of socio-technical solutions.

### **3 Indo-German watershed development programme: Design and achievements**

#### **3.1 Objectives and approach**

The IGWDP, Maharashtra, India, supported by the Federal Republic of Germany, started in 1992 with the objectives of developing drylands<sup>7</sup> in a comprehensive manner through community based participatory approaches.

The programme operates simultaneously at different levels. At the micro-level, the programme targets concrete technical and socio-economic interventions in the identified watersheds by focusing the systematic treatment of drylands at the micro-catchment (soil and water conservation measures to allow rainwater to percolate down and reduce the runoff). This enhances the local rainfed production system in a long-term sustainable manner.

At the community level, the programme helps organizing villagers and women into groups and committees, as well as inter village committees to plan, implement, monitor and manage the programme with support from local NGOs. These village level activities of NGOs and communities are supported by Technical Cooperation through the Watershed Organisation

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7 Drylands are characterized by their limited water supply, low and highly variable rainfall, and recurrent drought. About 56 % of India's land is classified as drylands (Source: [www.earthtrends.wri.org](http://www.earthtrends.wri.org)).

Trust (WOTR),<sup>8</sup> one of the pioneers in watershed development in form of structured and targeted capacity building measures. Additionally, based on the rich experiences at the village level, WOTR also built a very solid policy network with politicians and bureaucrats in the state through exposure visits and workshops.

At the macro-levels, the National Bank for Agriculture and Rural Development (NABARD), supported by Financial Cooperation (FC), acts as the executing agency for the programme and leads the policy dialogue, together with other stakeholders with state and central governments.

### 3.2 Programme's contribution and impacts

The programme that began on a small scale in 1992, now covers over 100,000 hectares of drylands through 125 projects in over 250 villages spread across almost the entire state of Maharashtra.<sup>9</sup> Additionally, the programme concept and approaches are being replicated in three other states of Andhra Pradesh, Gujarat and Rajasthan under the umbrella of IGWDPs with an investment of over EUR 77 million.<sup>10</sup> More importantly, the Watershed Development Fund (now over EUR 80 million) created jointly by the Government of India and NABARD as per the union budget announcement in 1999, also follows exactly the same approach to dryland management, developed by FC and TC in 11 union states in the country and has 352 projects at different levels of implementation.

The programme's experiences clearly demonstrate that in order to achieve structural changes at the policy level in India, micro-level interventions must be tangible, successful and sustainable. These micro-level successes served as the basis for a continuous policy dialogue between a strong Indian public as well as private institutions and the Indian Government to

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8 Following the observations that the NGOs' capacity in supporting the communities to implement and manage the watersheds was limited, the promoters of IGWDP created WOTR to provide necessary inputs to the programme. WOTR was funded directly by Technical Cooperation (TC = GTZ) while NABARD was continued to be funded by Financial Cooperation (FC = KfW).

9 Maharashtra, a large state in West India with above 70 % land in arid and semi-arid categories, has a population of 97 million (only 11 countries are more populous in the world!).

10 EUR 70 million FC funds and EUR 7.5 million TC funds.

shape and develop national watershed development policies. The process culminated in the introduction of mandatory capacity building processes at the village level into all centrally-sponsored watershed development programmes (sector investment programmes), thus, lifting watershed development interventions from mere vehicles of public cash-transfer to the rural poor into one of the most important development and anti-poverty strategies, based on local decision-making, and self-motivation.

During 1991–2000, the financial contribution of German Development Cooperation to Watershed Development in India amounted to approximately 1 % of the total investments in the sector in the country (Table 2.3.1). Though the investments increased from the year 2000 onwards to slightly higher levels (~2–3 %), the policy impacts achieved so far can largely be attributed to the initial support. As the programme expands with the additional support provided from 2000 onwards, it is expected to further shape and influence national policies.

In terms of programme design support, the German Development Cooperation (*Kreditanstalt fuer Wiederaufbau* (KfW) and *Gesellschaft fuer Technische Zusammenarbeit* (GTZ) contributed through discussions on programme design, providing space for exchange of international experiences through trainings, monitoring reviews, and support through international technical experts. The judicious support of the concerned project officers of KfW and GTZ to the relevant decision-makers at different levels at the right time, either politically or financially (such as financial contribution to WOTR, grant funds to NABARD) contributed significantly. In addition to this support, the German Development Cooperation also ensured sufficient flexibility by adopting a modular approach, which allowed Indian counterparts to tailor the project to local needs and national priorities. German support facilitated the transition from a largely technical approach to a more holistic strategy that combined community involvement with the development of high quality technical solutions.

The programme has provided significant results at all levels. In the following paragraphs, the impacts at micro- and meso-levels are very briefly touched upon while the impacts at the policy level are elaborated and analyzed in detail.

**Micro-level:** At the household and village levels, substantial (almost more than double) increase in people's income, improvement of resource base,

and heightened community confidence are major impacts. Based on the study of Indo-German Watershed Development Programme, the Report on World Resources 2005<sup>11</sup> concludes, “*Restoration can revitalize watersheds and communities*”. According to another study by the World Bank and International Food Policy Research Institute (WB/IFPRI study),<sup>12</sup> Washington, the IGWDP programmes have the highest efficiency of all studied programmes in Maharashtra. This study also reports that per hectare cost of IGWDP are well within the range of Government and other programmes.

**Meso-level:** The improvement in local decision making and governance structures through establishment of village committees coordinating with Panchayati Raj Systems, project implementation and fund management through a transparent and reliable framework, forging links with district and state government systems, and more importantly, consensus and confidence building of poor communities among each other and with the outside systems including the Government and NGOs.

**Macro-level:** The programme resulted to the following policy achievements<sup>13</sup>:

1. Setting up of the National Watershed Development Fund at NABARD in 1999 under the Ministry of Agriculture through budgetary support from the Government of India to replicate the approach and concept of Indo-German Watershed Development Programme as implemented by NABARD and WOTR.
2. Re-orienting the GoI supported National Watershed Development Programmes of the different central Ministries to include the Capacity Building Concept, a unique feature of IGWDP. Additionally, IGWDP also substantially influenced the common approach adopted by central Ministries in 2002 for Watershed Development.

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11 The Report on World Resources 2005 – The Wealth of the Poor: Managing Ecosystems to Fight Poverty by UNDP, UNEP, The World Bank and World Resource Institute. The entire report including the case study on Indo-German Watershed Development Programme can be downloaded from [www.wri.org](http://www.wri.org).

12 Kerr/ Pangare / Pangare (2002, Chapter 6, 46).

13 Compiled from [www.wotr.org](http://www.wotr.org) and NABARD publications.

3. Government permission to the programme to treat lands owned by the Forest Department. This was an exception made by the Government of Maharashtra state, since by law only forest department can work on forest lands.
4. The concept of Capacity Building Institutions (like WOTR in IGWDP) has been adopted by the Government of Maharashtra.

## **4 Factors of success – lessons learnt**

A combination of factors operating at different tiers of the multi-level and joint approach led to these successful policy impacts of the programme.

### **4.1 Micro-level: People centred and evolving**

In the Indian context, with a financial contribution from the German Development Cooperation (DC) amounting to barely 1 % of the amount invested in the sector, any initiative on policy dialogue would not carry much weight unless it was accompanied by demonstrable examples of success at the ground level. What was essentially required was to prove, with live examples, that there was something different, for the better, in the project. The most crucial factors, among many others, which resulted in successful micro-level interventions leading to the village communities coming together to regenerate their own natural resources in a sustainable manner, are:

- the programme centres around a common interest of the community and targets the poorest communities;
- the programme involves several professional NGOs with continued and reliable support from WOTR during the crucial initial period (capacity building phase) of community coming together as a group;
- continued excellent technical and management support and guidance to NGOs and communities during full implementation phase by NABARD; and
- international quality periodic inputs by GTZ and KfW experts.

In a clear recognition of the programme's micro-level success, the Indo-German Watershed Development Programme (Darewadi Watershed Project) was included as a successful case study in the Report on World Re-

sources 2005. The report analyses how the restoration of Darewadi Watershed has contributed to the economic and social development in the village in a sustained fashion, even after 5 years of completion of the treatment of the watershed catchment.

## 4.2 Meso-level: Local support and dynamic ‘feed-forward’ mechanisms

Lessons drawn from the micro-level successes are shared, not only without disturbing the local political and administrative systems but also with blessings from the same. This is quite tricky and probably cannot be achieved without a lot of personal inspiration. Success can affect the egos of many others who are in a similar business, especially those who can influence the decisions at various levels. Managing the support of such people (mainly local politicians and administrators), a very critical part of the entire approach (although not really part of the programme design from the beginning), was led exceedingly well by WOTR.

This management of ‘local powers’ coupled with intensive networking via exposure visits, trainings, workshops, media management, information technology, and with the prestige of a German funded project enabled successful experiences and sharing of lessons to trickle up from the micro-level, to “feed-forward” to higher levels. Like the micro-level, the key factors of success at the meso-levels are:

- management of ‘local powers’ including politicians and administrators;
- intensive networking with the entire hierarchy of stakeholders, including frequent exposure visits and widespread dissemination of results, all of which encourages national decision-makers to provide room for policy dialogue and changes;
- prestigious and internationally reputed project partners; and
- transparent, reliable and trusted framework for project implementation including the fund management.

### 4.3 Macro-level: Strong and reliable national partner with patronage from the government

Even with successes at the micro and meso-levels, it may not be possible to affect a major structural policy change in the system unless one of the project partners has the patronage of the Government. In this case, a major policy change like setting up of the Watershed Development Fund from the government budget would not have been possible had one of the partners not been an 'extended arm' of the Government. The involvement of NABARD, a financially sound public sector bank with a national mandate for investing into agriculture and rural development and with a presence in almost all the districts of the country, is the most crucial link in the vertical integration towards the macro-level. With NABARD taking the lead, all the successes of micro and meso-level are appreciated, accepted and 'owned' by the Government without any doubt. NABARD's endorsement and support of the programme constitutes a "seal of excellence". With NABARD's strong financial credentials and ability to financially contribute to the Watershed Development Fund, the Government did not have any hesitation in asking the Ministry of Agriculture to make budgetary provisions to replicate the Indo-German model of Watershed Development in the country.

Likewise, the appreciation of the successful features of the programme by the Government and the willingness to adapt watershed development policies in response to lessons and tested models from the programme, increases substantially because of the involvement of NABARD. However, it has to be clear while involvement of a strong national partner like NABARD is necessary, it is not sufficient. The successes at the micro and meso-levels as well as the links between them are essential. In this case the mix of partners and their corresponding roles proved to be an essential factor. Additionally, it is important to understand that even a small contribution to government policies makes a huge difference since the scale of government supported projects is manifold larger than the Indo-German Programme (1 % of the sectoral investments).

Another strategy that the promoters of this project followed, at virtually every level, especially at meso and macro-levels, was to show case the model as 'people's programme' catering to the very basic needs of the people, and of the nation. This catalyzed the translation of 'political will'

into ‘action’. The implicit assumption here was that the political masters are more likely to support a model that helps them being seen as catering to their constituencies – the people. It worked.

To summarize, the most critical factors at the macro-level are:

- involvement of a national partner with government patronage;
- strong successes at the micro and meso-levels;
- emphasis of the model as people’s programme to cater to the political mindset; and
- vertical integration (functioning “conveyor belt” for policy inputs) between the levels

## 5. Conclusions

In the last 15 years, the Watershed Development in India has evolved into the mainstream rural development programme. It is acknowledged by the Government as one of the main anti-poverty programmes for rural areas. The watershed policies are dynamic, and are modified for the better every 2–3 years. This is a considerable achievement, which is not least due to the combined efforts and experiments by various NGOs, government institutions, international donors, and many individuals.

The Indo-German Watershed Development Programme holds the unique distinction of not only providing content for policy recommendations but also highlighting the need for the policy dialogue as a vehicle for structural changes. It did not only contribute significantly to the general policy development for the sector, but was also instrumental in the creation of a new Watershed Development Programme by the Government under the leadership of NABARD. This achievement proves that even major policy milestones can be triggered by and are attributable to a bilaterally supported programme. The analysis of the programme from the perspective of the multi-level approach of the German Development Cooperation identifies the following key factors that were critical to the success of this programme.

1. First, successful projects at the micro-level with number of pilots being large enough to demonstrate convincingly, and not just exceptionally, successes in typical conditions;

2. Second, sufficient flexibility at the meso-level by having a partner (in this case WOTR) who does not have to necessarily follow rigid procedures and rules which are applicable to government institutions. At same time ensuring, by having an organization like NABARD, that the meso-level flexibility is in accordance with the law of the land;
3. Third, involvement of a national level organization which is a part of the government system, but still can work independently, and has national mandate to support similar programmes.

Concluding, the modular approach of the Indo-German Watershed Development Programme with evolving strategies, that both pre-empted and responded to the demands of the situations as well as acted as continuous learning ground for the promoters of the programme. This continuous learning, when shared strategically with stakeholders at different levels, resulted in the success of the programme beyond the originally defined goals. The learning continues ... so is the redefining of the goals!

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# Dual vocational education in Chile – a successful multilevel approach

Ulrich Krammenschneider\*

## 1 Introduction

„Dual Vocational Education in Chile” was a German-Chilean development cooperation project. It was implemented by the *Gesellschaft fuer Technische Zusammenarbeit* (GTZ) from 1992 to 2004 – on behalf of the *Bundesministerium fuer Entwicklung und wirtschaftliche Zusammenarbeit* (BMZ). GTZ cooperated with two counterpart institutions: *Servicio Nacional de Capacitación y Empleo* (SENCE) and the *Ministerio de Educación* (MINEDUC). The conceptual approach implemented with these two organizations was basically identical. Yet different qualification frameworks and program structures on the partner’s side led to different results. In the case of the MINEDUC the impact at the policy level could be easily identified because of the rigorous formalized procedures within the education sector. Furthermore, an independent study documented impacts at the target group level. The following comments are therefore reflecting the cooperation with MINEDUC.

At first, the political and socioeconomic framework is outlined under which the project was designed, followed by a presentation of results. Subsequently, key parameters for developing successful up-scaling are identified.

## 2 Initial framework conditions of the project

In the beginning of the 1990s, Chile was in the midst of political change. Re-democratization involved complex negotiations. The economic situation was characterized by macroeconomic stability and solid growth. At

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the same time social tension was present due to a high poverty rate which struck the youth most of all.

After 17 years of dictatorship the biggest challenge for the first democratic government was to democratize step-by-step institutions and the constitution, to establish a way of dealing with the violation of human rights, and to improve economic participation of the poor. In response to these economic and socio-political challenges (technical and vocational) education was given a high priority.

The reform program was named "Improving the Quality and Equality in Education" (*Mejoramiento de la Calidad y Equidad de la Educación*, MECE). In cooperation with the World Bank this program was designed as a reform program that encompasses all levels of the education system from kindergarten to university. In addition, with the Inter-American Development Bank (IADB) a complementary short-term program was designed, which aimed at achieving fast results. It was called „Young Chile“ (Chile Joven).

The goal of these programs was to provide job opportunities and sources of income for the youth from particularly poor parts of the population. The main reason for high unemployment among the youth – despite high enrolment rates even at secondary level – was identified as the inability of these graduates to use their secondary education qualifications for the job market. Extensive studies prepared as part of the MECE initiative revealed that the establishment of vocational-technical secondary schools (*Educación Media Técnico-Profesional*, EMTP), providing double qualifications<sup>1</sup> barely helped to overcome the entrance barriers for young people to find employment although those schools were labelled by many as “secondary schools for the poor“. The curriculum did not meet the demands of dynamic economy. Reasons for this development were the out-dated subjects, little practical training, and teaching methods, which did not contribute to the increasing importance of key qualifications. There was a tremendous lack of qualified teaching staff and appropriate school equipment.

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1 Graduates of professional-technical secondary schools in Chile received a secondary school diploma, which gave access to the university entrance examination as well as granting the title "Técnico de Nivel Medio".

The extremely poor set of rules and regulations of the EMTP and the relatively high autonomy of private and communal school boards compromised the quality, but on the other hand offered a good starting position for testing innovative approaches. MECE and *Chile Joven* supplied the necessary financial funds for the reforms. This produced positive dynamics. At the same time actually 100 % of human and institutional professional resources available in the field of vocational education were needed to implement the reform programme in Chile.

### 3 Project development

It quickly became clear that it was unrealistic to stick to the original German-Chilean project agreement, to replace the EMTP with a dual vocational education system. Relevant factors were:

- Secondary education at that time covered nearly 80 % of each age cohort, with an increasing tendency (today: 95 %). EMTP covered more than 40 % out of those (trend: increasing; today: above 50 %). These educational patterns were mainly defined by
  - the desire of poorer levels of the population to gain access to university,
  - the recruitment policy of enterprises and public administration: secondary school diploma as minimum job entry requirement – even for unskilled work.
- The major part of the resources of the MECE program was allocated to reform EMTP.

Against this backdrop it was necessary to adjust the objective of the German-Chilean ‘Dual Vocational Education’ project. It was no longer the idea of replacing the EMTP, but rather strengthening institutions of EMTP, introducing enterprise-based learning. The relevant factor was to enhance cooperation between enterprises and schools.

The project started in 1992 and was successfully completed in 2002. The duration of the program was divided into three consecutive, but conceptually different phases.

Project implementation was assigned to an organisation called FOPROD (*Formación Profesional Dual*, Dual Vocational Education) to accommodate

German (GTZ) and national (SENCE and MINEDUC) experts. FOPROD was designed as a consulting agency, and, financed by Chile and Germany. Institutional sustainability of FOPROD was not an issue. The ‘only’ task of FOPROD was to strengthen the EMTP institutions to fulfil new functions in the long run and integrate new mechanisms as regular procedures: step by step – according to the progress of the Dual Vocational Education project.

## Phase 1

In the beginning of the 90s the reason and necessity for schools and enterprises to cooperate was no longer questioned in Chile. However, only little progress was made in practical terms. Scepticism and prejudice were evident among representatives of enterprises and schools. The idea of a Chilean way to arrange dual vocational education seemed to be very tempting for many stakeholders. There was no deep belief to accomplish the vision of dual vocational education.

Therefore, during the first phase of the project emphasis was put on introducing the new paradigm to stakeholders instead of technical know-how transfer. In such a situation action speaks louder than words: During the first project phase successful pilot projects were set up to function as trigger – in other words: the centrepiece of the German-Chilean project at the beginning was work at micro level.

Together with the political decision makers criteria for measuring improvements were defined. The MECE indicators for successful program results were applied.

Considering the interests of business organisations the regional structures of the MINEDUC chose three pilot schools. Together with the heads of the schools and the teaching staff a modified model of dual vocational education was developed and implemented. This model was geared considering legal framework as well as social economic and cultural aspects. It was constantly adjusted in experience based feedback loops.

All relevant stakeholders were involved. Changes and related value added triggered through the model were monitored and communicated. Entrepreneurs and employees, trainees as well as the teaching staff and the school management boards became aware that they could gain from changes in

the delivery of vocational education. The project-progress and experience gained at pilot level were reflected in the national discourse on reforms.

## Phase 2

Already before the graduation of the first trainees, it was evident that the model actually brought advantages to all stakeholders. This was relevant to reaching the reform targets. Regional secretariats of the MINEDUC as well as schools and regional businesses applied to participate in the program. Soon, FOPROD did not have sufficient capacity to deliver its services directly to individual schools, as it had done in the first phase. In order to increase the outreach, the emphasis of FOPROD's service delivery shifted to the meso level.

The learning experiences were systematically analysed and incorporated in a continuously updated training program for school management and teachers. Nation wide MINEDUC initiated the set up of units within the EMTP division of each regional secretariat. These units were responsible for multiplying the model of "dual vocational education": They selected schools, coordinated the teacher trainings that were organized as small projects. Furthermore, they assured quality. In order to carry out these training programs senior teachers were recruited and trained. These senior teachers had already introduced successfully the model in their schools. Now, they were employed as part-time experts for the regional secretariats.

Funds from the German-Chilean cooperation were used to finance the training of materials for the teachers who implemented the first dual experience in a region (on average four schools per region) as well as for the multiplier training of senior teachers. Costs to introduce the model as well as current expenses at school level were covered by the schools and participating enterprises. All additional costs were financed through MECE funds of the World Bank.

The experience gained increasingly influenced the discussions about the entire reform of EMTP and its design. At micro and meso level, capacities were developed, and networks created – nationwide for more or less all vocational-technical fields. They were increasingly used to assist with legwork to all parts of the reform in the field of vocational-technical secondary education.

## Phase 3

By expanding the model across the country, the pilot status of “dual schools” ended. The need for normative adjustments derived from long lasting experiences with the by now proven model of dual vocational education. Given this situation, the design of a functional normative framework, did not fail due to a lack of practical experience.

Now, the emphasis was on macro level issues. After supporting several schools (1<sup>st</sup> phase), respectively the strengthening of supporting institutions on the meso level (2<sup>nd</sup> phase), it was important to:

- systematically feedback experience to the national bodies in charge of EMTP curriculum reform
- support communication of changes to the public through regional secretariats
- advise with regard to adjustments of specific normative aspects e.g. financing vocational-technical secondary schools, or accident insurance during enterprise-based training period.

In order to adapt consultancy services according to the demand FOPROD held very close contact to the regional secretariats and the individual schools during this phase. Compared to the first phase, the purpose of this contact was not to implement successful pilot projects and initiate a shift in paradigm at school level, but to generate experience for policy learning at national level.

## 4 Impact

The bottom-up-approach led to sustainable and broad based impact visible at micro, meso and macro level.

Despite an economic recession occurring in the meantime, the scope of dual vocational education could continually expand. Today, 25 % of the vocational-technical secondary schools across the country, most of which funded and run by communities, offer dual vocational education in many different technical fields. More than 50 % of the enterprises, which offer enterprise-based training are small, and about 30 % are medium sized.

The University of Chile, faculty of economics conducted an impact-study. This study compares the conventional school approach with the dual vocational education approach. The impacts for the dual approach are

- Teaching staff, as well as students/trainees, graduates, in-company training staff and the entrepreneurs recognise an improvement of vocational education;
- The demand for dual vocational education increased;
- The drop-out rates decreased;
- The perspectives for salary and job opportunities of the graduates increased;
- Surprisingly, chances of graduates of dual vocational education to access university increased.

Additional insights: those “dual schools” offering conventional school programs, also improved the quality of these school-based vocational programs due to close enterprise contacts.

In the ministry and its regional secretariats units were established to coordinate expansion of dual vocational education and to ensure quality management. At the end of the German-Chilean cooperation project all multipliers who cooperated with FOPROD joined a non-profit public corporation. This was the legal precondition to bid for the ministry’s call for tenders. Due to this, multipliers still contribute to the expansion of dual vocational education and provide further services to the ongoing reform of EMTP.

During the course of time variations of the original model of dual vocational education emerged. They are legally and normatively regulated as curriculum options of the reformed EMTP. This mechanism guarantees operation, further development and expansion. The capacities developed and the experiences gained are recognized by the respective Chilean institutions and contribute to the overall reform process in Chile. They have influenced orientation and quality of results.

An opinion survey of a representative sample of representatives of the ministry’s regional secretariats, schools/school boards and businesses/business associations shows to what extent the outlined impact can be attributed to German cooperation: *“A large part of the applied program’s*

*success in Chile is due to the adequate and respectful way the German advisors dealt with local conditions.*<sup>2</sup>

Based on our own evaluation the German contribution was vital to trigger a paradigm shift with regard to cooperation between schools and enterprises. Without the German contribution no dual option of EMTP would exist. Thus the development of the institutional structure for dual vocational education at micro and meso level that were set up by the ministry can indirectly be attributed to the German contribution. Furthermore there was a direct impact on the work of these institutions and on the normative framework that regulates dual vocational education in Chile.

## 5 Factors of success for a resounding reform process

Within the Chilean education system decision making power for administering pilot projects and changes are at local level (schools, school boards). The national level has normative power and formulates guidelines and defines the financial framework.

The regional secretariats and provincial authorities are responsible to control adherence to norms and to initiate and foster reforms.

Against this backdrop three central **change agents** were identified:

- The **teaching staff at the vocational-technical secondary schools** – they were crucial for actual changes at the level of the target groups. Heads of the schools and the school boards determined their freedom of action.
- **EMTP management of the MECE** – this was crucial for sustainability and outreach of the innovation. De jure, other powers in the ministry were actually responsible, but the decision making power on resource allocation for the reform program as well as the proximity to political decision paved the way for the MECE program to determine orientation and dynamics during the adjustment phase.

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2 Departamento de Economía de la Universidad de Chile: Análisis de Impacto de la Aplicación de la Propuesta Dual en la Educación Media Técnico Profesional. Resumen Ejecutivo, p. 27. Santiago de Chile, Octubre del 2000.

- **EMTP professional staff of the regional secretariats** – crucial for area expansion and coverage. This staff is the implementing arm of the MECE in the regions. Traditionally, there was no school that de facto would act controversially to the respective regional secretariat – although they had de jure the opportunity to do so.

The relative importance of these above mentioned change agents, varied over time, shifting from micro to meso level and at least to macro level. At local level the so-called dual commissions that had advisors from companies serving in these advisory panels had established a new type of institution. These school bodies developed a dynamic, which was supported by the ministry and increasingly used to introduce changes at meso and macro level.

In the start-up phase the private sector and its associations were rather objects than subjects of development process. With the gradual expansion of the program however individual entrepreneurs became more important as change agents, starting to engage in convincing other enterprises to join the program.

The binational expert team of FOPROD played a key role as catalyst of change. The advisors' approach was at the same time proactive as well as sensitive to the system-compatibility. The Chilean and German advisors were accustomed to both cultures. They thought and reacted in the appropriate way and were professional experts with experiences in the German and Chilean vocational education system. In addition, German advisors were able to give expert advice accessing a large network of German professionals and professional institutions. Institutional partners were, for example, the German Federal Institute for Vocational Education and Training (*Bundesinstitut fuer Berufsbildung, BIBB*), different vocational schools, and enterprise based training centres as well as competence centres. The German advisors tapped their personal networks knotted during their previous jobs in the German vocational education system and its promotion. Furthermore the expert team could draw on contacts from other vocational training experts within the GTZ professional sector-network (*Fachverbund*). The Chilean advisors had access to contacts from institutional and political networks in their country. Very quickly the jobs were divided in a non-explicit manner. It was done in such a way that German advisors brought forth suggestions and supported ideas, which sometimes did not follow the current mainstream whereas the Chilean

advisors also had to work, if necessary, as mediators between different cultures and positions. Without the secondment of long-term experts there would not have been such a successful paradigm shift in cooperation between public education and the business sector. These experts showed that they were flexible, adaptable and, at the same time, they guaranteed orientation and continuity.

German and Chilean experts cooperated “eye to eye”. They considered individual expertise, thereby generating *mutual* learning experience. This was vital for the ability to influence policy. At local level it was important to be actively involved. At macro level the most important momentum was the provision of solid international, especially German, professional expertise. Conducting study tours, contribution to professional conferences and drafting policy papers was important, but not crucial. The main factor of success for sector-political advice was the concrete and result oriented implementation that produced tangible and presentable results at all levels.

The decision makers on the Chilean side requested support by applying the principle “don’t talk, show”. Success stories and experience at micro level were the fundament for advises at national level. The advisors to the policy process were accepted due to their proven experience “on the ground”. Without successful pilot projects, this new type of cooperation among schools and enterprises would probably not have had a future – at least not to this extent – and would not have been fed into the national reform process. In addition, it is noted that

- the original model of dual vocational education changed extensively based on this experience.<sup>3</sup> Establishing a normative base without a trial run would have resulted in a less practical model

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3 The following examples illustrate some of these fundamental changes: (a) the roles between education and enterprises were reversed: originally enterprises and their associations were thought to be the engine of the reform. Quickly it turned out to be evident that the main load needed to be placed at the local level in the schools, and at regional and national level within the Ministry of Education. (b) Originally the division of time spent at each place of learning – enterprise and school – was to follow the original German model (company: school = 4 : 1). However it proved to be more practical to implement a ratio from 2 : 3 to 2.5 : 2.5. (c) Initially it was not intended to introduce tutors for the enterprise-based training. This was a specific and important prerequisite for the Chilean system in order to gain the necessary acceptance from teaching staff and to make sure that the minimum standards for practical training were adhered to.

- only with the help of working in pilot projects to develop specific models and to multiply them throughout the country it was actually possible to build up the necessary personnel and institutional capacities.

Donor coordination was not to the fore. The Chilean partners showed strong *ownership*. They insisted to decide on the support in the reform process received from different cooperation partners. Decisions were made based on Chilean perception of strengths and comparative advantages of potential cooperation partners. The German-Chilean cooperation project was perceived by Chilean partners as one integral element of a broader process of reforms whose overall direction was determined by Chile. The cooperation was aligned with the overall goals of the “umbrella program” MECE. As a result, successful examples and know-how acquired within the German-Chilean cooperation influenced other educational reforms, too and thus helped to achieve a sustainable and broad-based impact. Coordination between the GTZ, charged by the BMZ to implement the German contribution, and other donors or implementing agencies was limited to operational project implementation within a framework that was defined under the auspices of the Chilean partners.

Lead management of the reform process was with MECE – that was set up parallel to the established ministerial structure and benefited from a high degree of autonomy. This was a major success factor. Likewise, the institutional set-up of the German-Chilean cooperation proved to be appropriate. On the one side, FOPROD was established as an extensive operative autonomy, steered by an advisory board. On the other side, FOPROD was not designed to perpetuate its existence. On the contrary, the goal of FOPROD was to make itself redundant by strengthening and adding to the established institutions to take over the necessary functions and responsibilities as quickly as possible.

Less productive was the triangular constellation – “Ministry of Education and Culture”, “Ministry of Labour and Social Affairs” and GTZ. The desired strong cooperation of both ministries was unfortunately faced with opposing interests. There was high friction loss and little gain. In such a context technical cooperation cannot offer any solution. After 17 years of dictatorship and just winning back democracy, protracted political negotiations seemed to be unavoidable.

Where action rather than words counts, time is factor of vital importance. The impact of the introduced paradigm shift needs to be attributed and visible. A period of time of more or less ten years for an education reform designed as a bottom-up approach to achieve broad-based impact is needed. A top-down approach seems to be more efficient at first glance, because it is easier to implement. However, international experience clearly shows that top-down changes especially within the educational field have often no or only provide little impact. Resistance at the supervisory, and especially at the school level, had the effect that intended changes did not reach the classrooms e.g. did not penetrate the vocational training site. Weakness within the model, which in principle can be revised while experimenting in pilot programs, usually lead to more resistance when top down reforms are ordered and teachers perceive themselves more as objects than as subjects. In this case potential for creative adjustments and changes have been spoiled. .

Reforms that are decreed from above may initially be highly dynamic, but their impact often gets stuck between different levels. The phase modes used in Chile represent an appropriate compromise. Within three years time at pilot school level within the formal education system a model for dual vocational education was developed in a participatory manner. It was tested and adjusted, first experiences derived and (mid-term) results produced. Systematic replication and nation wide expansion took other four years. The experience gained from this context could then be incorporated into a socio-political decision making process.

Two more years were necessary to involve all relevant players appropriately into this socio-political process. It was important to address students/trainees and parents, teachers, heads of schools and school boards, representatives of the sector organisations and research institutions as well as entrepreneurs, in-company training staff and business associations.

***Knowledge Management*** has turned out to be an important factor for the modelling of dual vocational education in Chile, as well as for its successful replication and normative regulation. The experiences were continually updated, made available and applied.

- At first, a model was described as well as information and training materials were developed for management and senior staff of such schools identified to replicate the model immediately after piloting.

- Then, by offering marketing and training material for EMTP-appointees of the regional secretariats of the ministry and “multipliers”, senior staff who had already participated in training and/or successfully implemented dual vocational education at their schools.
- Finally, information material for advising national fora and training materials for further education of teachers in selected aspects of vocational education.

During the training for teaching and management staff of selected vocational schools the project-method was applied. At the end of the training there was at least one start up of a dual vocational education program at each participating school.

The materials for training of multipliers included five modules with eight units each:

For professionals from the regional secretariats and the provincial directorates as well as management of schools and school boards:

- (1) Introducing dual vocational education for decision makers
- (2) Introducing dual vocational education for teaching staff (relevant for all teachers of participating vocational-technical schools)

Relevant for teachers at selected vocational-technical schools, which were assigned to run the model program:

- (3) Needs assessment (local labour market, functional analysis)
- (4) Curriculum (adjustments of content and methods according to demand)
- (5) Cooperation with enterprises (acquisition of enterprise-based training place, training of in-company training staff, supervising enterprise-based training, testing and certification).

Knowledge management based on training materials has proven to be highly efficient and effective. Users were forced to concentrate on the main objectives. It facilitated the integration of on-going adjustments and experiences. Selected components were used for further training of the expert and management staff – even of schools, which only offered school, based vocational education program. Additionally, those who were trained as multipliers provided input to aspects of the overall reform.



# The pilot programme to conserve the Brazilian rainforests

Imme Scholz / Regine Schönenberg<sup>1</sup>

## 1 Introduction: Public policy making in Brazil

Forest protection and natural resource management are a priority in international and German cooperation with Brazil due to the extent and the rich biodiversity of its rainforests which make their preservation an issue of global relevance. In order to support Brazilian efforts in this policy area, the Pilot Programme to Conserve the Brazilian Rainforests (PPG7) was created in the early 1990s. Now, more than a decade afterwards, it is possible to take stock of its results in terms of influencing public policies on the basis of a series of evaluation studies carried out in 2004.<sup>2</sup>

Public policies for natural resource management have been positively influenced through the PPG7, when

- project activities were closely connected with ongoing political processes pressing for public policy reform;
- project activities involved the majority of relevant stakeholders;
- project activities introduced adequate instruments, practical experiences and technical know-how to support innovative solutions;
- project duration was adapted to the timing of policy reform in Brazil and managed to use windows of opportunities.

Before describing the programme (section 2), its results (section 3) and the process leading to these results (section 4) in detail, some remarks about the role of social capital and the system of exchanging political favours in Brazil are necessary.

In Brazil, politics are still very much characterized by clientelist relationships between elected representatives in congress and senate and their

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1 The editor would like to thank Harald Lossack, GTZ, for a critical review of the first draft of this article.

2 For a summary, see Schönenberg / Scholz (2005).

electorate. Clientelism presupposes that elected representatives deliver benefits for their social basis; in order to be able to do this, they have to participate in networks set up for organization of voting behaviour and thus for the exchange of political favours. The participation in these exchange networks and the establishment of close ties to the clientele which secure re-election form the social capital necessary for every Brazilian politician. This means that in Brazil, parliamentary votes cannot necessarily be explained by party politics. In particular when the matter to be voted is low on the political agenda of the politician in question, he will be likely to trade his vote in exchange of positive votes for issues which matter more to him and his clientele. These exchange relations articulate clientelist groups and networks throughout the whole country; they may have either a temporary or permanent existence.

Anyone trying to influence public policies in Brazil will have to deal with these exchange networks of political favours which reach far into any public administration. This requires analyzing the existing options for influencing political decisions by parliamentarians considering the formal and informal obligations they have assumed in relation to their clientele.

In addition to this important mechanism of Brazilian politics, good governance (defined in terms of transparency, accountability, development orientation and participation) meets another barrier which is the traditional system of impunity or disregard for the rule of law which characterizes especially rural areas of the country. In the Amazon, since the 1960s hundreds of leaders and common members from peasants' unions have been murdered by order of large landholders, and in most cases legal prosecution has either not taken place at all or did not lead to any result. Since more than a decade, the peasants' unions started to connect their struggle for land with political demands for the demarcation of protected areas in order to create obstacles for the advance of large farms and deforestation. This situation of violence and impunity makes it very difficult to introduce multi-stakeholder processes of negotiation and cooperation because they entail high risks for the potential victims of violence while the victimizers see no reason why they should get involved in such processes as long as they enjoy protection by their political allies.

Despite the described difficulties, sustainable and efficient public policies for the Brazilian Amazon need to be based on broad consultations with all

parties involved in the problems to be solved. This means that it is not enough to create counter-networks of social movements, trade unions, scientists and environmentalists in order to combat traditional economic and political interest groups in the Amazon. In fact, these counter-networks have to learn to use their power in order to negotiate with those parts of the traditional forces which are likely to have an interest in reforms and change. At the same time, the state has to make considerable efforts in order to enhance the judiciary and to enforce the rule of law.

## **2 The PPG7 and its sub-programmes: aims, partners, instruments and intervention levels**

The PPG7 was created as a joint initiative between the G7 and the Brazilian government in order to contain the destruction of the Brazilian tropical forests, both in the Amazon basin – the largest contiguous tropical rainforest area remaining on Earth – and at the Atlantic coast. The idea for such a multilateral programme was first mentioned by Helmut Kohl, the German chancellor, at a G7 meeting in 1990. The other G7 governments supported the idea and approached the Brazilian government for consultations. In 1994, the PPG7 was officially started. Considering the time of its inception, it is clear that this programme was heavily influenced by the growing concern on global environmental threats closely related to deforestation, mainly climate change and biodiversity losses, as reflected in the United Nations Conference on Environment and Development (UNCED) held in Rio de Janeiro in 1992. Besides, the threat posed by tropical deforestation to the survival of indigenous populations has been a further motive behind donor engagement.

Germany is by far the largest donor of the PPG7, and it has made considerable technical and financial contributions to all five components mentioned below. Other contributions came from the European Commission, the United Kingdom, France, Japan, and the Netherlands. The World Bank participated in the programme as a coordinator and as manager of the Rainforest Trust Fund, on behalf of the donors.

In order to characterize the PPG7, we can state:

- First, the PPG7 can be seen as a precursor of sector-wide, multilateral approaches to development cooperation. It failed to develop its potential to serve as a learning arena for these approaches, though,

due to the complexity of its activities and the difficulty in drawing general conclusions from this “Brazilian experience”.

- Second, the PPG7 has been created as a multilevel programme from its very beginning.
- Third, the PPG7 had a strong environmental bias and suffered from the lack of horizontal integration with other policy areas, mainly agriculture, transport, energy, and their correspondent stakeholders.

The aims of the PPG7 are (i) to show the viability of harmonizing economic development and environmental protection in tropical forest areas, (ii) to contribute to biodiversity protection, (iii) to reduce carbondioxide emissions from the Amazon region and (iv) to provide an example for cooperation between developed and developing countries in the area of global environmental policy. For this purpose, a complex structure of sub-programmes and projects was set up in order to tackle various causes of deforestation and resource depletion and to strengthen a broad range of institutions and organizations involved.<sup>1</sup> From these sub-programmes, the following will be discussed in this article:

- Promotion of sustainable use of forest resources (Promanejo),
- Promotion of sustainable use of wetland resources (ProVárzea),
- Demonstration projects on sustainable resource use, habitat protection and restoration of degraded lands, executed by small farmer associations and NGOs (PDA),
- Demarcation of Indigenous lands (PPTAL),
- Strengthening of environmental authorities and environmental policy-making in the Amazon federal states (NRPP).

In a sense, due to its many participants and its multifaceted approach to the sustainable use and protection of the Amazon, the PPG7 could be seen as a precursor of sector-wide, multilateral approaches to development cooperation. Both the Brazilian side and donors, however, did not invest enough attention, time and constant reflection adequate to the high degree of coordination and cooperation necessary for the implementation of such an innovative approach.

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1 For an overview of the PPG7 as a whole, see [www.worldbank.org/rfpp](http://www.worldbank.org/rfpp).

<b>Table 1: Partners, instruments and levels of intervention of selected PPG7 sub-programmes*</b>					
<b>Sub-programme</b>	<b>Main partners</b>	<b>Other partners</b>	<b>International partners</b>	<b>Instruments</b>	<b>Levels of intervention</b>
Forest management (Promanejo)	Federal Environmental Institute (IBAMA), MMA	Sawmills, forestry research and training NGOs, local forest communities	KfW, GTZ, DFID, World Bank	Policy studies; workshops; grants for innovative enterprises; advice, training and small grants for forest communities	Federal administration; private sector; local forest communities
Wetland management (ProVárzea)	Federal Environmental Institute (IBAMA), MMA	NGOs, wetland communities, local and state authorities	KfW, GTZ, DFID, World Bank	Studies; workshops; grants for innovative community projects	Federal and local public administration; local communities
Demonstration projects (PDA)	MMA	Rede Mata Atlântica, GTA,** Banco do Brasil	KfW, GTZ, World Bank	Grants for innovative productive projects; technical advice; workshops	Local level (projects); regional level (CSO umbrella organisations)
Indigenous lands (PPTAL)	Federal indigenous authority (FUNAI)	Umbrella organisations of indigenous peoples	KfW, GTZ, World Bank, UNDP	Grants for FUNAI demarcation and registration work; training and advice for local communities	Federal level, local level
Environmental institution building (NRPP)	State environmental authorities, MMA	Other ministries on state level, public prosecution authorities, local environmental authority, police, CSOs	KfW, GTZ, DFID, World Bank	Grants for state environmental authorities and their partners; technical advice; training; workshops	State and local level
<p>* This table refers only to the sub-programmes discussed in this article and not all sub-programmes belonging to the PPG7.</p> <p>** Umbrella organisation of civil society organisations in the Amazon (GTA) and the Atlantic Forest (Rede).</p>					

On the Brazilian side, the number of participating organisations goes into the hundreds and reveals a strong focus on the federal public administration: On federal level, main partners for the PPG7 were the Ministry of the Environment MMA (*Ministerio de Medio Ambiente*), and the federal environmental authority IBAMA (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*) with some of its regional offices in the Amazon region, and the federal foundation in charge of executing the indigenist policy FUNAI (*Fundação Nacional do Índio*). In the Amazon federal states, the PPG7 cooperated with environmental ministries on state and municipal level, with the judiciary and with a broad range of agencies and other organizations related to land-use planning and natural resource use. NGOs and social movements participated in the PPG7 especially through the demonstration projects; a special umbrella organization was created in the Amazon under the auspices of the PPG7, the so-called GTA (*Grupo the Trabalho Amazônico*). In the Atlantic Coast region, an NGO umbrella organization, the Rede Mata Atlântica, already existed. The Amazonian indigenous peoples' network, COIAB (*Coordenação das Organizações Indígenas da Amazônia Brasileira*), is an important partner for the demarcation sub-programme.

Coordination and cooperation on the Brazilian side were hampered by ongoing controversies on the desirable degree of decentralization for environmental policy and management on the one hand, and on the objectives of development strategies for the Amazon region. Another difficulty was posed by the very little experience in cooperation between public actors and civil society organisations. On the donors' side, cooperation and coordination were hampered by differing objectives and institutional cultures as well as by the lack of experiences with cooperation within a complex programme structure. Power struggles, changing alliances within both sides and between various actors and administrative levels on the Brazilian side and donors as well as struggles for maintaining autonomy were the consequence.

The distribution of partners is strongly related to intervention levels and it reflects the fragmentation of the Brazilian public administration: federal, state and local administration in many cases exist as parallel structures which makes coordination and cooperation difficult. Most sub-programmes were active on the federal and the local level. Only one sub-programme focussed explicitly on the level of the Amazon federal states.

Civil society organisations were the main target group of one sub-programme, the demonstration projects *PDA (Programa de Desenvolvimento de Área)*, while cooperation with these important actors was weak or non-existent in other sub-programmes. The private sector was a partner in just the forest management sub-programme *Promanejo (Projeto Apoio ao Manejo Florestal na Amazônia)*, and to a lesser degree in the wetlands resources management programme *ProVárzea (Projeto Manejo de Recursos Naturais da Várzea)*.

Regarding intervention levels and instruments, the forest and wetlands management programmes *Promanejo* and *ProVárzea* used the classic approach of supporting innovative projects on local or micro-level, evaluating these experiences and eventually translating them into public policy proposals on federal level in order to ensure a sustainable and broad impact. The federal environmental authority *IBAMA* was a good partner for such an approach, as it guaranteed both access to local communities and enterprises, on the one hand, and to federal politics through its headquarters in Brasília and the *MMA*, on the other hand. These sub-programmes relied thus on a diversity of instruments, ranging from practical activities on the grassroots level to studies and workshops in the service of high-level policy consultancy. In both cases, however, positive results depended to a high degree on the exceptional commitment and ability of the Brazilian programme coordinators (see below for more details). In contrast to these *IBAMA* sub-programmes, the demonstration projects sub-programme (*PDA*) relied heavily on micro-projects without establishing from the start the political or institutional channels through which policy changes could be stimulated once the proposals for reform were formulated. As the *PDA* dealt mainly with peasant issues, policy reform proposals would have to be channelled in the end by the Ministry of Agriculture and not of the Environment. But when the *PDA* was conceived, it was hardly possible to find agrarian policymakers with an open mind for Amazon smallholders and sustainability issues. The objective of the sub-programme for the demarcation of Indigenous lands *PPTAL (Projeto Integrado de Proteção às Populações e Terras Indígenas da Amazônia Legal)* was to support the demarcation and registration of indigenous lands as guaranteed in the constitution. Thus, it contributed to the implementation and not the creation of a specific public policy. The *PPTAL* had to operate through the correspondent federal authority. Its main tasks were to outplay the internal slowness and corruption in this body and the interest

groups which were against this constitutional guarantee, and to gain the confidence of the indigenous peoples' organisations for demarcation. Adopting a firm but subtle low-profile approach focussing on technical (and not political) issues proved to be the best way to accomplish these tasks. Finally, the NRPP (Natural Resource Protection Programme), the sub-programme supposed to strengthen environmental policy and management capacities in the states and municipalities of the Amazon region. This sub-programme had the most complex structure of all, as it had to adapt to the specific political and institutional setting in each of the nine Amazon states. Many players influenced the sub-programme's agenda in each state, as donors had required the involvement of all public authorities relevant for natural resource management and environmental policy issues in each state. This meant that, although coordination was in the hand of the state environmental authority, at least the ministries of agriculture and health, the police, the prosecutor, the land-use planning authority, and representatives from municipalities participated in the planning and implementation of activities. The NRPP met three difficulties: First, in most states, the environmental administration had only recently been created and had to start from scratch. Everything, from basic environmental education to scientific studies for land-use planning seemed to be of utmost importance and urgency. Second, most of the organisations suffered from an incredible lack of financial and human resources. It is easy to imagine how difficult it was to establish coherent and viable plans of activity and to distribute financial resources accordingly. Third, institutional strengthening of state environmental authorities entails a new division of labour (and income) between state and federal bodies (IBAMA), and between state and municipal bodies; both created political obstacles for sub-programme activities.

The ambitious aims of the PPG7 had to be achieved, as has become clear, in a rather complex institutional setting. In addition to that, its capacity to stimulate policy reforms obviously depended also on the openness of the politicians in power for its aims and proposals. Moreover, Amazon politics are traditionally influenced by the fear of important Brazilian institutions (e.g. the military and security services, and parts of the political and scientific community, let alone the general public) that foreign powers might try to put the Amazon region under international custody in order to appropriate its (unknown) wealth (Kolk 1998). This fear is a constant subject of conferences, newspaper articles and internet debates in Brazil, and it

forces both international cooperation and its Brazilian partners to be careful and keep a low profile. Thus, the chances for donors to change the perspective of Brazilian policymakers on Amazon issues through international policy dialogue and other means are quite limited.

It is from this background that the qualification of Brazilian organisations and individuals in environmental issues and in techniques for multistakeholder processes of negotiation and cooperation as well as the establishment of networks gain importance. As donors cannot control (or even influence) the political parameters responsible for policy reform, they can only invest into the creation of alternative knowledge (sustainable resource use options) and social capital in order to increase the opportunities for sound policy reform when conditions are favourable. Since rotation between governmental and non-governmental bodies is quite frequent in Brazil, such alternative knowledge and experiences often gain voice in official decision-making processes. Social capital here means a critical mass of persons who at least partially share a common vision on the problems and possible solutions for natural resource management and sustainable development in the Amazon, based on common practical experiences with negotiation and cooperation processes.

### **3 Deforestation in the Brazilian Amazon**

Since the 1980s, national and international public attention has strongly focussed on the linkages between development-oriented public policies and the behaviour of economic agents in the Amazon, in order to identify the main causes of deforestation. This is due to the fact that since the 1960s, the economic development of Brazil has been based on strategies defined and financed by a strong state apparatus. It was therefore not surprising that research concluded that, between the 1960s and the 1980s, deforestation in the Brazilian Amazon has been largely the result of public interventions, such as fiscal incentives for the creation of large cattle ranches and investments in dams, roads and railroads. In the 1970s and 1980s the new infrastructure opened up formerly closed areas of lowland forests, facilitated planned colonisation and stimulated spontaneous migration towards the region (Mahar 1988; Moran 1988; Browder 1988). The result was a dramatic increase in both urban and rural population, and the disappearance of 10 per cent of the original forest cover by the end of the

1980s. Since the 1990s, however, with basic infrastructure installed, cattle-ranching turned profitable due to innovations and soy farms spreading from Central Brazil into the Amazon region, deforestation is based on economic dynamics which occur independently from public investments (Margulis 2004). According to last estimates from INPE, the Brazilian research agency in charge of measuring deforestation, in 2004 18 per cent of the original forest cover had disappeared.<sup>2</sup>

In theory, legal prescriptions exist which were thought to tie economic decisions to environmental considerations. The authorities in charge of implementing environmental legislation, however, are not strong enough to make sure that existing laws were respected. The forest law from 1965 prescribes that all landowners have to apply for deforestation permits with the environmental authorities, if they want to convert forest into agricultural land. In reality, this happens only in exceptional cases, so that deforestation can be considered as illegal in almost all cases. Since 1988, large infrastructure investment projects, be they private or public in origin, have to go through an environmental licensing process which includes an Environmental Impact Assessment (EIA) study. In case indigenous lands could be affected by the project, congress has to give permission to the EIA study be carried out (Scholz et al. 2004).

The overall goal of the PPG7, to contain deforestation, therefore has to be considered as extremely ambitious. Even more so if we consider that there are no historical precedents for stopping deforestation without achieving relatively high socio-economic welfare standards first, through structural change associated with economic growth and industrialization (increasing urbanization, decreasing rural population pressure, increasing urban wages, growing agricultural productivity). Comparative historical analyses of industrialized and developing countries in which deforestation has been followed by stabilization of or even increases in existing forest areas indicate that this process has been marked by different root causes and courses and occurred over very long periods of time.<sup>3</sup> In Europe and North America this process of structural change has, since the 19<sup>th</sup> century, made farm-

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2 Own calculations based on [http://www.obt.inpe.br/prodes/prodes\\_1988\\_2003.htm](http://www.obt.inpe.br/prodes/prodes_1988_2003.htm) (March 1<sup>st</sup>, 2005). See also Scholz (2002).

3 See Rudel (1998) for a macroeconomic analysis and Mather (2001) for an outline of current trends in industrialized countries.

ing on marginal soils unprofitable and served to boost reforestation. The transitional processes observed since 1960 have been caused by other forces: on the one hand, afforestation of arid areas (Israel, Mali, South Africa) and on the other by afforestation efforts undertaken by small farmers and public-sector institutions in densely populated areas and geared to soil and water conservation, particularly in countries not affected by processes of structural change tending in the direction of industrialization and urbanization (e.g. in Burundi). In China the devastating effects of deforestation (erosion, flooding) induced the authorities to embark on a course of afforestation and to impose a logging ban for natural forests.

In tropical countries economic growth tends to have different impacts. Deforestation rates are highest in middle-income countries, while they tend to be lower in both poor and more prosperous tropical countries:

*“Increases in economic activity in economically stagnant places stimulates deforestation because people now have the capital to exploit timber resources. Further increases in the volume of economic activity change its composition, leading to industrialization and urbanization, which in turn may account for the reduced human pressures on forests”* (Rudel 1998, 547).

The primary effects of increasing economic activity, albeit without leading to structural changes in the economy, could be clearly observed in the Brazilian Amazon: Annual deforestation rose sharply after the currency reform in 1994 which brought fresh capital into the region but only to strengthen traditional, resource-intensive activities such as farming and timber cutting. Therefore, poverty alone cannot be regarded as the driving force behind deforestation or forest degradation. An additional factor is that poor population groups in remote forest areas of the Amazon generally do not have access to public services and are instead forced to rely on the support provided by local potentates, mainly logging companies.

From this background, it is clear that the reduction of the deforestation rate cannot be considered to be the main indicator for success or failure of the PPG7. The MMA cannot be made responsible for deforestation. Success should therefore be measured in other terms, e.g. increasing compliance with environmental laws, or growing consideration of environmental concerns in development planning, e.g. through the establishment of effective inter-ministerial committees. In November 2003, an inter-ministerial committee published a document with emergency measures against illegal

deforestation in the Amazon, as a reaction to the increase of deforestation rates (Anonymous 2003). In 2004, the ministries of regional integration and of the environment jointly wrote the *Plano Amazônia Sustentável* (PAS – Plan for a Sustainable Amazon) in order to strengthen the weight of environmental and social considerations in the federal multi-annual development plan (PPA 2004–2007) (MI 2004). The problem analysis behind these emergency measures and their focus areas are strongly influenced by the dialogue and negotiation process organised in 2002, when planning started for the second phase of the PPG7. Both PAS and emergency measures can therefore be considered important steps for transferring pilot experiences and policy proposals generated within the PPG7 into official policy documents and public policies.

#### 4 PPG7 results: new public policies

In 2004, the project responsible for monitoring and evaluating the PPG7's AMA progress (*Apoio ao Monitoramento e Análise*) commissioned several studies in order to identify the impacts of PPG7 sub-programmes in terms of reforming or innovating public policies and in order to analyze how these results had been achieved.<sup>4</sup> The question addressed was whether results achieved on local or micro-level had been able to influence new laws or publicly funded programmes and not whether these laws or programmes as such had been effective, as in all cases it was too early to analyse their impact. Five sub-programmes were focussed on: Promanejo (sustainable forest management), ProVárzea (sustainable wetland management), PDA (demonstration projects), PPTAL (demarcation of Indigenous lands) and NRPP (strengthening of environmental policy and management capacities in the Amazon states and municipalities). The most important results identified in the studies are summarized below.

Promanejo (forest management) has achieved several cases of public policy innovation. The most important ones are related to participatory management of conservation units and the promotion of low-impact logging.

- i The Brazilian law prescribes that the management of conservation units should take place with the active participation of the local com-

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4 These studies form the basis of this article.

munities; Promanejo facilitated the introduction of formalized co-management in the National Forest (Flona-Floresta Nacional) of Tapajós. This went along with a strategy to turn the Flona into a multiple-use conservation unit, where some sub-areas are foreseen for low-impact production systems and others are to be left undisturbed. This strategy helped to secure support from local communities and showed IBAMA that conservation could be achieved in cooperation with local communities.<sup>5</sup> This practical experience helped to integrate the option of community co-management in the new law on the management of public forests in the Amazon (§ 7), which was presented to the public in March 2005.<sup>6</sup> In the same Flona, Promanejo facilitated the first legal authorization for community forest management – a concept quite unknown in the Brazilian Amazon – ever issued in the Amazon.<sup>7</sup> Classical instruments of technical cooperation were used for supporting local communities' activities in the Flona: training and other support measures for strengthening the capacities of local community associations, peasant unions and NGOs active in the Flona in order to enhance their participation in co-management. At the same time, the sub-programme coordinator reported the experiences made with co-management to IBAMA headquarters as one of the most important results of the whole sub-programme. IBAMA also profited from the Flona activities as its personnel received training in best-practices for co-management. The successful dissemination of this experience in Brasília and its integration into the law were strongly connected to the fact that the Brazilian coordinator of Promanejo and several of his partners from independent forestry research and training organisations were appointed to influential positions in IBAMA and the MMA when Luiz Inácio Lula da Silva became president in 2003. They continued their successful cooperation within the context of the

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5 While this concept has been introduced in Asian and African natural parks rather early, many Brazilian conservationists still believe that local communities cannot be relied on as allies for habitat protection and management.

6 See Governo Federal (2005).

7 Local communities in the Flona had already organized themselves before in order to protest against the authoritarian behaviour of IBAMA. The corresponding legal documents issued by IBAMA are Portaria N° 82 (June 29, 2001), which establishes the management council of the Flona Tapajós, and Portaria N° 40 (August 22, 2004) which authorizes community forest management in the same Flona.

new administration and used their opportunities for stimulating policy reform.

- ii. The promotion of low-impact logging gained new impetus in the Brazilian Amazon when voluntary certification of forest management according to FSC standards became an issue for Brazilian environmental and social organisations and pioneers from the private sector.<sup>8</sup> Promanejo gave substantial support to their activities through its grants programme for promising innovative initiatives in forest management. Training measures for forest workers were an important area of activity. In this way, the economic advantages of investing into a trained labour force were spread among forest enterprises, and the work of training organisations could consolidate. Eventually, Promanejo was asked to support the creation of an independent, privately financed training centre in the Amazon, but IBAMA succeeded in appropriating this idea and establishing the new national training centre *Centro Nacional de Apoio ao Manejo Florestal* (CENAFLOR)<sup>9</sup> in its Brasília headquarters. It is likely that its impact will be much weaker than if it had been set up in the Amazon region as originally planned.

ProVárzea's (wetlands management) most visible result was the legalization of the fishing agreements, a previously informal instrument introduced in the Amazon wetlands for regulating fishing quotas within local fishing communities.<sup>10</sup> These agreements are now officially endorsed by the federal environmental authority IBAMA. The concept of local fishing agreements had been developed and successfully experienced in a typical project of technical cooperation on the micro-level, the projeto Iara, on the

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8 The FSC (Forest Stewardship Council) is an international coalition of environmental, social and private-sector organisations for the promotion of sustainable forest management through voluntary certification. See <http://www.fsc.org> for more details.

9 The training centre was the demand of NGOs and timber companies engaged in environmental certification of forest operations according to FSC standards. The legal basis for CENAFLOR is set by IBAMA in the Portaria No 56 (October 7, 2003).

10 The legal basis for local fishing agreements was established by Instrução Normativa No 029 (December 31, 2002), issued by IBAMA, which specifies how they should be set up. Most recently, the environmental authority of the government of Amazonas state also started to endorse these agreements, representing another type of public policy innovation: cooperation between federal and state authorities, a rare case in the Amazon. (Santos 2004, 13).

basis of training measures for local fishers and IBAMA staff involved in the project. Once the viability of the concept was clear, the ProVárzea sub-programme was conceived within the PPG7, in order to increase its visibility within IBAMA and give it a chance to turn the lessons learned into a new approach to wetland resources management, using high-level policy consultancy instruments and financing the local introduction of these agreements elsewhere in the Amazon. The coordinator of ProVárzea was the same person that had coordinated the Projeto Iara (Instituto Amazônico de Manejo Sustentável dos Recursos Ambientais) and who had received intensive training in communicative skills. This investment in training and continuity has been seminal for ProVárzea's success.

PDA (demonstration projects) stimulated innovative processes at the interface between rural production and environmental protection, first, and on the level of civil society organisations (CSOs), second. Between 1995 and 2004, PDA financed 188 demonstrative projects in four areas: (a) environmental conservation, (b) forest management, (c) wetland management, and (d) agro-forestry and ecosystem rehabilitation. The projects were elaborated and carried out by smallholder associations and NGOs. PDA also supported the work of regional umbrella organisations for CSOs (see footnote 3), which constituted a major political innovation in the Amazon context. The PDA has thus been able to contribute in three ways to the formulation and implementation of new public policies: (i) promoting alternative environmental management methods which could serve as an example for changes in production methods in agriculture, forestry and stock-breeding, (ii) creating new spaces for civil society participation in the elaboration of new environmental policies, and (iii) giving financial, technical and administrative support to the elaboration of new public policies in environment and agriculture (Little 2004, 8).<sup>11</sup>

The PDA sub-programme made its most important contribution in terms of public policy innovation by creating the technical basis for a new "green" public loan programme for smallholder agriculture which compensates for the extra-cost of environmental services, the so-called Proambiente. Proambiente is now in its pilot phase and subsidizes

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11 PDA produced three publications which present the evaluation of the projects funded. See PDA (2001 and 2004a, 2004b).

- the substitution of fire for land preparation in fallow systems by other farming techniques,
- the reintegration of degraded agricultural land into productive area,
- the introduction of agroforest production systems,
- community forest management, including timber and non-timber forest products,
- artisanal fishery,
- Indigenous land-use systems and
- the introduction of techniques for the further processing of small-holder farm products.<sup>12</sup>

Financing of Proambiente is foreseen in the pluri-annual investment programme of the federal government for the years 2004/2007; in its pilot phase it is managed by the Ministry of the Environment. Later on, it is supposed to be integrated in the general credit programme for smallholders administered by BASA, the federal development bank for the Amazon region.

PPTAL, the project designed to support the implementation of the Indigenous policy established in the Brazilian constitution of 1988, achieved the following results:

- it substantially increased the absolute number of and area covered by Indigenous lands,<sup>13</sup>
- it reviewed the procedures for identifying and delimiting indigenous lands,
- it successfully promoted the participation of the Indigenous peoples in the demarcation process (Schröder 2004, 17).

The NRPP, the sub-programme designed to strengthen environmental policy and management capacities on state and municipal level, had very mixed results. In some states, it contributed considerably to the incorporation of environmental aspects in economic development planning. In Mato Grosso, it succeeded in introducing a very efficient procedure for issuing

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12 See [www.gta.org.br/projetos\\_exibir.php?projeto=4](http://www.gta.org.br/projetos_exibir.php?projeto=4) for further details.

13 In June 2004, there were 52 indigenous lands whose regularization was fully accomplished; 49 indigenous areas were in the process of identification, 16 were already identified, 15 were in the process of demarcation, and 18 were recognized by law. See [www.funai.gov.br/pptal/situacaofundiaria.htm](http://www.funai.gov.br/pptal/situacaofundiaria.htm).

deforestation permits on large landholdings, thus considerably increasing public control of deforestation. The sustainability of these changes in public policy, however, is constantly menaced by changes in government. In the state of Acre, the potential of the NRPP has been widely used since the Partido dos Trabalhadores took over government in 2000, mainly for the elaboration of a state-wide land-use plan which included the demarcation of conservation units as well as environmental guidelines for economic infrastructure development. With these results in hand, the Acre government succeeded in obtaining a US \$ 300 million loan from the Inter-American Development Bank. The development strategy of Acre government is based both on natural resource management and protection and on a bottom-up strategy supposed to strengthen endogenous potentials of local communities. By contrast, most other Amazon states base their development strategies on large infrastructure investment and support for large farming projects. In Pará, the NRPP's major achievement is the strengthening of the environmental branch of the public prosecution authorities. The environmental authority of Pará state built up a laboratory for the analysis of satellite images, to be used for controlling deforestation and forest fires and for land-use planning.<sup>14</sup> For achieving these results, a mix of instruments was used: in many states, considerable sums were invested in hardware for the analysis and processing of satellite images in order to control deforestation, as well as in training measures and consultancies in order to enable the environmental administration to elaborate, introduce and manage new procedures for environmental planning and control. Technical cooperation invested in technical advice on participatory land-use planning and on methods for project planning, implementation, monitoring and evaluation in a multi-stakeholder setting (in most states, project activities had to be planned and consulted with at least 20 different institutional actors who had no previous experience with nor clear legal basis for this kind of inter-institutional cooperation).

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14 A strategy for land-use planning was elaborated in 2000; the first official meeting between the state government and the municipalities on the draft land-use plan happened five years later, in May 2005.

### **The Plano Amazônia Sustentável (PAS) (MI 2004)**

The PAS has several origins, its most important being the agreement between the Brazilian president, Luiz Inácio Lula da Silva, and the Amazon state governors to develop such a plan for the improvement of policy coordination between the Union and the States. Previously, the MMA had written a document in order to strengthen the weight of environmental considerations in strategic development planning as it is expressed in multi-annual planning (PPA 2004-2007) (MMA 2003). The President commissioned the Ministry of Integration (MI) and the MMA to elaborate a Plan for a Sustainable Amazon, to organize public consultations in the Amazon states and on federal level for this purpose, and to consider five thematic areas: (i) sustainable production with advanced technologies, (ii) new financial instruments, (iii) environmental management and land-use planning, (iv) social integration and citizenship, and (v) infrastructure for development.

The final document does not contain specific objectives, time-tables and budgets, but reflections on errors of past development planning and on parameters for future planning. Its main proposal is to engage in processes of negotiation and cooperation among the different layers of government as well as between public and private actors (civil society organisations and the private sector). In addition, it proposes several policy measures, among which are the strengthening of rule of law and public social services, clarification of land titles, investment in processing of forest and agricultural commodities, urban poverty alleviation, and the consolidation of instruments for the payment of environmental services provided by peasants. The document makes explicit reference to the *“innovative experiences in the areas of monitoring, prevention, licensing and control of deforestation and fires, sustainable forest management and other sustainable productive practices, generated by the PPG7”* (MI 2004, 24).

### **Emergency measures for reducing illegal deforestation in the Amazon (Anonymous 2003)**

This document was elaborated by 11 federal ministries and is much more specific than the PAS; many measures could be understood as an operationalisation of the PAS. Its four chapters refer to (i) land-use planning and land titles, (ii) environmental monitoring and control, (iii) promotion of sustainable economic activities, and (iv) sustainable infrastructure. The chapters always refer to laws to be reviewed or created, to concrete measures, public information and inter-ministerial working groups to be created. In all four chapters, concrete measures focus on the area with highest deforestation rates (the so-called “arch of deforestation”) and the BR-163, a federal highway which cuts through a closed forest area on 800 km and which will be paved in order to connect the soybean heartland with export harbours on the Amazon and thus drastically reduce transport costs for soybean exports.

Finally, it has to be mentioned that the PPG7 as a whole contributed considerably to strengthen the strategic capacity of the Federal Environmental Ministry (MMA). It was not possible, though, to increase the power of the MMA vis-à-vis other ministries, e.g. energy, transport and agriculture, which are seminal for economic development of the Amazon region. In fact, the new federal government led by the Partido dos Trabalhadores (PT) did not change the economic strategy for the Amazon substantially and kept the bias for large-scale farming and infrastructure development. Therefore, it was no surprise that deforestation rates did not go down. Public pressure on the government to change this situation, however, is strong. An important share of the social basis of the PT in the Amazon is constituted by small farmers, trade unions, environmental activists – in short, by an alliance of those forces which argue in favour of a bottom-up development strategy for the Amazon which takes into consideration environmental concerns. The MMA was handed over to Marina Silva, a PT senator and leading figure of the struggle for justice and environmental protection in the Amazon. The plans and government packages developed by the MMA, in partnership with other relevant federal ministries, in order to reduce deforestation strongly reflect lessons learned through the PPG7 (see box below). Moreover: federal action on controlling soy expansion and reviewing public investment in dams and hydroelectric power plants was prompted by a critical public report issued by the PPG7 International Advisory Group, an expert panel set up by Brazilian and foreign scientists. It still remains to be seen whether these packages will be put into practice effectively.

## **5 The process**

Which factors determined that PPG7 sub-programme results could influence public policies, as summarized in the previous section?

First, this was possible when the sub-programmes initiated new processes which responded to existing demands by specific social or economic groups such as in the case of PDA (demonstration projects) and Proambiente (loans for environmental services provided by smallholders). The new democratic federal constitution of 1988 and the ensuing activities of the peasants' movement in the Amazon had already managed to open up new political space for their demands. Their main achievement was to get ac-

cess to the subsidized credit programme for Amazon development (FNO) which had until then financed cattle ranching and (often fraudulent) large industrial projects, thus benefiting traditional power blocks (Tura / Costa 2000). PDA offered the chance to experiment with alternative, environmentally-friendly production systems and thus enlarge the peasants' demands for economic wellbeing and social justice with an environmental dimension. At the same time, PDA projects were concentrated in certain regions of the Amazon and thus contributed strongly to strengthen social capital of rural leaders: *"The creation of a critical mass of local leaders able to formulate new public policies can be related with a concentration of projects in one micro-region. Possibly, the success of new public policies in Acre can be explained with the high number of (PDA) projects financed in this state"* (Little 2004, 37). Another example for the creation of social capital with solid technical knowledge and political capacities is the Foundation Live, Produce and Preserve (Fundação Viver, Produzir e Preservar – FVPP) which is a network of more than 100 peasant associations, women's clubs, church congregations etc. at the Transamazônica.

*"One of the main goals of the FVPP was to collectively construct an alternative vision of regional development. In terms of production, the strategy adopted was to experiment with various types of production systems in order to broaden the economic options of smallholders and identify new and viable technologies. PDA projects were essential for implementing this strategy, which included many experiments in several municipalities. In total, nine PDA projects were financed at the Transamazônica between 1995 and 2004"* (Little 2004, 32).

FVPP itself stated that *"the main contribution of PDA for the region was not its productive dimension, while being substantive, but 'the way in which these projects brought persons together' and contributed to the 'emergence of a new social dynamic' of mobilization, organization and marketing of production"* (Little 2004, 33).

Political learning was also stimulated by the PDA experience. The economic success of the experiments financed by PDA (in terms of enhancing productive potentials) met two structural difficulties which were beyond the scope of PDA and thus could not be solved: the lack of technical assistance for these new forms of production, processing and marketing, and the lack of established markets for these new products. *"Maybe it was this negative demonstrative impact which influenced rural leaders to elaborate new integrated public policies"* such as the Proambiente (Little 2004, 35).

<b>Table 2: PDA projects financed at the Transamazônica in Pará state</b>			
Project number	Municipality	Organisation	Title
140	Placas	Association of Micro and Smallholders of Placas	Rehabilitation of river margins, preservation of watersprings and sustainable use of açai palm trees
342	Porto de Moz	Association of Artisanal Fishers of Porto de Moz – ASPAR	Preservation of water resources and rational use of fisheries
378	Medicilândia and Pacajá	Fundação Viver, Produzir e Preservar – FVVP	Use and conservation of forest reserves on smallholder properties in Medicilândia and Pacajá
493	Anapú	Association of Agrarian Pioneers on the Eastern Transamazônica	Rehabilitation of degraded areas for the sustainable development of the Anapú municipality
533	Uruará	Association of rural smallholders of Uruará	Rehabilitation and use of altered areas through leguminose and agroforestry in Uruará municipality
636	Porto de Moz	Peasants union of Porto de Moz	Local natural resource management through riverine communities on the Lower Xingu river
676	Uruará	Association of rural smallholders of Uruará	Incentives for sustainable agricultural production in the community Monte Sinai – Proflogora
897	Itaituba	Association of Small and Medium Farmers at the Transamazônica	Forest fruits
994	Rurópolis	Peasants union of Rurópolis – STRR	Preservation and use of forest resources in natural medicine
Source: Little (2004, 32)			

In fact, “*Proambiente emerged through an inversion of the normal process of creating public policies. It came into existence first as a proposal of civil society and was later incorporated as a public policy of the federal government*” (Little 2004, 28).

Second, PPG7 sub-programmes were successful when they acted as facilitators in ongoing negotiation processes and implemented communication strategies, as was the case with the integration of local communities in park management in the Flona Tapajós and the creation of the timber industry training centre (Promanejo), and the institutionalisation of local fishing agreements (ProVárzea). Both sub-programmes worked within or helped to create networks of the most relevant groups interested in public policy reform. In the case of Promanejo, its success is strongly related to the communication and negotiation capacities of the Brazilian project leader. He was a senior member of IBAMA with a very good technical and personal reputation. He was extremely able to build alliances with forest communities, innovative timber companies and forest research organisations; he implemented strategic alliances with powerful groups, had very good political connections within and outside the government, and was able to quickly and efficiently use windows of opportunity for presenting reform proposals. These proposals were often based on the already existing mature work of independent forest research organizations and thus contributed to their good technical quality. At the same time, Promanejo implemented an information strategy for disseminating its concrete and measurable results.

The success of ProVárzea was based on two pillars: the results of a preceding project, Iara, financed by German technical cooperation, and an active communication strategy. The Iara project had experimented with fishing agreements and thus established the technical and practical basis for their administrative regulation. The Brazilian ProVárzea leader had already actively participated in the Iara project and thus secured continuity of knowledge resources, social capital and trust necessary for elaborating, consolidating and legalizing this instrument of natural resource management. Regarding communication, ProVárzea’s “communication strategy is one of the main reasons for its success. The sub-programmes results were disseminated through seminars where data of strategic studies were presented; through workshops where experiences with promising new initiatives were exchanged; through field days in the communities for the ex-

change of practical experiences; participative street theatre sessions in communities and schools; the publication of leaflets on important subjects; the creation of a databank on fishery statistics; training of organisations for the co-management of wetland natural resources; continuous presence of ProVárzea representatives at all meetings and events they were invited to and close relationship to mass media” (Santos 2004, 20).

Both sub-programmes, however, had one strategic shortcoming: they neglected the relationship with state governments which were perceived as hostile to environmental matters and as less important allies of a strong federal authority such as IBAMA, under whose auspices both sub-programmes were carried out. This limited their capacity to negotiate with economic actors in the fishery and timber trade being more closely related to state governments, and thus to broaden the political basis for their policy proposals.

This strategic shortcoming is related to one of the two central controversies over environmental politics in the Brazilian Amazon. These controversies are on (i) the desirable degree of decentralisation of environmental management between federal, state and municipal governments, and (ii) the extent to which economic and social development strategies in the Amazon should consider environmental concerns, and who should cover the related opportunity costs. IBAMA as federal environmental agency could afford to neglect state governments and economic concerns; but environmental authorities on state level cannot. These authorities were the main partners for the NRPP, the sub-programme for strengthening environmental capacities in Amazon states and municipalities. Its poor results are related to the small political space at the disposal of state environmental ministries. At the same time, the logic of the political networks mentioned at the beginning of this section also reduced the room of manoeuvre of the NRPP: state governments often portrayed federal environmental initiatives as elements of a political strategy designed to create obstacles for their development objectives. Thus, environmental concerns were situated in a political context which hindered factual analysis and the construction of a broader social basis for negotiating solutions. This political move by state governments was facilitated by the fact that, on federal level, the PPG7 did not include a negotiation strategy between environmental ministry and the ministries responsible for transport, agriculture, and energy infrastructure. Thus, the environmental ministry was left alone

with the existing contradictions between differing policy fields and had no active instruments for achieving greater policy coherence to offer to state governments.

What does this analysis of the factors for success and relative failure of the PPG7 sub-programmes mean for the role of donors and technical cooperation officers in particular? Regarding donors, experience has shown that weak coordination among them always favoured political power struggles on the Brazilian side and thus weakened the coherence and efficacy of the programme as a whole. Weak coordination was due to several reasons: diverging opinions on strategic priorities, on methodologies and approaches were one reason, but organisational self-interests for securing autonomy and visibility also played an important role. Both were reinforced by the broad differences in institutional cultures among donors and their organisations, and created difficulties for harmonizing procedures for financing, controlling, monitoring and evaluation. This lack of harmonization led to a heavy additional workload for the sub-programmes, especially those which were financed by several donor countries. Many sub-programmes had to deal with several evaluation missions a year. This absorbed a lot of the working time of technical cooperation officers and turned them more into a dialogue partner for evaluation missions than a dialogue partner for the Brazilian side. The lack of harmonization of objectives, approaches and procedures thus made donors waste a lot of energy and resources on internal matters.

To remind our central findings mentioned in the introduction, public policies for natural resource management have been positively influenced through international cooperation, when

- project activities were closely connected with ongoing political processes pressing for public policy reform;
- project activities involved the majority of relevant stakeholders;
- project activities introduced adequate instruments, practical experiences and technical know-how to support innovative solutions;
- project duration was adapted to the timing of policy reform in Brazil and managed to use windows of opportunities.

Concluding, the Pilot Programme to Conserve the Brazilian Rainforests acted as a catalyzing force for sustainable development processes. Its main contribution was to build up and connect the necessary social capital in

public administrations, civil society and in some cases also in the private sector. The further dissemination and mainstreaming of new Brazilian public policies elaborated within the PPG7 is up to the Brazilian government and society. Dissemination of positive results and reflection of limiting factors to other multilevel project contexts remain as important tasks for the international donor community.

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# Co-financing of the SME sector program in Vietnam

Helmut Schön / Klaus Müller

## 1 Background

The development of an effective sector of privately-owned small and medium-sized enterprises (SME) has become a keystone of national economic policy in nearly all transition countries, comprising Vietnam, which has accelerated its reform process in the past few years and, whose economy currently displays the highest growth rate in the world after China. At present, Vietnam officially acknowledges the private sector as a major pillar for economic development, for the creation of jobs and combating poverty. Fostering development of SMEs is defined by the government of Vietnam as one of the most important elements in its national developmental strategy in order to achieve higher economic growth. The promotion of SME development has become a core element of Vietnam's national and socioeconomic development plans for the period from 2001 to 2010 and for the nation's Comprehensive Poverty Reduction and Growth Strategy (CPRGS). Since the year 2000, Vietnam has introduced a number of reforms to improve overall conditions and especially the business and investment climate for SMEs. One of the most important of these reform initiatives has been the passage of the Law on Enterprises 2000 which facilitates the establishment and registration of private business enterprises.

Although the political intention behind the promotion of private SME development is quite obvious, and the significance of the SME sector for Vietnam's overall economic development is generally recognized, this swift implementation of reforms has been brought up short in many areas due to certain barriers: the large number of necessary reforms but also and above all, the political balance of forces between reformers and traditionalists in the government and the administrative institutions. On the whole, the political environment remains to some extent underdeveloped regarding promotion of private enterprise development, and the overall legal and regulatory conditions are inadequate in many areas. Consequently, the access of private enterprises to resources such as land or formal loans

remains limited. In addition, restricted capacities and capabilities within the enterprises constitute a developmental bottleneck which is aggravated by the lack of specifically designed business services. Last but not least, the capacity for implementation within the administrative offices and related institutions impose further restrictions on the reform process due to a considerable lack of technical, organizational and management expertise, required to accelerate the reform process on all levels.

Given the political intention of the Vietnamese government to bolster the SME sector as well as the significance of the private SME sector for growth and poverty reduction, the promotion of further development has become a key point of interest in recent years with respect to the collaboration between the Vietnamese government and the donor community. This also holds true for the German Development Co-operation (DC) with Vietnam: Promoting SME development is one of the core activities within the cooperation programme agreed on and is aiming at promoting economic reforms and developing a liberal market economy. In this connexion, the efforts of Germany's Financial Cooperation (FC) within recent years were basically focused on the development of the financial sector, since the lack of supply of long-term financing, and especially also the difficulty in gaining access to bank loans, represent a significant obstacle for SME development.

The German FC, stimulated by the bottleneck in long-term funding for SMEs, initially concentrated on providing long-term refinancing funds to SMEs via state-owned banks that dominate the financial sector in Vietnam. Obviously this was an initiative that has considerably improved the supply of financing opportunities for SMEs and represented a pioneering solution due to its focus on private SMEs and its supraregional image projection over and beyond the centres of Hanoi and Ho Chi Minh City. Nevertheless, experience showed that the impact of such refinancing forms remained limited due to the absence of a structural reform of the fiscal system as well as in particular of a comprehensive reform and recapitalization of the national banks, responsible for the implementation of refinancing services and with a considerable lack of sustainability within the financial management. At request of the Vietnamese government and in view of this situation, a recommendation was developed to incorporate the experience gained by the *Kreditanstalt fuer Wiederaufbau* (KfW) into the financial sector on the meso- and microlevels of banks and enterprises. The

aim of this initiative was to shape the reform process in Vietnam and thus to provide in collaboration with the Asian Development Bank (ADB) and the *Agence Française de Développement* (AFD) support in organization and funding of the SME sector program.

## **2 Objectives and concept of the SME sector program**

The primary objective of the SME Development Program Loans (SDPL) organization is to support the Vietnamese government in its efforts to improve the overall conditions for economic growth on the basis of SMEs. The SDPL is the first sector reform program aimed at promoting the development of SMEs. The basic concept of the program is modelled on the “Program Loan” instrument of the Asian Development Bank (ADB). This instrument includes an adjustment loan which is accordingly paid out bit by bit and granted if reform measures agreed on are implemented. In view of the occasional limitations of ministries and implementing agencies and their lack of experience in such specialized areas as leasing or accounts rendered for SMEs, professional support in form of consultation measures is considered to be required for implementing individual reform actions.

On the basis of these objectives, a comprehensive analysis of the SME sector was first carried out with financial support from the ADB as part of a wide-ranging consultation program over a period of several months. In the process, the major hindrances to development were identified in the widest possible range of sectors and areas for business enterprises; in addition, the short-term (1 to 3 years), middle-term (4 to 7 years) and long-term (8 to 10 years) reform requirements for promoting the SME sector development were elaborated and collated in a “Road Map” for SME sector development. The contents of this Road Map differentiate between (i) political institutions, (ii) overall legal and regulatory conditions, (iii) access to non-financial and (iv) access to financial resources, and the elimination of hindrances to development in the area of (v) business service provision.

Based on this Road Map, during its design phase in fact, an intensive discussion developed between the KfW, ADB and AFD as financial partners as well as other donors, the Vietnamese government and the private sector on the priorities and specific objectives of required reforms which were to

be implemented during the course of the SME sector program. In the final analysis, the decision criteria for selecting main reform points were, in addition to the priorities of the Vietnamese government, (i) the direct impact on the SME sector, (ii) the activities and programs of other donors, and (iii) the specific sectoral experiences of respective financial partners on the basis of their involvement in Vietnam to date.

On the basis of the Road Map and the above mentioned criteria, the parties agreed on focussing their efforts of SDPL on the areas of (i) development of the political and regulatory environment, (ii) improvement of access for business enterprises to resources, particularly land and financing, and (iii) improvement of access for business enterprises to national and international markets.

The detailed organization, definition and formulation of concrete reform steps, to be carried out as prerequisites for payment of the funds, were carried out after an intensive and iterative process of dialogue among the participating institutions. Within the process, numerous workshops and meetings were held to discuss the issues on various levels with the support of professional consultants. The results of the meetings were then discussed along with detailed professional analyses, in a sequence of joint appearances of ADB, KfW and AFD before the respective ministries. Once agreement was reached, the results were collated in a “policy matrix”. Within the process, in structuring the overall program equal recognition was given to the respective positions of all financial partners with the aim to reach a consensus among the partners beforehand and to present a unified position when dealing with the Vietnamese partners during the coordination process.

The decisive factors for the above mentioned negotiation and coordination process were as follows:

- The sectoral and institutional knowledge and experience of the financial partners and the participating consultants; this made it possible to concretize professionally and institutionally the required reform steps in the Vietnamese context, and at the same time represented a means of strategically supporting reform-oriented factions within the Vietnamese government;
- The unified, coordinated position of the financial partners regarding needed reforms and required reform steps; this made it possible to ar-

rive at a strong negotiating position, especially in case of critical and difficult reform measures;

- The strategic provision of support to forces of reform in the ministries and an assessment of the financial partners in agreement with the Vietnamese government concerning the potential for politically implementing the reform process within a realistic time frame.

The SME Development Program was divided into two phases in order to do justice to the process character of political reform while also ensuring its long-term effect. Although the reform steps for the second phase have already been identified, they will be reviewed at the end of the first phase and, if necessary, will be modified based on the reform process and the experience gained from it. Final definition of the agreements to be concluded with the Vietnamese government for the second phase will then take place as it was the case in the course of joint missions by the ADB, AFD and KfW. On the whole, it is planned to conclude the project by the end of 2007.

The project is not confined to shaping political reforms, but at the same time consists to some extent of the concrete implementation of steps to be taken on various levels, including investment pilot programs implemented by the Vietnamese government at both, provincial as well as district levels. Basically, these pilot programs are intended to constitute first steps towards implementation at national level and are conceived in such a way that they can be realistically implemented within the time frame of the program as a whole and thus, serve as models for further implementation at the political level. Intrinsic to the pilot programs is an intensive dialogue with the Vietnamese government, thus ensuring that the practical experience gained from these pilot programs can in turn be implemented at the political decision-making level and can be taken into account during the ongoing implementation of steps necessary for shaping the reform process.

The SDPL program is carried out by the Ministry of Planning and Investment (MPI), and in particular by the Agency for Small and Medium Enterprise Development (ASMED), which has overall responsibility for the program, for reporting at regular intervals, and for coordination among the participating ministries. The institutions responsible for implementing the reform program are the respective governmental ministries (i.e. the Ministry of Finance, the Ministry of Natural Resources and the Environment,

the Ministry of Justice, the Ministry of Science and Technology) and the State Bank of Vietnam.

Among the important factors affecting the success of the reforms are the good horizontal coordination of steps to be taken by various ministries and institutions as well as an ongoing vertical dialogue between political decision-makers and implementing agencies at the meso-level and in the private sector; this is required in order to achieve a professional and efficient implementation of the individual reform measures, i.e. the reform process as a whole. For this reason, integration of the private sector via selected commissions and workshops was formulated as an integral condition. Since the political mandate for developing SME sector policies lies with MPI/ASMED, a Program Steering Committee (PSC) whose members come from the governmental ministries and State Bank, was formed under the chairmanship of the MPI to coordinate the program implementation.

Collaboration of the ADB, AFD and KfW is based on the following principles:

- a unified position with regard to the Vietnamese government;
- a joint definition of program contents based on equal rights and shared responsibility for the successful completion of the program;
- a clearly assigned distribution of tasks in terms of design, implementation and monitoring of the program; as well as
- jointly made decisions concerning the disbursement of funds.

In particular, the clear assignment of tasks regarding the program's design, method and monitoring makes it possible to meet important targets with regard to donor harmonization (reduction of transaction costs, use of comparative advantages). Progress of the program and fulfilment of the reform conditions are reviewed at regular intervals through joint missions by the ADB, AFD and KfW. The results are then set down in a Memorandum of Understanding which is signed by all participating financiers upon completion of each mission. The intensive monitoring of the reform program results in an active dialogue with the Vietnamese government at various levels concerning the degree of reform implementation as well as any additional reform requirements.

### 3 Priority areas of the program

Streamlining and unifying the existing system of licensing and registration at all levels is a primary goal of the focal area “Development and improvement of the **political and regulatory environment** for SMEs”. This includes a pilot project for dissemination of an information and monitoring system for the business sector at national, regional and local levels as a major pillar for the analysis of the problems and potentials of SMEs, with a view to building up and developing on this basis a practice-oriented strategy. Information gathered on the SME sector to date has remained fragmentary and even contradictory to some extent. Another intention of the program is to provide greater transparency for enterprises by making information available on legal and regulatory issues. It is also planned to improve the climate for business enterprises through the development and implementation of well-coordinated, long-term SME policies with intensive integration of the private sector. One result is the effort to bring about the passage of a comprehensive SME Development Action Plan by the Vietnamese government.

The second key area of interest for the sector programs includes a number of reform measures aimed at improving the **access of SMEs to land and capital**. Other reforms outside the fiscal system with direct impact on the access of SMEs to capital deal with a simplification and standardization of accounts rendering requirements for SMEs, the introduction of a unified evaluation system for land to facilitate the application of land use rights as collateral for secured loans while improving the overall legal conditions for development, and use of a registration systems for other customary banking security (machines, equipment systems etc.). Further steps to be taken in order to improve the access to land and thus to sources of credit as well as to include simplified acquisition of land use rights, registration of these rights and their application as collateral for secured loans. Within the fiscal system itself, the reforms focus particularly on the leasing sector, which, although important for SMEs, is rather underdeveloped in Vietnam. Concretely, the overall legal and regulatory conditions for diversification of leasing products and the expansion of means of refinancing are to be improved for leasing companies.

The third key area of interest of the program consists in promoting the development of **access by SMEs to international markets and in in-**

**creasing their ability to compete effectively.** Central to this sub-area are reforms in the formalities for defining unified industrial and technical standards, taking into account in particular the integration of the private sector and the improvement of access to information for SMEs concerning industrial and technical standards.

Since the capacities of the respective ministries are to a certain extent limited, they are assisted in implementing the necessary steps by short-term consultancies on a situation-to-situation basis. These consultation services are specifically directed to selected problems and often go hand-in-hand with the support of ministries in the preparation of legal documents. The consultational activities are financed and directed by the ADB, AFD and KfW. This ensures an additional qualitative influence of the donors at the organizational level and the incorporation of international best practices. The independent consultational activities are aimed exclusively at fulfilment of the reform measures agreed on. For this reason, they are complementary to the activities of other donors and implementing organizations involved in supporting the individual ministries by technical collaboration. Of particular importance here, from the viewpoint of the German development cooperation, is the SME program of the GTZ, which provides additional consultation services for the MPI/ASMED as well as complementary support in the implementation of individual reform measures, e.g. the formulation of SME sector policies. Last but not least, the overall direction of the GTZ activities for SME development have been decisively shaped by the demand of the Federal Ministry of Economic Cooperation and Development to achieve the highest possible level of synergy effects between German financial and technical cooperation during the course of the sector program.

#### **4 Practical implementation on various levels – the example of leasing**

The leasing sector in Vietnam is largely undeveloped due to the inadequacy of the overall conditions. The leasing agreements' volume in Vietnam accounts for less than 2 % of the credit volume of the banks. Correspondingly, the supply of leasing products, which constitutes for SMEs an important alternative to credit financing due to its lower requirements for security and information, can hardly satisfy the growing demand for SME financing as an

actual complement to credit availability. As part of the here discussed program, the State Bank of Vietnam will work out and put into law, with support of experienced consultants, the necessary ordinances and implementation guidelines for introducing new leasing products (such as operating leasing). Furthermore, the state will establish the legal grounds for the sale of leasing receivables as a new refinancing source for leasing companies and a means of mobilizing the existing liquidity of institutional investors (e.g. banks, pension funds and underwriters) for the leasing sector.

Based on prior experience in the area of SME financing and activities to date in this sector, the German FC has taken the lead in laying the groundwork for organization of the “policy matrix” in the area of leasing. In accordance with the concerted division of labour, the KfW has taken over the lead of this sub-area of program implementation, so that responsibility for design, implementation and monitoring of both, required consulting services and financing lies with KfW. For its part, AFD has assumed responsibility for and financing of the related consulting activities as a means of increasing the ability to compete effectively on the international stage (e.g. in terms of industrial quality standards), while the ADB has assumed responsibility for the remaining areas. Independent of this division of assignments related to the management of consulting activities joint responsibility of the financial partners to ensure the success of the program as a whole remains unaffected.

The implementation plan includes the aim to consider the experience gained on the meso- and microlevels within the reforms in form of a process-oriented line of action. Thus on the one hand, the leasing companies will be involved in related workshops and discussions linked to the organization of required ordinances, on the other hand concrete pilot programs are planned in collaboration with the leasing companies for the sale of leasing receivables: a means not only to identify the details how to organize the implementation guidelines on the basis of practical examples, but also to identify additional needs for reforms to be taken into account in the second phase of the program. During the process, not only the interests of the leasing companies but also those of potential investors such as underwriters or banks will be considered. This concept is intended to ensure that the organization of overall legal conditions will give due regard to concrete problems and interests of all participants in this sector.

## 5 Conclusions

The participation of the German FC in the SME Development Program Loan has made it possible to incorporate into the financial sector of Vietnam the KfW's experience gained to date in this sector in Vietnam, along with its know how as a supranational organization as well as to integrate its expertise as a German development bank into the political reform process as a concrete, substantial and visible contribution of the German development cooperation to the reform process in Vietnam. The profile of the German FC both, within the donor community and in relation to the Vietnamese government, has been enhanced due to its focus on the financial sector. From the Vietnamese side, the concrete contribution of the bilateral KfW and AFD Development Banks has been actively supported, corresponding to their comparative advantages and concrete experiences in Vietnam. Even though collaboration among various financial partners initially created an increased need for coordination amongst them, it ultimately led to gains in efficiency within the process of practical program design.

# Hospital development plans in the Tanzanian health sector

Ralf Orlik

## 1. Background: The health sector in Tanzania

With the economic crisis of the socialist system in the 1980s the status of health of the Tanzanian population declined. The state health services deteriorated and the upcoming private services, especially faith-based services, were only able to partially compensate this trend. Tanzania fell behind other nations in Africa with regard to the major health indicators, i.e. maternal and child morbidity. During that time, which lasted until the 1990s, the health sector could be described as underfinanced through the state and fragmented by development projects. More than 1200 projects of more than 30 donors in all sub-sectors on all levels tried to compensate the declining quality of public health services. All these projects were poorly coordinated by the Ministry of Health (MoH). The only kind of coordination was to agree with the donors which type of health project would be implemented by whom and in which district. There was no horizontal or vertical integration of the approaches. This situation caused high transaction costs for the Tanzanian side. Necessary structural reforms of the health sector could not take place in this environment. German cooperation with Tanzania within the health sector was no exception in this sense. Programmes were established, e.g. health infrastructure rehabilitation for faith based organisations and HIV/AIDS training for community health workers in the Mbeya Region, using different kinds of instruments in different regions, from the district level up to the sector level, but no comprehensive approach was followed.

To overcome this situation, the Government of Tanzania developed the Health Sector Reform policy (HSR) in 1995 in order to improve the impact of health services and produce better health outcomes. With the aim to improve donor cooperation the MoH and development partners supporting the health sector agreed to apply a Sector-Wide Approach (SWAP) in 1999 to implement reforms in the health sector. To decrease the number of projects and combine the efforts of the donors, a basket

mechanism was introduced to pool funding for the sector starting in the financial year 1999/2000. Through joint efforts of MoH, PORALG (the President's Office for Regional Administration and Local Government), development partners and other important stakeholders, including the civil society, the HSR policy was strategised in the Health Sector Strategic Plan (HSSP 2003–2008). In 2002/3 a multisectoral strategy to fight HIV/AIDS was developed by the Tanzanian Commission on AIDS (TACAIDS) in a participatory approach involving all major stakeholders.

## **2 The Tanzanian-German programme to support health (TGPSH)**

The planned results of the shared Tanzanian-German co-operation strategy in the health sector correspond to the objectives of the Health Sector Strategic Plan (HSSP) and the National Multisectoral Framework for AIDS (NMSF); they will mainly concentrate on

1. capacity building for and rehabilitation of district health services including hospital services,
2. support for cooperation between public, private and not-for-profit providers of health care,
3. development and dissemination of decentralised models to fight HIV/AIDS and improvement of reproductive health;
4. assistance to further develop health financing and cost sharing systems
5. support to improve the Human Resources for Health (HRH) particularly with regard to their technical and managerial competence.

The institutional variety of German development co-operation makes it possible to operate a well-balanced mix of technical co-operation through Gesellschaft fuer Technische Zusammenarbeit (GTZ), DED (Deutscher Entwicklungsdienst), Internationale Weiterbildung und Entwicklung (InWEnt) and Centrum für Internationale Migration (CIM) as well as financial cooperation through Kreditanstalt fuer Wiederaufbau (KfW). Interventions will address the central level as well as local levels. The main players in the sector are MoH, PORALG, TACAIDS, regional and

district administrations as well as NGOs and private providers, in particular the faith-based health care providers.

Poverty alleviation will continue to be the overall concern of German development cooperation. German cooperation in the field of health intends to contribute significantly to the poverty-related targets of reducing morbidity and strengthening access to health services and to reduce the prevalence of HIV/AIDS and contain the negative impact of the HIV/AIDS epidemic. In this sense, the support to the priority area of health contributes to the Tanzanian targets as laid down in the National Strategy for Growth and Reduction of Poverty (NSGRP/ MKUKUTA) and with this to the Millennium Development Goals (MDGs).

German cooperation will contribute to the development of a sustainable, accessible and equitable health care system that provides services of international quality standards and effectively and efficiently addresses the major causes of illness in Tanzania. As the donors and the Government of Tanzania (GoT) have agreed jointly on the HSSP, no specific German goal has been formulated. "To improve the health and well being of all Tanzanians, with a focus on those at risk" is seen however as the shared goal of both Tanzanian and German partners. German-Tanzanian development cooperation has enhanced its programme approach and integration into national policies and programmes and has also intensified interaction with other donors within the SWAP. This will be continued in the framework of the new Poverty Reduction Strategy (PRS) where the Tanzanian government is expecting the donors to align their contributions to a set of agreed targets and deliver their assistance through domestic systems. The following intervention areas have been selected due to the proven (local) impact of pilot approaches and the accumulated knowledge of German aid programmes in these specific areas of health. The challenge will now be to disseminate the knowledge and scale up successful pilot approaches in order to achieve a sustainable countrywide impact.

#### *1) District health services:*

The quality improvement of decentralised district health services corresponds to the particular experience of interventions supported by German development cooperation for many years. Special emphasis will be put on structural reforms, appropriate infrastructure (including rehabilitation, equipment and maintenance of health facilities and district

hospitals), human resources management and development; district and hospital planning and monitoring.

Reproductive health including family planning and safe motherhood, reflects major elements in the quality of health services, being at the same time heavily interlinked with the highly relevant issue of HIV/AIDS control and considering the important contributions of the programme regarding community based and youth oriented services. This includes quality obstetric and childcare, innovative cross-sectoral approaches, human resources development activities, accessibility of contraceptives, information, education and behavioural change communication.

### *II) Human Resources Development (HRD)*

A sufficient number of motivated and well-trained health personnel is the key to effective and efficient delivery of health care services. A well planned, trained and deployed workforce will adequately cope with current and emerging health problems. The lack of adequate human resources for health care, both in qualitative and quantitative terms, is considered a crisis by the MoH and its partners. German development cooperation has a long tradition in human resources development and capacity building. The Tanzanian-German Programme to Support Health (TGPSH) supports the National Task Force on Human Resources for Health and the network of Zonal Training Centers (ZTCs) with special emphasis on the development of a modular district management course. Special support is given to increase the capacities of ZTC Mtwara.

### *III) Health Care Financing*

This corresponds to a focus of German development co-operation in regard to both public and non-governmental health services. Important results of operational research and innovative approaches have already been provided. Efficiency increase, financial management and new procedures improving financial accessibility (equity) such as prepayment, community health funds, social health insurance schemes and targeted subsidies get special attention.

#### *IV) Public Private Partnership (PPP)*

This has been one of the priorities of German development co-operation with Tanzania for a number of years (Germany being one of the few donors supporting faith-based health services and their co-operation with the government). Germany will continue to collaborate with and support all kinds of faith-based services. The integration of private-for-profit non-governmental health service providers in the district health system will be pursued and innovative PPP approaches with spill-over effects on the other strategies (hospital management and maintenance services) will be further developed. Also, new approaches in the field of PPP with an involvement of KfW in the health sector, e.g. pharmaceutical production, will be developed.

The development partners consider the Annual Joint Health Sector Reviews and the basket fund as appropriate to jointly manage the progress of the SWAP within the health sector. In the AIDS sub-sector bi-annual reviews on AIDS and some working groups are established as first harmonization steps. But further steps to align the fragmented support especially through global vertical funds, e.g. Global Fund on AIDS, Tuberculosis and Malaria (GFATM), Clinton Foundation, are necessary to implement financial support as part of the health basket fund.

### **3 Main deficits which make a multi-level approach necessary**

In spite of the promising comprehensive reforms that have made some significant progress (HSR and Local Government Reform, LGR), in particular in the health sector, the activities have not yet been sufficiently effective and efficient to significantly improve the health status of the population.

The HSR spells out the main *deficits*:

- One is the current inability of the Government of Tanzania (GoT) to fund acceptable levels of health care in Tanzania (on its own) and to use the available resources efficiently enough to meet the priorities (as set by the essential health care package).

- Another major deficit lies in the lack of technical and managerial capacities to effectively deliver good health care services. The performance of the health workforce is limited by low levels of motivation and a huge proportion of insufficiently skilled staff. Moreover, staff is unequally distributed both, in terms of geographical location and skill levels.

In addition, HIV/AIDS is considered a major threat not only to health but also to the general development of Tanzania: Adult mortality in Tanzania has increased considerably in recent years due to HIV/AIDS and it is estimated that AIDS is now the leading cause of death among adults. The World Bank estimates that the average real Gross Domestic Product (GDP) growth rate will decrease from 3.9 % without AIDS to between 2.8 and 3.3 % with AIDS in the period between 1985 and 2010.

According to the Government reform programmes, the ministries are to focus on their core functions, the preparation of laws and regulations, the monitoring of their implementation and quality control.

The MoH has undergone a comprehensive restructuring process and has made enormous efforts to increase its effectiveness in addressing the eight key objectives and strategies outlined in the HSR Programme of Work. Each strategy is backed with a co-ordinator responsible of implementation. The MoH has taken the lead in taking the reform process further, consolidating itself through clear job descriptions, the recruitment of new personnel and replacements in some key positions. The capacity of the MoH with regard to the development of a comprehensive budget linking the strategies to the Medium Term Expenditure Framework (MTEF) has improved. Financial and procurement management at ministerial level has improved. However, HIV/AIDS and especially the launch of an ambitious National Care and Treatment Plan put new strain on the system.

#### **4 Hospital development plans (HDP) – An example for scaling up of successful pilot approaches**

Until the end of the 1990s, the public health care sector in Tanzania was generally centrally organised and still strongly marked by socialism. All decisions, whether regarding staff or the medical-technical equipment, were taken and budgeted centrally within the MoH. If at all, new buildings

and rehabilitation works were financed by external donors in the past 20 years. Faith-based hospitals were often financed by partner congregations abroad. Public facilities, depending on the region, were financed by a donor that had launched a rehabilitation programme and generally implemented the measures vertically with the help of a consultant without passing through the MoH. Just as there were many different donors, the applied procedures varied strongly and generally did not seek to involve those responsible on site more intensively. The requirement analyses, the planning and the tenders were prepared and carried out by consultants. Consequently, hardly any sense of responsibility was forged for the repair and maintenance of the buildings and equipment. If something was broken nothing was done until a donor financed the rehabilitation or bought new equipment. Accordingly, the condition of the hospitals is very heterogeneous. Very few hospitals are in very good condition with adequate medical-technical equipment, but most of them are badly equipped and in an inadequate state of repair.

Hospital development plans (HDP) are instruments of strategic management, i. e. they formulate visions, objectives and strategies for the next five to ten years. This endeavor is new for most hospitals in developing countries. Very often hospitals are fixed to a one-year budget, so that the planning horizon does not go beyond the next fiscal year. This is a major obstacle in the development of a professional hospital as problems are not limited to such a short period, nor can solutions be found and implemented in one year only. Therefore, hospital development plans must define the long-term objectives, analyse the long-term problems and find strategic solutions.

When KfW became active in the health care sector in the mid-1990s, it decided to use new methods to rehabilitate the hospitals. Both in a district infrastructure programme and in a programme of the faith-based health institutions a participatory planning process was to take place before the actual rehabilitation of the hospitals. Together with the hospital management, a hospital development plan was to be prepared for a planning period of at least 5 years. On the basis of the afflictions treated in the hospital according to existing statistics, a target hierarchy was to be established stating the most urgent measures which were to be implemented in the planned period. The planning also took into account the area served by a hospital and its bed occupancy rate. These variables were used to take into

consideration that many patients do not only choose a hospital according to which one is the nearest, but are prepared to travel a further distance for a better quality of health care. The planned measures were financed from the Financial Cooperation (FC) funds provided.

a) From pilot approaches to national policies.

In particular the decentralisation process was advanced under the SWAP. Although a hospital reform had already been planned in a Programme of Work of the MoH at the end of the 1990s, hardly any measure has been implemented by 2002 at the sector level. With the Second Health Sector Reform Programme 2003-2008, reforms in the hospital sector were once again included in the target catalogue. By 2003, German development cooperation had already tested the instrument of HDP and used it in hospitals under its projects. The planning rounds in the hospitals had taken place in cooperation with DED, GTZ, CIM and short-term experts. On the basis of the HDP, measures to rehabilitate buildings and the medical-technical equipment were financed or are still being financed by KfW. The planning basics were summarised in a study, which was used as a starting point by the staff involved. From its direct use in the hospitals, the document of basic principles has reached the department responsible of the hospital reform within the MoH. At the same time, the MoH is preparing a comprehensive hospital reform comprising all relevant aspects (legal status, financing, management, training etc.). Now German development cooperation is contributing its experience gathered with the HDP in the current reform discussion. For one, its experience has been used to comment the guidelines for the hospital reform and for another, German development cooperation is represented in a joint working group (MoH and donors) through its representatives on site (GTZ / CIM / DED). In principle, these reforms are advanced jointly by the MoH and the donors under the SWAP. Within this government-donor dialogue it is important to be able to refer to concrete implementation results. Thus, the instrument of the HDP developed from an abstract document to a reality in the Tanzanian health sector.

b) The challenge of donor coordination.

As already mentioned, the donors cooperate intensively under the SWAP. In the concrete case of the HDP it still remains to be seen to what extent

donor cooperation is an advantage or disadvantage. Due to the fact that the need for rehabilitation is generally high in the hospital sector, one donor in particular had already chosen the way of providing funds to the MoH for rehabilitation work. The criteria and procedures on which these funds are based partly concern the HDP propagated by German development cooperation, as the rehabilitation of buildings is also to be planned on the basis of the HDP. One of the tasks of the current working group on the hospital reform is to summarise the respective approaches taken by the various donors so far to support the hospitals within the comprehensive hospital reform. The MoH has difficulties on deciding which approach would fit best into the hospital reform and at the same time not bother one of the donors. As a greater autonomy of the hospitals is generally aimed at, the concept of the HDP, which is being promoted by German development cooperation, is a cross-cutting issue which can also integrate further approaches of other donors to finance rehabilitation work. The advantage of the German approach is that its targets are in line with those of the general hospital reform. An extensive training of those in charge of the hospitals, which is necessary to introduce this instrument, is likely to be the biggest problem.

c) The importance of proven approaches.

The selective introduction of HDP at the project level was necessary in order to prove that this instrument is useful. In some respect it can also be considered as an anticipated pilot phase. Should such an instrument be introduced “top down” under a national hospital reform, a pilot phase with a small number of selected institutions would certainly be implemented first. Due to the accumulated experience this phase is no longer necessary. In the reform discussion, the HDP that have already been tested therefore represent a clear advantage compared to “competing approaches” that have not yet been put into practice. However, German development cooperation will have to emphasise this fact in the further discussion on the hospital reform. Given the experience at the micro level, three possibilities are available to this end: a) the concrete plans prepared as well as the corresponding studies (partly still to be prepared) can be examined; b) people in charge of the hospitals that have already been working with this instrument are available as resource persons and able to report to the reform working group; c) the hospitals that use this instrument can be visited on site and they can provide information on the actual use of the instrument.

Overall, this makes it possible to adequately present the proposal of German development cooperation. Inversely, the sector-policy dialogue on the hospital reform has only had a limited influence on the implementation of projects so far. However this influence will increase in the future. Due to the intended general hospital reform and also the general SWAP approach it is also no longer justified to implement new rehabilitation projects that are limited to a certain region. On the contrary, efforts now have to focus on implementing and preparing the general, nation-wide hospital reform.

d) The importance of knowledge dissemination.

Apart from the documentation, this instrument was presented during a workshop attended by MoH staff in charge of the hospital reform and other donors active in this area. Altogether, the pilot measures were introduced in three projects. Two regional rehabilitation projects and a supraregional project specializing in faith-based hospitals served as model for replication. No communication was preliminarily determined between the projects at micro level and the sector policy dialogue. This is due to the fact that the projects were already being implemented at micro level when a more efficient forum was only being created at the meso level for the national sector dialogue through the SWAP. It was also impossible to agree on fixed terms because it was still unclear in the beginning of the more intensive sector dialogue which subjects should be included in the agenda and when.

e) The importance of sufficient time.

Around three years have passed from the introduction of the instrument HDP in individual projects to its discussion on the sector-policy level. Moreover, the hospital reform is still in the preparation phase and its concept has neither been completed nor implemented so far. In principle, a period of three years from the planning of the HDP instrument to its introduction in micro projects and first treatment in the sector dialogue can be considered adequate. It will hardly be possible to generalise this experience, as e.g. approaches with an even higher degree of participation, such as community based approaches, surely require more time.

## 4 Summary and outlook

The instrument of the HDP is a good example of a promising multi-level approach for the health care sector of Tanzania, even if the last step of the approach, the obligation that all public or publicly supported hospitals must introduce and implement binding HDP has not yet been realised. There are promising signs that the last step will also be implemented. The instrument might still be modified according to the proposals of the MoH and other donors, but its general introduction can already be assessed as success.

However, this example does not give a general answer to the question whether successful sector reforms can only be implemented with the help of projects at the micro level. Currently, all donors active in the Tanzanian health care sector and involved in the basket funding are also implementing projects at the micro level. Moreover, it must be stated that the number of partners in the basket funding has remained constant in the last three years, albeit the UN organizations are now considering their participation. This means that those donors that have not yet joined the basket funding mechanism have obviously no intention to do so. In particular the Americans but also the GFATM are not yet convinced of the benefit of the programme-based joint financing approach. Due to the scarce funds of the Tanzanian state it is not to be expected that the government will claim more basket funding, in the sense that it will either demand that funds are paid into the basket or dispense with any contribution. This could be a cause for conflict as the basket partners will certainly not accept that their funds are used only to replicate the approaches tested in the country by the donors that do not participate in the coordination process. Therefore a certain pressure remains to present own model approaches. On the other hand it is possible – also and particularly within the framework of the basket – to decide jointly with the MoH and the other donors which reform approaches are really worth implementing as pilot projects. This will make it possible to limit the large number of existing pilot projects that also contribute to the fragmentation of the health care sector. The prospect of first organising a “competition for ideas” and then to test them, instead of testing all possible approaches simultaneously can certainly be rated as positive. The transaction costs saved for the necessary reform should be quite important both, for the MoH as well as for the donors.



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