

LOCAL GOVERNANCE

Sector definition	<p>Based on DAC definitions, the Local Governance sector comprises the following elements:</p> <ul style="list-style-type: none"> • Government administration: systems of government including parliament, local government, decentralization; civil service and civil service reform. • Employment policy and administrative management: employment policy and planning; labour law; labour unions; institution capacity building and advice; support programmes for the unemployed; employment creation and income generation programmes; occupational safety and health; combat of child labour. • Multi-sector aid for basic social services: basic social services are defined to include basic education, basic health, basic nutrition, population and reproductive health, basic drinking water supply and basic sanitation. • Urban development and management: local development and urban management; municipal finances; urban renewal and urban housing. <p>DAC codes: 15140, 16020, 16050, 43030.</p>
DCF donors	Austria/ADA, France, Italy/IC, Japan/JICA, the Netherlands, Norway, Spain/AECID, Sweden/SIDA, Switzerland/SDC/SECO, UK/DFID, USA/USAID, the EC, UNDP, and the World Bank.
Other key international organizations (IOs)	Organization for Security and Cooperation in Europe (OSCE) and the Council of Europe (CoE).
Key government partners	The FBiH Ministry of Justice, the RS Ministry of Governance and Local Self-Governance, the BiH Ministry of Human Rights and Refugees, the FBiH Ministry of Refugees and Displaced Persons, and the RS Ministry of Displaced Persons and Refugees.
Total donor allocation to the sector in 2007	€ 22.8 million.
Sector strategies	There is no overarching government owned strategy defining local governance priorities, although a Local Self-Governance Development Strategy ⁷⁰ has been developed as a civil society initiative.
Donor coordination	Project-based coordination meetings.

Overview

Local governments in Bosnia and Herzegovina (BiH) function within a complex and multilayered administrative system. The legal framework and fiscal arrangements vary between the Republika Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH), and in the latter, among the subordinate cantons. BiH's highly decentralized system might be better characterized in terms of a fragmentation of competencies and accountabilities. It has been argued that these arrangements have serious consequences for public service delivery, namely welfare obligations are often neglected in poorer municipalities.⁷¹

Municipalities function with very limited fiscal autonomy throughout BiH; in both the FBiH and the RS lack the power to raise their own revenues and receive the greater share of their resources (about 50%) through tax sharing and transfer arrangements with their respective 'parent' governments. There is a discrepancy between the financial capabilities of municipalities on the one hand and their responsibilities and needs on the other hand. At the same time, municipal financial management systems are inadequately developed and multi-year financial planning systems are widely unknown in local governments.

Despite these structural and functional constraints, there is a growing argument that BiH's democratic deficit and emergent social exclusion can be best addressed through local action. Municipal governments, being closer to inhabitants, are in the best position to resolve local problems and demands, with the limited resources that are available. This is particularly pertinent to addressing the needs of the excluded and vulnerable who often "fall below the radar" of higher levels of government. Moreover, these advantages extend beyond the representational; municipalities are able to act as community leaders mobilizing stakeholders to develop shared goals and to set out strategies to put local development on a positive trajectory.

⁷⁰ Aleksandar Draganić, et al., Local Self-Governance Development Strategy in Bosnia and Herzegovina, June 2006. Available at: www.soros.org.ba/docs_lokalna_uprava/lsg_eng.pdf

⁷¹ UNDP National Human Development Report, *Better Local Governance in Bosnia and Herzegovina* (Sarajevo, 2006).

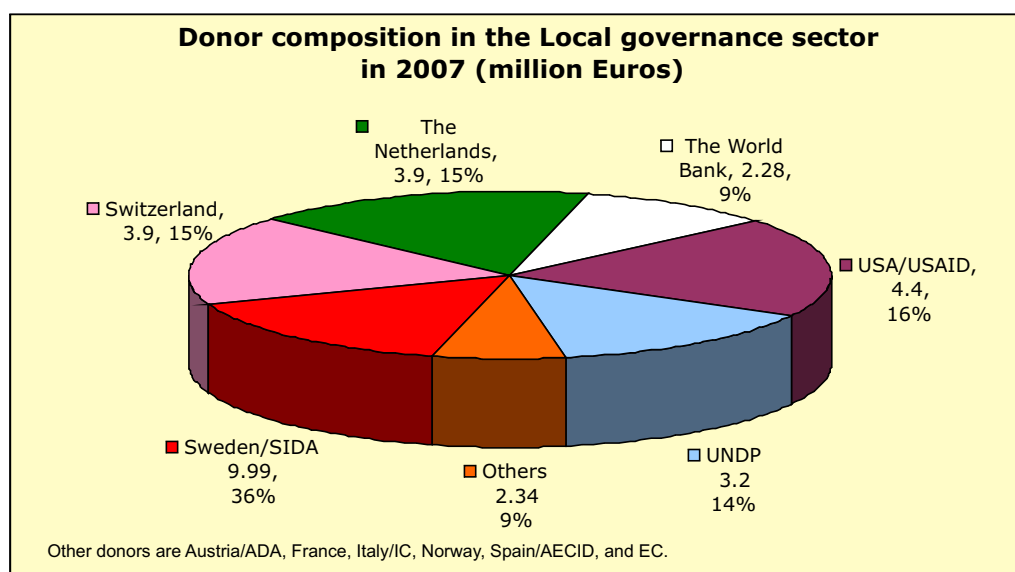
In the advent of EU pre-accession funding, under the Instrument for Pre-Accession Assistance (IPA), the efficient functioning of municipalities gains additional importance as they will be expected to participate in the local management and delivery of projects. Successful participation in this funding window will require a step-change in municipal capacity across a variety of planning and management disciplines.⁷² Furthermore, there is a fuller European agenda to be addressed. This ranges from what might be characterized as a modernization process associated with attaining a model of municipal government compliant with European practices, to building an institutional framework capable of implementing the *acquis communautaire* at the local level.⁷³

Given its importance, a number of donors have been active in the Local Government sector in recent years and over half of BiH municipalities have received some form of assistance in elaborating local development plans. Initially, international community attention at the local level was focused on the return of refugees and displaced persons, alongside the much narrower agenda of local economic development (LED). But increasingly, donors are taking an expanded view of local governance, incorporating a human-rights based approach and sensitizing the planning process with issues of equality and non-discrimination. There has also been more attention given to strengthening the absorption capacity of municipalities. The major financial institutions have also entered this sector, notably within the area of capital project finance. These activities are primarily focused on infrastructure projects and providing financial governance technical assistance (TA).

As a result of their own efforts as well as donor assistance, local governments have undertaken numerous reforms, which are beginning to pay dividends. The basis for this is the enactment of new laws on local self-governance in both Entities, alongside tentative steps towards fiscal decentralization arising from the introduction of a nationally set Value Added Tax (VAT). Additionally, at the local level there has been some cultural change and a growing awareness of the importance of integrated and strategic thinking on local development. Further efforts to promote decentralization and build capacities are needed, but the reforms that have so far been introduced are bearing tangible results.

Donor activities in 2007

The donors to this sector include Austria/ADA, France, Italy/IC, Japan/JICA, the Netherlands, Norway, Spain/AECID, Sweden/SIDA, Switzerland/SDC/SECO, UK/DFID, USA/USAID, the EC, UNDP and the World Bank. Together they contributed € 22.8 million in 2007. These agencies focus on building municipal capacity in the areas of good governance and local economic development, and support municipal development planning and service delivery, as well as local employment and community building activities.



⁷² The translation of strategic goals into concrete projects and action plans, and direct connections with the municipal budget cycle are especially lacking. Due to these skill deficits and managerial weaknesses, municipal capacity to absorb forthcoming EU funding is insufficient.

⁷³ Approximately 60% of all mandatory European-law based regulations have to be carried out by local governments. Local Government Network - LOGON Final Guide, 41. Retrieved from www.ceec-logon.net.

USA/USAID, Sweden/SIDA, and the Netherlands concentrate their spending in this sector on the *Governance Accountability Project (GAP)*. These three donors have committed a total of \$ 30 million in funding over a five-year period for the project. GAP was designed to build the capacity of a critical mass of municipalities to better serve their citizens within a policy and fiscal framework of good governance. It also assists the upper levels of government. In fact, GAP aims to link the reforms taking place on the local level with policy reform at higher levels of government. In addition to its work on GAP, the Netherlands also assists the poorest municipalities in elaborating strategic development plans and implementing priority social infrastructure projects.

Since December 2007, **UNDP**, with financial support from Sweden/SIDA, has been implementing a *Municipal Training System (MTS)* initiative, as a joint project with both Associations of Municipalities and Cities (AMCs), the FBiH Civil Service Agency (CSA) at the entity level, and the respective entity-level ministries. Through the three-year MTS project framework a sustainable municipal training system should be established, which will build a comprehensive training needs assessment in both Entities. The project will entail the following: strengthening respective training infrastructure and local human resource development functions; designing priority curricula; and enhancing local training providers. Through MTS, UNDP aims to contribute to the sustainability of local capacity development in BiH via training strategy development and establishment of training support facilities at the entity level. This will help to ensure that the quality of trainings (including those provided by various domestic and international organizations) will match the needs of local governments and will be provided on a sustainable basis.

UNDP also works to strengthen the inclusive and multi-sectoral nature of planning processes. It supports municipal capacity building through the strategic planning and implementation cycle of local development plans. The *Rights-based Municipal Development Programme (RMAP)*, funded by **Norway, Japan/JICA**⁷⁴ and **Germany/GTZ/KfW**, has been promoting a multi-sectoral and inclusive approach to local development planning and project implementation with 15 municipal partners since 2005. Since November 2007, the *Integrated Local Development Project (ILDP)*, jointly developed by Switzerland/SDC/SECO, UNDP and local partners in both entities, has been taking this agenda further aiming to strengthen municipal absorptive capacities in the light of the EU integration and to work towards harmonization of planning methodologies in BiH. UNDP conducted a series of workshops on the EU funding system under the *Support in Results-based Approach (SUTRA)* programme,⁷⁵ and has established Local Action Groups, which bring together local authorities, civil society organizations and representatives of the business sector, with the long term goal of building platforms for inter-municipal cooperation. UNDP will also look into providing support to rural development and social housing.

UNDP's three area-based local development initiatives, namely the *Srebrenica Regional Recovery Programme (SRRP)*,⁷⁶ the *Upper Drina Regional Development Programme (UDRDP)*⁷⁷ and the *Community Reconciliation through Poverty Reduction Project (CRPRP)*,⁷⁸ promote the socio-economic recovery of multi-ethnic communities by strengthening local governance and pro-poor economic development. These initiatives are reviewed in more detail in the Srebrenica and Return and Reintegration chapters of this report.

In 2007, **Switzerland/SDC/SECO** supported the introduction of community policing, a new locally-based method of police work in BiH. In addition to the practice-oriented main activities, the project also supported the development of the locally initiated Community Policing Strategy of BiH, which was adopted in 2007. Within its *Municipal Development Project in BiH (MDP)*, Switzerland/SDC/SECO encourages eight municipalities in the Dobo region to practice good local governance. Switzerland/SDC/SECO, in cooperation with the Open Society Fund for BiH and through its implementation partner Intercooperation, provided technical assistance for the creation of the Local Self-Governance Development Strategy. This document was adopted in March 2007 by the Association of Towns and Municipalities of the RS and the Association of Municipalities and Cities of FBiH.

The *BiH Beacon Scheme* was funded by **UK/DFID** and Switzerland/SDC/SECO, and implemented by the **Organization for Security and Cooperation in Europe (OSCE)** and the

⁷⁴Japan/JICA does not feature in the above graph as it did not report any additional financial allocation to Local Governance initiatives in 2007.

⁷⁵Funded by DCF donors the Netherlands and the EC, as well as UNHCR, SUTRA partner municipalities, and the State Commission for Refugees and Displaced Persons (SCRDP)/BiH Return Fund

⁷⁶SRRP is funded by Canada/CIDA, Italy/IC, Japan/JICA, the Netherlands, Norway, UK/DFID, UNDP, the governments of BiH and RS, as well as non-DCF member, Denmark.

⁷⁷The UDRDP received funding from the RS Government, the Netherlands, and UNDP.

⁷⁸CRPRP is funded by the United Nations Trust Fund for Human Security.

Council of Europe (CoE) in partnership with the AMC in each Entity. It issues annual theme-based awards for example “getting closer to citizens,” “effective strategic planning,” and “promotion of local economic development” to innovative municipalities for sharing their best practices with others. The OSCE is in the process of transferring the *BiH Beacon Scheme* to domestic authorities. Initial consultations are currently taking place regarding this hand-over process. Both **France** and **Italy/IC** sponsor similar schemes, creating partnerships between BiH and French or Italian municipalities.

In local governance reform and LED, the **World Bank** focuses on developing a sustainable resource transfer mechanism that will allow municipalities to finance capital investments. The World Bank’s work extends to capacity strengthening in municipalities by enhancing their focus on client orientation, basic services, and infrastructure. The *Community Development Project*, financed by the World Bank, aims to promote security, opportunity, and empowerment for all community members. It intends to achieve these goals through the following methods: strengthening of accountable, inclusive community groups; supporting broad-based participation by poor people in decision-making processes which affect them; facilitating access to information and linkages to the market; and improving governance, institutions and policies so that local and central governments become more responsive to community initiatives.

On the LED front, **Austria/ADA** works on a project meant to enhance the sustainable economic development of rural communities, while promoting and strengthening biodiversity conservation, through its *Eco-Villages Network in BiH, Serbia and Montenegro* initiative. This effort also has a biodiversity conservation component. **Spain/AECID**, through its *Program of Consolidation of the Return and Stabilization in the Balkans: Agricultural Development in Rural Communities of BiH*, supports the establishment of new agriculture infrastructure, local capacity, and institutional strengthening to promote, via economic revitalization, refugee return and cooperation among BiH municipalities. USA/USAID’s *Rural Employment Generation Activity* supports an agricultural project meant to increase rural income and employment. The Netherlands aids LED by focusing on sustainable economic development in eastern BiH.⁷⁹ Sweden/SIDA’s *North East Regional Development Association (NERDA)* project assists regional economical development in 35 municipalities in northeastern Bosnia. Building the capacity of NERDA is also part of the EU’s *Regional Economic Development Project (II)*. The first phase includes the identification of growth opportunities and priority sectors. This will be followed by interventions to remove constraints for companies and to improve municipal infrastructure for economic development.

Of the non-DCF international organizations present in BiH, the OSCE is the most prominent in terms of its work on local governance. Their, *UGOVOR* Project focuses on 78 municipalities with the goal of strengthening and institutionalizing interactions between citizens and municipal authorities; the *Municipal Administration Reform* initiative assists municipalities in human resource management and in the establishment of transparent budget planning and reporting. With additional support from GAP, the *Local Economic Governance Programme* developed the *Budget and Finance Guide*, which includes best practices in strategic planning, budget execution and internal control, procurement and participatory budgeting. This OSCE programme aims to increase citizens’ participation in local economic development by ensuring that they are consulted and informed, as well as willing and able to contribute to all issues that directly influence their lives.

Sector strategies

In order to get the decentralization issue more prominently on the agenda, leading municipal governments, jointly with a group of local experts and support from Switzerland/SDC/SECO, initiated the preparation of a *Local Self-Governance Development Strategy*⁸⁰ in December 2004. The strategy and its implementation plan were finalized in May 2006. Donors view this as a comprehensive, technically sound and well-structured document, which can provide a platform for unifying a broad number of partial initiatives. From a critical perspective, the strategy, while recognizing the lack of political commitment of relevant authorities to engage in meaningful fiscal and functional decentralization, it does not propose means to overcome these problems. Moreover, it is silent on how to institutionalize the strategy implementation and mobilize political support.

⁷⁹ The work of the Netherlands in this area is also discussed in the Cross-cutting chapter and the Issue in Focus: Srebrenica chapter.

⁸⁰ Available at www.soros.org.ba/docs_lokalna_uprava/lsg_eng.pdf.

Both AMCs have formally adopted the strategy but ministries' official support and engagement in the implementation of the strategic directions is still missing. The strategy also deserves attention as the BiH Public Administration Reform Strategy focuses on improving central administrations at the level of the State, the Entities and the Brčko District. Thus while providing an important reference document for all public administration reform initiatives, it does not specifically address the local level.

Direction for LED is provided by the Regional Development Agencies (RDAs). They are the key institutions for planning, organizing and implementing LED initiatives. Since 2003, EC technical assistance has helped establish and strengthen five RDAs, and has aided them in preparing Regional Economic Development Strategies. Further progress has been made to create the necessary legal framework for sustainable economic and SME development.

Positive developments and challenges in the sector in 2007

The Local Governance sector has witnessed steady progress in several areas over the last years. For example, there has been an increase in citizens' participation in the budget process, the introduction of internal reviews looking at strategic planning, and a strengthening of the legal framework pertaining to local governance. The adoption of entity-level laws on self-governance brought about additional improvements, too.

In addition, 2007 saw the effects of the introduction of the VAT, which was recognized as a first step towards enabling local governments to become better service providers for their citizens. Moreover, as a result of new laws in 2007, municipalities already have better access to commercial loans from banks. This is especially important as the EC's IPA requires 25% co-financing of all projects. It is expected that GAP II will address the issue of municipal financing; in order to increase municipal implementation capacity, it will work to strengthen the tax base of local governments.

Major challenges in the sector can be organized into three categories: organizational; strategic; and operational. The main organizational obstacle in this sector remains the lack of a strong link between the higher and lower levels of government. Overall there is little willingness on the part of higher level authorities to engage in real functional and fiscal decentralization. Thus, there has been very little progress so far in putting the principles on local self-governance in the FBiH into effect, and little move on harmonization. Additionally, the FBiH Ministry of Justice has not taken any role in the field of self-governance, despite the fact that part of the local governance portfolio rests with them. The picture is different in the RS, where there is a clear focal point; the Ministry of Governance and Local Self-Governance initiates reforms.

Strategic problems tend to stem from the fact that local development is still largely construed in terms of a narrow LED agenda. The integration of such efforts with other areas of activity and the drawing of synergies with wider social and community objectives is rare. LED measures are often highly constrained by limited resources, driven by weak fiscal equalization and a cap on municipal borrowing. Even within this narrow focus, activities are, more often than not, directed externally. Approaches to planning are also highly dependent on donor inputs, which weaken commitment and sustainability. Another problem is the still weak link between strategic planning documents and the actual municipal budget cycle; thus many plans remain only on paper.

Operational difficulties are generally related to human resource capacity issues, which vary considerably between local governments. Project cycle management skills are still weak and thus might hinder municipalities' abilities to apply for IPA funding. BiH municipalities also widely lack a modern understanding of the role and function of local governance. A further weakness of the operating context is the limited amount of external scrutiny of municipal decision making. A number of studies have confirmed that local civil society does not provide any real "check" on local administrative decisions. To discharge these functions effectively, local civil society organizations (CSOs) must enjoy both public legitimacy (ensured through independence and accountability) and the recognition and respect of the official sector (by guaranteeing the right to organize and a duty to consult).

Coordination and ownership

Coordination between donors is strong on the project level. International agencies tend to discuss priorities and the selection of municipalities chosen to participate in their projects, seek advice from each other, and work to avoid overlaps.⁸¹ For example GAP donors have weekly contact regarding the project and have so far been able to easily reach a common approach. Moreover, there are synergies between the UNDP and GAP projects and the donors of these initiatives exhibit strong cooperation. GAP has for example also utilized UNDP participatory bodies, established by SRRP and RMAP, for identifying and prioritizing projects.

In order to further improve the work at the local level, both the World Bank and UNDP are trying to facilitate sector-wide coordination. The last attempt for doing so was spearheaded by the World Bank in early 2007, but this meeting was foremost an information exchange. According to donors, GAP II seems like a good opportunity to pull international agencies together, to define shared goals, and to present a common front in this sector.

All donors are concerned with building local ownership as they implement projects. There is ground for optimism when it comes to municipalities and their Associations as their capacities have been significantly improved and they are strong partners for donor agencies. There is however, a need to institutionalize the work being done on capacity building. It is expected that GAP and the MTS projects will be a way to achieve this end. Sweden/SIDA is involved in both initiatives and there is a clear commitment from this agency to explore complementarities.

Building ownership is also at the core of several project management mechanisms. The majority of donors are using participatory bodies at the local level for project prioritization, selection, and training. UNDP project management arrangements include the following: involvement of the government in the project formulation and appraisal; project steering boards that have a mandatory government participation and/or leadership; and annual project review driven by the project boards. Thus, UNDP ensures that relevant government structures responsible for local governance are a part of the management process.

The intensification of donor coordination on the project level seems to have triggered an increase in national ownership as well. This is evidenced by donors' increasing ability and willingness to hand over responsibilities to their national partners. Some international agencies are concerned that participation in several of parallel project management bodies can be overburdening for municipalities. It is only with even more intense coordination among donor agencies that this can be minimized.

Future activities

The adoption of the Local Self-Governance Development Strategy by the respective government ministries would provide a framework for both donors and the government. However, this is unlikely given the present constitutional arrangements as local governance remains within the competencies of entities. There is a clear need to follow up on the harmonization, update and implementation of legislation; furthermore, the relationship between municipalities and cantons should be resolved, by strengthening municipalities' leadership role and financial control.

There is work to be done in the areas of urban development and economic planning, too. A great deal of money has been spent on these issues, but there is still not a clear vision of how to effectively stimulate entrepreneurship and improve revenues. Additionally, despite all the focus

GAP Pooled Funding Mechanism

The case of GAP pooled funding merits attention, as donors were able to overcome the limitations caused by their agencies' institutional funding guidelines. As a result, USA/USAID had to change its regulations regarding tenders. Instead of open tenders, the three donors agreed to use the WTO inclusive list of countries. Additionally, as there was no state-level institution to work with, GAP donors made the contracting agency responsible for allocating donors' funds. These agencies entered into Memorandums of Understanding with the participating municipalities. They are now responsible for reporting to the contractor as opposed to the separate donors. This arrangement has worked well in the BiH context. Ideally, however, it is the national government that should be responsible for dispersing donor funds.

⁸¹For example, donors attempt to steer clear of areas covered by other donors. Switzerland/SDC has coordinated with GAP to ensure that the two are not supporting the same municipalities; the same is true of OSCE.

on this area, in some municipalities, strategic plans continue to be a list of projects, rather than a delineation of programme priorities and overarching, but realistic visions for each sector. Therefore, there is a need to build the ancillary skills of municipal staff to support the planning and implementation of development projects. The focus should be on the translation of strategic goals into concrete projects and action plans, making direct connections with the municipal budget cycle. The integration of such efforts with other areas of activity and the drawing of synergies with wider social and community objectives is rare. There is a particular need to weave in issues of equality and non-discrimination into the planning process.

Within the range of present assistance to local development, there is an overarching tendency towards approaches that focus either on the economic development side alone or that take a predominately technical slant to local capacity building. There is a lack of agreed upon principles that would guide local development based on the notions of social inclusion and human rights. In terms of local assessment, planning, and resource distribution, this system would give specific attention to the needs of the socially excluded and marginalized segments of the population.

In the future there will be a growing role for the AMCs as well. Due to the complex nature of BiH's government structure, donors declare interest in working with these organizations. However, before this happens, their institutional capacities should be strengthened. They can become serious partners for international agencies and true leaders for change on the local level.

There are reasons to be optimistic that BiH will be ready to take advantage of future opportunities offered by European Integration, specifically, in the ability to apply for regional funds. Moreover, the implementation of the EU's *subsidiarity* principle creates a need to pay attention to these reforms. Various donor projects in the local governance sector will address this area by preparing municipalities for the process of EU Integration.



Conclusion

Building local-level capacities is seen as the best way to enhance the services that people are using directly and improve socio-economic conditions. At the same time, the municipalities are applying pressure for change on the higher levels. This bottom-up approach is advocated by most donors. Municipalities are likewise working towards strengthening the trust of people in their mayors and local politicians. However, despite the existence of laws regulating local self-government in both entities, there is still a great deal of work to be done to harmonize the division of functions and accountability at all levels of government.

Donors' significant levels of engagement and funding have borne fruit. This can be seen in the growth of local capacity, the increased focus on strategic planning, and the recognition of the importance of inclusive development.

The overall growth in local ownership is also clearly evident in this sector. Yet international agencies still need to focus on building local capacity, continue trainings at the municipal level, and ensure that local-level partners are able to pick up where donors leave off. There appears to be genuine interest among local stakeholders to take the reigns and continue the reforms currently underway in this sector.

As far as donor coordination is concerned, international agencies are in favor of an institutionalized system of synchronization, both to avoid overlap and to ensure greater effectiveness of aid. Donors appear ready to expand the current project-level coordination to the sectoral level. For this to happen, coordination efforts undertaken thus far must be examined, with lessons learned and past stumbling blocks overcome.

