Unlocking Public and Private Finance for the Poor

Mobilizing capital for local development funds:

A longitudinal case study in leveraging millions to billions

DOCUMENTATION FROM 10 COUNTRIES

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ABBREVIATIONS

ACL	Support to Local Authorities (Appui aux collectivités locales) (Mali)
ANAFIC	National Agency for the Financing of Local Governments (Agence Nationale de Financement des Collectivités Locales) (Guinea)
ANICT	National Agency for Local Government Investment (Agence Nationale d'Investissement des Collectivités Territoriales) (Mali)
AusAid	Australian Agency for International Development
BDT	Bangladesh Taka
BFFS	Belgian Fund for Food Security
BTN	Bhutan Ngultrum
CBG	Capacity-Building Grant
CTDL	Local Government and Development Programme (Programme des Collectivités Territoriales et Développement Local) (Mali)
DDC	District Development Committee (Nepal)
DDP	Deepening Decentralization Programme (Lesotho)
DDP	District Development Project (Uganda)
DFDP	Decentralized Financing and Development Programme (Nepal)
DFID	U.K. Department for International Development
DIF	Indicative Lump Sum (Dotation Indicative Forfaitaire) (Guinea)
DSP	Decentralization Support Programme (Bhutan)
EU	European Union
FADeC	Commune Development Fund (Fonds d'Appui au Développement des Communes) (Benin)
FNACT	National Support Fund for Local Authorities (Fonds National d'Appui aux Collectivités Territoriales) (Mali)
FYP	Five-Year Plan (Bhutan)
GDP	Gross Domestic Product
GDFA	Gewog Development Facilitating Agency (Bhutan)
GECDP	Gender, the Environment, Climate, Disaster and Poverty
GNF	Guinean Franc
GNH	Gross National Happiness
IDA	International Development Association
IGFTS	Intergovernmental Fiscal Transfer System
JICA	Japan International Cooperation Agency

JSP	Joint Support Programme on Environment, Climate Change and Poverty Mainstreaming (Bhutan)
LBFC	Local Body Fiscal Commission (Nepal)
LDF	Local Development Fund
LDG	Local Development Grant
LGA	Local Government Authority
LGCDP	Local Governance and Community Development Programme (Nepal)
LGDG	Local Government Development Grant
LGDP	Local Government Development Programme (Uganda)
LGRP	Local Government Reform Programme (Tanzania)
LGSDP	Local Governance Sustainable Development Programme (Bhutan)
LGSP	Local Governance Support Project (Bangladesh)
LGSP	Local Governance Support Programme (Bhutan)
LLDP	Lesotho Local Development Programme
LIC	Learning and Innovation Component (Bangladesh)
LoCAL	Local Climate Adaptive Living Facility
LSL	Lesotho Loti
MDG	Millennium Development Goal
MoLGC	Ministry of Local Government and Chieftainship (Lesotho)
NPR	Nepalese Rupee
P2N	Programme de Lutte Contre l'Insécurité Alimentaire et la Malnutrition dans les Cercles de Nara et Nioro du Sahel (Mali)
PACV	Support Program for Village Communities (Programme d'Appui aux Communautés Villageoise) (Guinea)
PADC	Project to Support Decentralization at the Regional Level (Projet d'appui au développement des cercles) (Mali)
PBGS	Performance-Based Grant System
PCDF	Provincial Capacity Development Fund (Solomon Islands)
PDLG	Local Development Programme in Guinea (Programme de développement local en Guinée) (Guinea)
PGSP	Provincial Governance Strengthening Programme (Solomon Islands)
PLIAM	Programme de Lutte Contre l'Insécurité Alimentaire et la Malnutrition
PSC	Programme Steering Committee
SAFIC	Local Authorities Financial and Institutional Analysis System (Système d'analyse financière et institutionnelle des collectivités) (Mali)
SBD	Solomon Islands Dollar
SLGDFP	Sirajganj Local Governance Development Fund Project (Bangladesh)
SSC	Scheme Supervision Committee (Bangladesh)
TZS	Tanzania Shilling
UDC	Union Development Committee (Bangladesh)
UGDP	Upazilas Governance and Development Project (Bangladesh)
ULGSP	Urban Local Government Strengthening Program (Tanzania)
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UP	Union Parishad (Bangladesh)
UPGP	Union Parishad Governance Project (Bangladesh)
UZGP	Upazila Parishad Governance Project (Bangladesh)
VDC	Village Development Committee (Nepal)
WDC	Ward Development Committee (Bangladesh)
XOF	Mali Franc

INTRODUCTION

BY DAVID JACKSON, DIRECTOR,
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Development finance is all about leveraging limited aid money to create sustainable funding and financing mechanisms that not only go to scale but stand the test of time. It should not be about short-term interventions that flower briefly then fade away. Development finance is about building locally owned and managed institutions and capacity rather than substituting for them with temporary imported capacity that evaporates once project funding comes to an end. Development success has been defined as initiatives and mechanisms that last more than 10 years, survive changes in government, and leverage significant additional public and private resources, while delivering development impact[1]. Unfortunately, most project evaluation and funding cycles of three to five years do not capture this success because they come too soon in the process. Many endeavours that go on to be development successes are just getting started at the time of the project evaluations that take place two or three years after they begin. On the other hand, many short-term projects receive glowing evaluations after this time frame but wither away well before the 10-year mark is reached. The scope and purpose of these evaluations means they often fail to catch and recognize the trajectory of an initiative that goes on to become a development success[2]. There is a need for credible longitudinal studies that follow the long trail and account for the leverage and impact of development finance. This is one such study.

Mobilizing capital for local development funds: A longitudinal case study in leveraging millions to billions tells the story of how UNCDF's signature product – the local development fund (LDF) – was able to generate billions of dollars for local social and economic development in the world's underserved and underinvested regions. This was achieved by designing, piloting and testing LDFs which then become embedded in national finance systems. LDFs were often implemented in highly centralized countries and contributed to fiscal decentralization and the expansion of local fiscal space and local fixed capital formation – two prerequisites for economic transformation.

The LDF approach was conceived in the 1990s. Its principles are outlined in the 1998 UNCDF publication 'Taking Risks' and in subsequent reviews[3]. 'Taking Risks' explains the three risks that UNCDF took in betting on the LDF. Firstly, put the money in first! Local capacity grows with local finance not the other way round. Secondly, UNCDF was one of the

[1] A. Bebbington and W. McCourt, eds., *Development Success: Statecraft in the South* (London: Palgrave Macmillan, 2007).

[2] Ibid.

[3] See UNCDF publications: 'Taking Risks' (1998), 'Delivering the Goods: Building Local Government Capacity to Achieve the Millennium Development Goals' (2005) and 'Performance-Based Grant Systems: Concept and International Experience' (2012). 'Financing Local Adaptation to Climate Change: Experiences with Performance-Based Climate Resilience Grants' (2018) describes how the LDF was tailored to meet the challenge of financing local adaptation and resilience to climate change.

first development agencies to understand that local government finance is development finance; and that cities and local governments are not only units of analysis and units of measurement but also units of decision, finance and action. Appropriately designed financial mechanisms through local institutions (local governments and local businesses) are cost-effective in managing financial resources and delivering meaningful development at scale. Finally, national ownership and national appropriation of development initiatives is important, and therefore development funds can be blended through ministries of finance for transfer to the local level rather than micromanaged by United Nations agencies. In the era of top-down development, these were indeed risks.

LDFs applied these principles and made local governments the partner of choice, mediated by national ministries of finance and national ministries of local government. Investing in local infrastructure and services through local governments is more than just local public finance. It requires a procurement system for local contractors, which in turn creates a market for local professionals such as accountants as well as construction jobs. It injects liquidity and demand into local economies through the construction of storage, markets and primary processing facilities. Crucially, it connects the citizen with the local state and provides a platform for the state to provide services such as education and health and for the citizen to express voice and agency. This latter role has led to LDFs having played a key role in post-conflict development[4]. The broader impact of UNCDF's LDFs is well documented[5].

This study is a comprehensive analysis of LDFs that leveraged UNCDF's initial investment of millions to generate billions of dollars in sustainable and institutionalized flows of funds to the local level through national fiscal transfer systems and follow-on financing from the World Bank and others. Indeed the DNA of the original LDF design is evident in the legislation and procedures for local finance in many of the world's developing countries. This study follows the paper trail from pilot design and testing to follow-on funding to tell the story of how LDFs were scaled. The study defines the essence of the approach in each country and calculates the volume of resources that have flowed through the mechanisms that were established. Many factors influence the success or failure of this model, and it is impossible to attribute a successful scale-up to one factor alone. However, a common feature of all the case studies is that prior to the LDF there was no institutional vehicle for local development finance. By providing such a vehicle, UNCDF fulfils its mandate to develop nationally owned systems and mechanisms that support the sustainable social and economic transformation of developing countries. This approach is now being applied to the development of domestic capital markets for larger cities and local governments.

UNCDF has continued to develop new approaches to local government finance, particularly LDFs for local climate finance, local economic development and municipal finance[6]. It is always developing, testing and piloting different variants that are rolled out, expanded in scope and size, and – sometimes – adjusted or modified. This study is a first attempt to provide an overview and better understanding of the leverage of UNCDF programmes and projects on the intergovernmental fiscal transfer systems of various countries and related reforms following the initial pilots in a range of core countries. The study's objective is to analyse and document the leverage of UNCDF-supported initiatives (pilot and other initiatives) on the total size of and modalities for intergovernmental fiscal transfers to local governments.

[4] See David Jackson's chapters in J. Ojendal and A. Dellnas, eds., *The Imperative of Good Local Governance: Challenges for the Next Decade of Decentralization* (United Nations University Press, 2013); and in A. Bebbington and W. McCourt, eds., *Development Success: Statecraft in the South* (London: Palgrave Macmillan, 2007).

[5] See https://www.uncdf.org/evaluation.

[6] See J. Steffensen, 'Local Development Funds' (Swiss Agency for Development and Cooperation, 2015) for an up-to-date synopsis of concepts and experiences from LDFs around the world; the publication concludes that sustainable LDFs should be mainstreamed into countries' intergovernmental fiscal transfer systems over time. UNCDF's new approaches to local government finance include, for example, the Local Climate Living (LoCAL) Facility for local climate finance, the Local Finance Initiative (LFI) for local economic development, and the Malaga Global Coalition for Municipal Finance.

Overview

About the study

Methodology and schedule

In February 2017, Dege Consult ApS was contracted to review the impact of UNCDF programmes and projects in the area of local government finance, focusing on initiatives related to UNCDF's core traditional local development fund (LDF) programme approach (see annex). The review was designed in two phases: Phase 1 covered two countries – Tanzania and Uganda – and comprised development of a concept for the review and presentation, refinement and approval of the findings at a UNCDF retreat in Montreux in February 2017; Phase II expanded the study to an additional eight countries.

The study, which covers the period up to 2018, was limited in scope and based on secondary data (programme documents, reviews, available budgets and accounts, etc.), supplemented by interviews with involved stakeholders (programme managers, etc.) to the extent feasible, and facilitated by a national consultant in each country. **It should be noted that the findings, though premised on 2017 and earlier information, remain valid and relevant.**

The first step in the review was to characterize the original UNCDF programme/project (the x factor) and its main local development grant features, including:

- Elements of grants – size, allocation system, flow of funds, etc.
- Elements of performance-based allocations (if applied)
- Linkages between grants and capacity-building support
- Linkages between the pilot and the overall intergovernmental fiscal transfer system and variants of the LDF (see annex).
- Other modalities related to the grant system
- Timing of the LDF and UNCDF support (e.g. 2000–2005)

This step especially focused on delineation of the size of the UNCDF initial programme/project support and the main modalities for this support, including linked capacity-building support and tools.

The second step was to explore how the LDF has been rolled out / replicated since the original pilot (the y factor) and the linkages between the pilot and overall development, including:

- Evidence of impact on the **size of grants** to local governments using similar modalities cumulative from the end of UNCDF support to date[1] – i.e.

[1] A study conducted by the World Bank, the U.S. Agency for International Development and Danida clearly stated that the District Development Programme had an impact on subsequent World Bank support to roll-out of discretionary development funds to local governments in Uganda, a

how much has the initial grant investment (e.g. USD 5 million from 2000 to 2002) evolved into actual grants with similar modalities over time (e.g. USD 500 million from 2003 to 2016)

- **Number of local governments covered**, from the original pilot to the full-scale system (e.g. as in Uganda, where the 5 local governments initially supported has grown to 156 higher local governments and more than 1,000 sub-counties)
- More **qualitative impact** on the grant modalities, including (i) flow of funds, (ii) performance-based elements, (iii) links to capacity-building support and (iv) other modalities
- Review, to the extent possible, of various **phases** in the upscaling without examining all the details
- Changes in and sustainable impacts on the overall intergovernmental fiscal transfer system (IGFTS)

Impact on the size of transfers to local governments using UNCDF-supported modalities, and the enhancement of the fiscal space of local governments, was the main focus of the study. Grant size was reviewed over the entire period from the end of the UNCDF pilot support to date if modalities have continued or to the point when they ceased – for example, if the government or other development partners ended their support. The review included both support from the government and development partners to roll out and upscale UNCDF support[2].

The issue of attribution has been challenging with regard to IGFTSs; to address this, the country studies have used a counterfactual approach: what if the UNCDF pilot did not occur or if UNCDF approaches were not applied?

Evidence of attribution includes:

- Approaches applied in upscaling started immediately or soon after the start of the pilot, also as compared with the situation before the pilot (e.g. in Country x, there was no block grant system in place for local governments, but such a system began a year after the UNCDF pilot of a block grant system ended, with rather similar modalities)
- Evidence in various programme documents that refer to the UNCDF-supported pilot[3]
- Interviews with core stakeholders, including people who were involved at the time (if the above did not provide sufficient evidence)

Specific references and documents providing evidence of attribution are noted in the respective country studies.

Data collection

The research was based on review of secondary data, websites, programme documents, budgets, accounts, consultant reports, and reviews (annual, mid-term and final). In particular, the approved budgets from the various ministries of finance were critical. Interviews with key stakeholders were conducted to the extent possible. In some cases, data received from official sources were conflicting and the team had to cross-check and triangulation. Where issues remained, this is indicated in the various tables and sources in the case studies comprising this report.

Overview of LDF and UNCDF support in the 10 countries

Grant size

UNCDF support to the LDF across the 10 countries was typically at a limited scope in terms of funding size, but was often combined with technical assistance, implementation support and capacity building / technical assistance. Most of the support was rendered in the

scheme not previously included in the intergovernmental fiscal transfer system. To be included as leverage, a grant has to show similar grant features, e.g. be the first block grant system or the first performance-based allocation scheme, which is then rolled out.

[2] For simplicity, grant amounts throughout have, to the extent possible, been converted to current USD using recognized currency exchange converters such as the OANDA currency converter.

[3] For example, the World Bank–supported Local Government Development Project's 1999 Project Appraisal Document directly refers to links with the UNCDF-supported District Development Programme, and the lessons learned from this initiative.

initial phases of the start-up and roll-out of the LDF; in some cases, UNCDF supported gradual roll-out of the systems and procedures in larger, follow-up stages, as in Bangladesh and Nepal. Table 0.1 presents a brief snapshot of the fiscal support (grant portion) provided by UNCDF in the 10 countries. In most countries, UNCDF support was made in conjunction with support from the United Nations Development Programme (UNDP), which focused particularly on the capacity-building parts of the reform programme and, in some countries (e.g. Bangladesh, Nepal and Solomon Islands), through mobilization of support from other like-minded development partners. However, the LDFs were based on technical assistance support from UNCDF in all cases.

Grant modalities

The support initiated by UNCDF typically started with smaller pilots in a few local governments in each country. Table 0.2 shows the initial pilot compared with the number of local governments in each country. In most countries (Solomon Islands is an illustrative case), local governments were provided with comprehensive capacity-building / technical assistance support prior to the actual launch of the grants. Some countries (e.g. Bangladesh and Uganda) had several rounds of upscaling of the LDF approach from municipalities in one district, to several, and then to full countrywide upscaling of some features of the grants. Finally, in other countries (e.g. Guinea and Lesotho), there was little piloting by UNCDF, or the LDF had already been introduced through larger programmes supported by the European Union or the World Bank.

The piloted features of the LDF are now operating at a countrywide scale in most of the countries. In Tanzania, the performance-based elements have not been fully applied for a few years, and there have been challenges with the flow of funds, but a new system with adjusted procedures is under development to re-introduce a performance-based grant system (PBGS); moreover, some larger urban local governments have continued to receive performance-based grants with support from a World Bank programme (the Urban Local Government Strengthening Program) since 2012. Similarly, in Uganda, a new countrywide system (in addition to the current urban PBGS) was rolled out in 2017, based on experiences from the previous pilots and countrywide experiences. In Bangladesh and Nepal, upscaling has occurred with considerable funding from development partners and – especially – the respective governments themselves. This is also the case to a large degree in Benin and Mali, but both of these countries are highly dependent on development partner support for transfers to local governments. The performance element of the LDF seems to be applied in almost all cases, with varying degrees of capacity building included in the menus guiding transfers.

In recent years, governments have, with support from the World Bank, supported the expansion and deepening of the approach to urban local governments as well; for example, Tanzania and Uganda have both used a special urban performance-based grant window, based on the LDF piloted modalities.

Capacity-building modalities

In most countries, core support for piloting the LDG was supplemented with comprehensive capacity-building support to the involved local governments, and support to the development of overall systems and procedures, e.g. the flow of grants. Formula-based allocations to local governments, which generally allocate funding according to land area, poverty count and population (among other parameters), often include a dedicated allocation (grant) for capacity-building issues and concerns. The annual allocation is often divided into 80 per cent for capital development and 20 per cent for capacity building. Some countries, such as Solomon Islands, started with capacity building one to two years in advance of the actual allocation of grants to ensure sufficient capacity to handle the new discretionary funds. Since the initial pilots, a variety of supply- and demand-driven approaches have been tested, including the establishment of specific capacity-building grants to local governments to supplement the performance-based development grants (e.g. in Bhutan, Nepal, Tanzania and Uganda); other countries, such as Bangladesh, have focused more on standardized, centrally provided support. However, during upscaling in Nepal, the demand-side capacity-building approach was abandoned and not

TABLE 0.1 **Overview of support**

Country	UNCDF support to the LDF (million USD) [a]	Contributions from other development partners	Timing and other features
Bangladesh	▪ Phase 1 SLGDFP: 2.4 ▪ Phase 2 LIC: 2.5 ▪ Phase 3: LGSP II/Union Parishad Governance Project:10.4	▪ Phase I: UNDP (capacity-building) ▪ Phase II: Danida, UNDP, EU ▪ Phase III: Danida, EU, UNDP, Swiss Agency for Development and Cooperation	▪ Phase 1: SLGDFP 2000–2004 ▪ Phase 2: LGSP-LIC 2006–2011 ▪ Phase 3 Union Parishad Governance Project/Upazila Parishad Governance Project: 2011–2016
Benin	▪ ADECOI: 4 ▪ PA3D: 2	▪ ADECOI: UNDP/FBS ▪ PA3D: UNDP	▪ ADECOI 2002–2006 ▪ PA3D 2009–2013
Bhutan	▪ Phase 1: 1.0 ▪ Phase 2: LGSP: 0.8 ▪ Phase 3: LGSDP: 0.5	▪ Phase 1: UNDP/Royal Netherlands Embassy ▪ Phase 2: Swiss Agency for Development and Cooperation, UNDP, EU and Danida ▪ Phase 3: Swiss Agency for Development and Cooperation, UNDP, EU, Danida	▪ Phase 1: 2003–2006 ▪ Phase 2: LGSP: 2006–2013 ▪ Phase 3: LGSDP: 2013–2018
Guinea	▪ PDLG 1: 0.8 ▪ PDLG 2: 1 ▪ PDLG 3: 1	UNDP	▪ PDLG 1: 2001–2007 ▪ PDLG 2: 2008–2012 ▪ PDLG 3: 2013–2017
Lesotho	0.8	Phase 1: UNCDF/UNDP, EU	DDP 2013–2017
Mali	▪ Phase 1: 2.5 ▪ Phase 2: 2	Phase 2: UNDP, FBS, LuxAid, EU and Government	▪ PACR: Projets d'Appui aux Communes Rurales 2001–2005 ▪ CTDL 2006–2010
Nepal	DFDP phases 1 and 2: 5.0	Phase 2: U.K. Department for International Development	▪ Phase 1: 2001–2003 ▪ Phase 2: 2003–2007
Solomon Islands	1.0	UNDP, Australian Agency for International Development and EU	▪ PGSP: 2006–2013 ▪ 2013 onward scaled up by the Government of Solomon Islands
Tanzania	4.0	▪ Norwegian Agency for Development Cooperation ▪ UNDP ▪ World Bank and other development partners	Local Government Reform Programme 2000–2004 (later upscaled)
Uganda	12.5	▪ UNDP (capacity-building support) ▪ World Bank (Phases II and III)	1998–2001 (later upscaled by other development partners and Government of Uganda)

a. Only the core LDF is reflected in this table. As it appears from the country chapters, there were other related pilots in most countries, e.g. under LoCAL which supports climate change adaptation.

TABLE 0.2 **Overview of LDF pilots**

Country	Pilot of LDF[a]	Total number of local governments in country	Roll-out
Bangladesh	▪ 81 UPs in one district (phase 1) ▪ LIC 362 in 6 districts ▪ Union Parishad Governance Project: 7 districts (488 UPs)	4,500 UPs in 64 districts	Countrywide roll-out of block grant features from 2006 but with performance-based allocations from 2012
Bhutan	▪ Smaller pilots to 40 gewogs (2006) ▪ Climate change adaptation–focused LoCAL LDF piloted originally in 2 dzongkhags and 2 gewogs	20 dzongkhags and 205 gewogs	▪ Countrywide roll-out from 2008 of the annual grant system with formulas ▪ Roll-out of LoCAL from 2013/14
Benin	▪ Support to Communal Development and Local Initiatives in the Borgou (ADECOI) 2002–2006 ▪ Project to support decentralization, devolution and local economic development in Benin (PA3D)	One-tier decentralization system based on 77 municipalities, 3 of which are special-status cities (Porto Novo, Cotonou, Parakou)	FADeC established in 2008 and distributing both recurrent and development funds to all municipalities including performance-based grants
Guinea	Upper Guinea (23 LDCs in the prefectures of Kouroussa and Siguiri)	7 administrative regions and the special zone of Conakry, 33 prefectures, 38 urban municipalities, and 304 rural communes covering 2,300 rural districts	Local finance in Guinea is limited to own source revenues, shared revenues, and grants; no intergovernmental transfer system exists
Lesotho	No pilot	10 districts and Maseru City Council	No roll-out foreseen at this point
Mali	▪ PACR: Projets d'Appui aux Communes Rurales ▪ PACR-M: Projet d'Appui aux Communes Rurales de Mopti ▪ PACR-T: Projet d'Appui aux Communes Rurales Tombouctou ▪ Support to 147 communes in regions of Mopti and Timbuktu	703 communes (municipality) ; 49 departments, 8 regions and District of Bamako	ANICT established in 2001 and covered nationwide from about 2005 onwards through support from several donors
Nepal	▪ Decentralized Financing and Development Programme ▪ Phase 1: 2001–2003 in 8 districts (DDCs) ▪ Phase 2: 2003–2005 expanded with 12 more to total 20 districts (DDCs)	Two tiers of local government: district development committees (DDCs) and village development committees (VDCs); municipalities for larger cities	After DDP upscaled nationwide through government and donor grants (LGCDP) through LBFC/MOFALD from 2008 onwards
Solomon Islands	All 9 provincial governments where eligible and with a preparatory support phase	9 provincial governments	Countrywide coverage from 2008 with gradual significant increase in per capita grants
Tanzania	6 rural districts of Mwanza Region	113 districts at time of introduction in 2000; this had increased to 169 districts in 31 regions by 2016	▪ Countrywide roll-out from FY 2005/06. ▪ Urban PBGS from 2012/13 (ongoing) ▪ 2014–2017: Work on a new countrywide PBGS; no annual performance assessment for country system in this period
Uganda	5 districts	56 districts and > 1,000 sub-counties	▪ Countrywide roll-out from 2004 (LGDP II) ▪ Urban PBGS from 2012 ▪ Most recently refined in 2017 with a new PBGS and annual performance assessments

a. The focus here is on the core LDF; related approaches are described in the country case studies.

used for the performance based grants to district development committees and village development committee; a supply-driven approach from the central government side was applied instead.

National mechanisms such as Benin's Commune Development Fund (FADeC) and Mali's National Agency for Local Government Investment (ANICT), which provide funding for infrastructure investments to local governments, are developed by funds channelled from the national government and development partners, and also include a degree of capacity building. However, many national and external funding sources for local governments persist and often use a parallel mechanism (either for specific poverty targeting or sectoral funding mechanisms), which potentially undermines the effective functioning of these more nationally driven processes.

The demand-driven element inherent in the LDF's capacity-building approach aims to (i) take into account the considerable differences that exist between districts / local governments and (ii) foster as much of a sense of local government ownership as possible. The supply-driven training in technical areas now carried out by central governments often ensures that local governments are provided with a set of core capacity-building services, intended to enable them to provide a minimum level of service delivery. Capacity building is one way of improving the performance of local governments. This means that capacity building is expected to improve the capacity of local governments to deliver pro-poor public goods and services within their jurisdictions. Capacity building in the LDF universe is here used in relation to three types of capacity which we found in many of the 10 countries:

- **Systems and procedures.** These are the 'rules of the game', the ways in which local governments are expected to operate. These include, for example, management and financial regulation provisions (e.g. about how meetings are to take place, how expenditure is to be authorized, how budgets are to be drafted and approved, how planning is supposed to take place, and so on), as well as specific guidelines for particular projects and funds. These make up what can be termed 'institutional' capacity – and are therefore often included in the capacity-building plan of local governments.
- **Human resources.** This refers to both staffing levels and the skills/knowledge staff have and to various committee members. Unless there are sufficient staff with an adequate level of skills, local governments will not be able to use systems, procedures and resources properly, and will thus be unable to deliver public goods and services to local citizens.
- **Limited material resources.** This refers to basic materials and equipment. Insufficient resources will reduce the ability of local governments to deliver goods and services.

Other policy reform activities

In most of the 10 countries, support to the LDF was combined with support to policy and reform development, with a focus on and attention to the overall IGFTS. In those countries, this has supported awareness raising and swift roll-out of pilots through sharing of reform documents and lessons learned. For example, experiences with Bangladesh's early Sirajganj Local Governance Development Fund Project (SLGDFP) have been widely shared and published. The project also includes a significant element of policy advocacy and support, which has improved the entire legal framework for local governance. The same can be said initially for Nepal's Local Governance and Community Development Programme, Tanzania's Local Government Reform Programme and Uganda's Local Government Development Programme.

Impact and leverage

Evidence of impact on the grants

The smaller LDF spearheaded in each country by pilot LDF schemes expanded tremendously in quantitative terms, and countries quickly adapted and rolled out the new approaches. Table 0.3 shows an overview of the total grants applying similar or adjusted modalities for grant allocations. The leverage funding – grant allocations to local governments – is included if there is evidence that the UNCDF pilots have had an impact on this roll-out, and if there is evidence that similar features in the system have been applied, even if modified. The leveraged total is over 60 times more than the UNCDF contribution, has typically accrued over a decade or more, and has made additional funding available for local services and infrastructure[4].

It should be noted that in none of the countries studied have systems reverted back completely to their pre-pilot state[5], and that in all countries pilots and roll-outs have been continuously refined and modified.

As Table 0.3 shows, the smaller initial UNCDF inflow of funds, combined with support from other development partners, has contributed to significant funding in each country using similar modalities. The country case studies presented in this volume discuss some variations on this theme, but the general picture is one of strong buy-in from other development partners – and especially from governments, which have provided the largest share of overall support. One such example is Solomon Islands, where the grant system applying the initial LDF features is now 100 per cent funded by government funds. Similar trends are observed with regard to the upcoming PBGS in Uganda. Bangladesh features a gradual approach, whereby the government is paying an increased share as agreed with the World Bank. In Nepal, the development partners' overall contribution to the total funding of grants under upscaling has been 18 per cent, which highlights the government's commitment to the transfer of grants to local governments. On the other hand, in Lesotho, where the second LDF to the 10 districts was not successful, the probability that the system will be upscaled or taken over by government is low.

[4] Note that in Tanzania, the adjustment of the existing funding level from sector grants is not included in the leverage total, although the LDF did affect this.

[5] As noted earlier, in both Tanzania and Uganda, the countrywide system was in place for a few years without annual performance assessments, while the urban system continued; as of this writing, new system roll-outs are expected soon in both countries. In Uganda, the first new annual performance assessments were expected in September 2017.

TABLE 0.3 **Expansion of the LDF modalities (million USD)**

Country	Initial LDF	Total funding for similar modalities since onset
Bangladesh (3 phases)	15	888
Benin	6	153
Bhutan (3 phases)	3	710
Guinea	3	49
Lesotho	1	5
Mali	5	230
Nepal	5	128
Solomon Islands	1[a]	27
Tanzania	4	684
Uganda	13	620
Total	56	3,494

NOTE: This table focuses on the core LDF; country chapters cover other related pilots in some countries, e.g. under LoCAL.

a. From core UNCDF, but USD 3.5 million was passed through from the European Union.

Qualitative impact

Aside from new fund allocations, the country reviews found significant impacts on various features of the IGFTS in the respective countries. Table 0.4 compares the impact across countries on core dimensions.

Phases in support with reference to the LDF models

The support from UNCDF and other development partners in most countries went through various phases from the original pilot to gradual upscaled refinements. The 10 studies revealed three main approaches:

- **Full coverage, but with refinements/adjustments over time** – e.g. Solomon Islands (and with significant increase/upscaling in the amount of support and in the application of the modalities to other grants, e.g. recurrent grants)
- **Small pilot with gradual upscaling** – e.g. Uganda from 5 to 41 to countrywide; Benin from 6 to 77; Bangladesh from union parishads in 1 district to 6, then 7, and then national roll-out by the World Bank and Government of Bangladesh; Nepal with district

TABLE 0.4 **Qualitative impact**

Country	Allocation formula	Performance-based elements	Direct flow of funds	Linked with capacity-building support, e.g. grants	Other features
Bangladesh	✓	✓	✓	Not directly but with linked support	Investment menu, guidelines, M&E, etc.; impact on legal framework
Benin	✓	✓	Through FADeC	Yes, but capacity-building as separate stream	Investment menu and M&E
Bhutan	✓	General grant: No, except for some minimum conditions for access; LoCAL LDF: Yes	✓	Yes, as share of grants and later with capacity-building grant testing	Grant guidelines and utilization, planning tools, etc.
Guinea	✓	✓	✓	Yes, but capacity-building as separate stream	Investment menu and M&E
Lesotho	✓	✓	Through Ministry of Local Government	Yes; second year only capacity-building grants	Investment menu and M&E
Mali	✓	✓	Through ANICT	Yes, but capacity-building as separate stream	Investment menu and M&E
Nepal	✓	✓	✓	Not directly, but to system support	Investment menu, M&E, strong impact on institutional set-up through LBFC/MOFALD
Solomon Islands	✓	✓	✓	Not directly, but linked with comprehensive capacity-building support before and during pilot phases	Investment menu, guidelines, M&E, etc.; strong impact on overall institutional framework with grant committees, etc.
Tanzania	✓	✓	✓	Yes, to capacity-building grants and later as share of grants	Many other features, e.g. investment menu, standards
Uganda	Yes, through testing of new formulas	✓	Yes, and from LGDP (2001) directly from Treasury	Yes, to capacity-building grants and later as share of the development grants	Many other features, e.g. investment menu, standards

NOTE: M&E = monitoring and evaluation.

development funds in 8 districts, then expansion to 20, and full nationwide coverage

- **Pilot and then direct upscale countrywide** – e.g. Bhutan, with initial block grant support in 40 gewogs and then upscaling of the block grant system to all local governments[6]

As the country studies show, experiences from the pilots have been very useful in refinement of the government systems and have had a significant impact on the overall grant systems in Bangladesh, Bhutan, Nepal, Solomon Islands, Tanzania and Uganda, and – to a lesser degree – in Benin, Guinea, Lesotho and Mali.

[6] Note that under the LoCAL programme in Bhutan, performance-based allocations have followed the second approach.

Issues of contribution

How contribution has been measured and documented

In all countries studied, the counterfactual was raised: What if there was no pilot/support in establishing the LDF, and these initiatives had not been implemented? What is the direct link and contribution of the UNCDF-supported pilot on the overall IGFTS?

In the countries with clear leverage in terms of impact on the overall grant system, such as Bangladesh, Solomon Islands, Tanzania and Uganda (and to some extent Bhutan and Nepal), the programmes that have been upscaled and/or government documents and resources clearly reference the earlier pilot and the LDF introduced. For example, in Bangladesh and Uganda, subsequent World Bank programme appraisal documents made such reference; in Tanzania, the linkage between the pilot and countrywide upscaling came through various channels, and was also supported through study visits to another UNCDF LDF-supported country (Uganda), and through the posting of advisers with LDF experiences. In terms of the timing of the upscaling versus the pilot and system features, the evidence – from documents, cross-checked with interviews in the respective countries, reviews of programmes, mid-term and final reviews, and documents from development partners (e.g. Danida in the case of Bangladesh) – clearly supports the idea of UNCDF leverage.

Alternative explanations

Although there is clear evidence of impact in the countries studied where the IGFTS was changed, there is also no doubt that in several cases, countries have also learned from experiences in other places where these reforms were ongoing. This is clearly true for Tanzania. Additionally, the timing of the reforms, with most systems beginning in 2000 and onwards, enabled countries to share experiences through workshops, interactions and the use of consultants across countries. For example, a group of core consultants on LDF/PBGS has worked in more than half of the countries surveyed, and has shared experiences across the countries and regions.

Similarly, other countries, such as Kenya, have also introduced PBGSs (e.g. the Local Authority Transfer Fund), but generally with less refined systems of minimum access conditions and no performance measures – although learning from the early experiences in neighbouring countries is ongoing. In Asia, e.g. India, Mongolia and Pakistan, PBGSs have been or are planned, along with LDF features. Hence, the UNCDF impact extends beyond the specific countries in which its LDF systems have been operational.

It should also be noted that, although their support came later, other development partners – notably the World Bank, the Swiss Agency for Development and Cooperation, and Danida – have supported LDF-type approaches since the earliest experiences in Uganda (1997–2001). Some partner support has been provided without a UNCDF-supported initial pilot – e.g. in Ethiopia for urban local governments – but based on experiences of basic design of LDFs with performance-based elements.

Challenges and way forward

As mentioned above and documented in the country studies, most country systems have evolved since the original design and have been refined, adjusted and changed. Some of the challenges arising in this process are summarized below.

- **Upscaling with government funding.** Some countries have found it difficult to mainstream funding in the general intergovernmental fiscal transfer and mobilize funding from the government; others have been successful in this regard (e.g. Bangladesh, Nepal, Solomon Islands and Uganda).
- **Institutional frameworks.** Some countries have failed to establish a strong institutional framework to lead and guide the reforms; others have managed very well. The lessons learned are the importance of having an overall committee to review the PBGS, including the results from the annual performance assessments; and clear systems for quality assurance and monitoring and evaluation.

- **Capacity-building support.** Some challenges have been noted with the linkages and follow-up of capacity building to support and address weaknesses identified during annual performance assessments. Other challenges in this regard include the lack of a sufficient number of capacity-building suppliers and government control of the supply of capacity-building support to local governments. This often leads to a very supply-driven capacity-building system, which is overly reliant on central government capacity to deliver training at the local level.
- **Credibility of performance assessments.** In some countries, a determination to mainstream general procedures has resulted in the loss of the 'arm's length' neutrality needed to ensure the credibility of performance assessment. This was the case e.g. in Uganda, but new reforms will bring this back on track by contracting out assessment to neutral companies. A similar situation pertained in Bangladesh, but here the UNCDF role has been more pronounced in support to the enhanced quality of annual performance assessments through training the annual performance assessment teams and supporting quality assurance.

Conclusions

Impact on the overall grant system from LDF towards countrywide reforms

The study shows that in most of the 10 study countries, the original LDF pilot has had a very significant impact on the scope and ways in which local governments have been supported to deliver service and basic infrastructure. It is estimated that the funds leveraged by the LDF pilots of the UNCDF's small, but crucial, contribution over the reviewed period (approximately USD 56 million for the 10 countries) totalled about USD 3.5 billion from the start of the original pilot in Uganda in 1997 to this writing. Thus, the amount of the support provided does not always matter, if the initial pilot can attract the attention of both the government and other donors, and/or if the support is combined with high-quality design, sharing of lessons learned and strong advocacy.

In most of the countries, the LDF pilots had a significant impact on the qualitative aspects of the overall IGFTS, including features such as formula-based allocations, direct and faster flow of funds to local governments, and initiatives to promote performance through performance-based allocations[7].

A few countries have faced challenges related to a lack of government funding (e.g. Lesotho and Mali) and the degree of overall commitment to upscaling and contributing to the LDF system. This does not necessarily diminish the work being done in these countries.

Impact on capacity-building modalities

The pilots introduced new capacity-building modalities in most countries – e.g. capacity-building grants, phased support and more demand-driven approaches in e.g. Bhutan, Nepal, Tanzania and Uganda.

Significant capacity has been developed within the central governments for managing public finance and fiscal decentralization. In particular, the LDF/annual capital grant mechanism for local governments has catalysed capacity development initiatives in nearly all the countries surveyed, and especially in Bangladesh, Bhutan, Nepal, Solomon Islands, Tanzania and Uganda.

However, the actual application of the capacity-building modality in later upscaling has been very uneven. In Nepal, the capacity-building grants were not upscaled and are not currently used, and a very central government supply-driven approach to capacity building exists. In Tanzania, the national system seems to have stalled over the past two to three years, but new momentum is being sought through e.g. LoCAL and other initiatives aligned to the LDF approach.

Impact on overall policy issues

In the countries where the impact has been the greatest, e.g. Bangladesh, UNCDF support has been clearly

[7] This supports the finding of an earlier review by Jesper Steffensen, 'Experiences from Performance-Based Grants: Performance Based Grants – Concept and International Experiences' (UNCDF, 2010).

linked with support to other systemic and policy issues, such as improvement of the legal framework, guidelines and monitoring and evaluation systems.

The Bangladesh experience is consistent with UNCDF's maturity model approach of innovation, consolidation and scale-up. In this case, the innovation was small scale and financed through internal funds. The consolidation was partly financed by international financial institutions, with full scale-up financed by the government with international financial institution support. In fact, the Sirajganj Local Governance Development Fund Project and all other Bangladesh projects subsequently supported by UNCDF were flagship initiatives led by central and local governments to promote participatory planning, decision-making and monitoring of local infrastructure, pre- and post-budget participation of stakeholders, public hearing and monitoring through civic engagement facilitated spontaneously by the relevant local stakeholders.

In Bhutan, UNCDF's role has clearly been a catalytic one, moving the annual capital grant system from a pilot scale – through collaboration with UNDP in the early years of the system via the Strengthening Capacities for Development Management and Decentralization Project and the Decentralization Support Programme – to a nationwide mechanism through support to the Local Governance Support Programme, the Joint Support Programme on Environment, Climate Change and Poverty Mainstreaming and the Local Governance Sustainable Development Programme, corresponding with national goals and strategies set in the 10th and 11th Five-Year Plans. In the subsequent collaborative programmes, UNCDF made smaller financial contributions, but provided vital technical assistance for further development and fine-tuning of the entire grant system. Its direct financial support for local development capital financing – combined with advisory support for the development of the fiscal decentralization and annual capital grant mechanism including a resource allocation formula, in synergy with larger resources from other development partners – has progressively built the government's capacity and confidence to roll out and expand the annual capital grant mechanism on a national scale.

And in Nepal, the Local Body Fiscal Commission (LBFC) replicated and upscaled the entire minimum condition and performance measure assessment process and recommended grant allocations to the government nationwide. The LBFC began implementation of minimum conditions and performance measure assessment in municipalities in 2008/09; these affected grant allocations for 2009/10 and were later expanded to the village level. The original UNCDF programme (2001–2006) significantly influenced the IGFTS, instituting performance-based grant funding; working with local government associations for capacity development; strengthening the internal audit section; designing Local Body Financial Administration Rule 2007; and advocating for stronger, efficient, transparent and accountable local governments in Nepal.

Concluding comments

UNCDF support provided through the LDF, especially the performance-based elements of the early pilots and countrywide support programmes, should be seen as one of the most important impact and leverage factors behind the reforms of development grant systems over the past two decades.

It has had a direct impact in the countries where it was operational, but its influence has been spread across other countries and continents through the generation and sharing of good practices and lessons learned in its originating countries, publication and documentation of results and strong advocacy in countries, as well as through international workshops. This has led to new trust in local governments, an expansion of discretionary funding for development investments, and to more transparent and needs-based allocations (formula-based) and strong incentives for local governments to improve their performance through the PBGS elements.

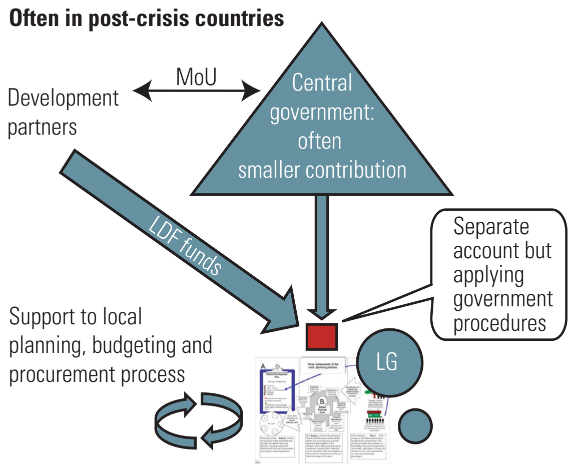
The dynamic UNCDF LDF approach has continuously been refined, and has most recently been expanded into new areas such as climate change adaptation – through the LoCAL mechanism, with its performance-based climate change resilience grants.

The UNCDF approach has been particularly strong in ensuring upscaling from larger development partners such as the World Bank, first through countrywide systems, but more recently with urban windows as well. In light of the knowledge and lessons learned shared across countries, and expansion of the concepts underlying the LDF/PBGS approach, a direct link between the UNCDF pilots and development may be harder to establish and ascertain in the future. Nonetheless, the fact remains that UNCDF support in this regard, though small in fiscal terms, has been highly qualified and instrumental in spearheading reforms – and that there is still space to use the refined and adjusted instruments to promote development in the new decade. This UNCDF approach does more than just ensure a significant flow of funds without qualitative and sustainable impact. Rather, the model's strength lies in its combination of grant design with performance incentives, capacity-building support and policy support (advocacy, sharing of lessons learned, support to systemic reforms and institutional framework).

Annex: LDF variants

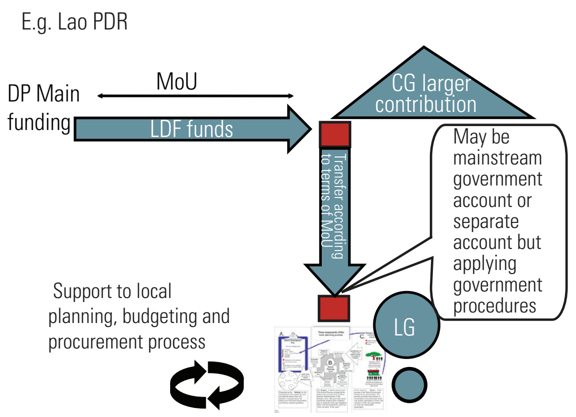
As mentioned in the main text, various variants/phases of evolution of LDFs can be identified. Below is an attempt to outline a few of the core variants.

FIGURE 0A.1 **LDF phase/variant 1**



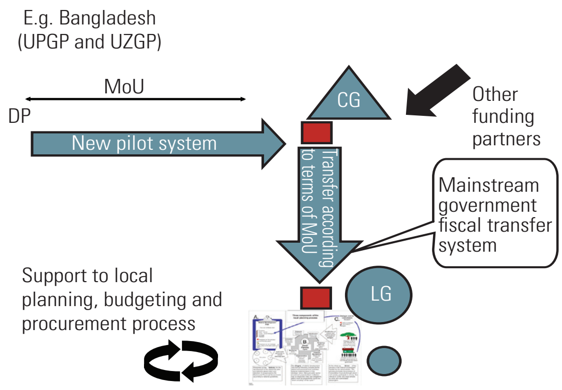
SOURCE: Adjusted/adapted from UNCDF presentations on the evolution of LDFs and ideas from UNCDF, presentation by David Jackson.

FIGURE 0A.2 **LDF phase/variant 2 – version i**



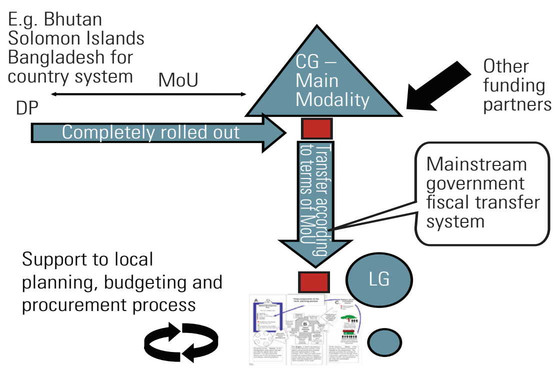
SOURCE: Adjusted/adapted from UNCDF presentations on the evolution of LDFs and ideas from UNCDF, presentation by David Jackson.

FIGURE 0A.3 **LDF phase/variant 2 – version ii**



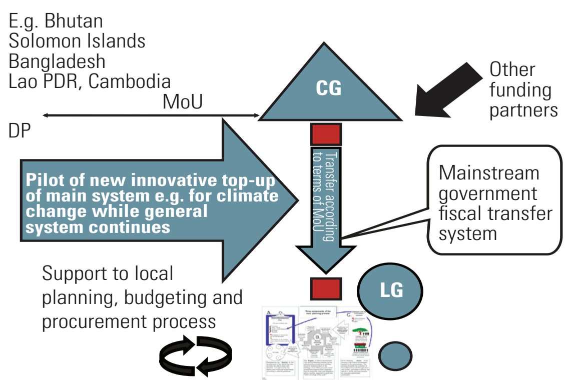
SOURCE: Adjusted/adapted from UNCDF presentations on the evolution of LDFs and ideas from UNCDF, presentation by David Jackson.

FIGURE 0A.4 **LDF phase/variant 3: full roll-out and use**



SOURCE: Adjusted/adapted from UNCDF presentations on the evolution of LDFs and ideas from UNCDF, presentation by David Jackson.

FIGURE 0A.5 **LDF phase/variant 4: new instruments**



SOURCE: Adjusted/adapted from UNCDF presentations on the evolution of LDFs and ideas from UNCDF, presentation by David Jackson.

CASE STUDY 1

Bangladesh

Background and country context

The local government system in Bangladesh has evolved within a three-tier framework – union, *upazila* (subdistrict) and district. The institution at the lowest tier, i.e. the union *parishad* (UP), has had the most robust presence due to its institutional continuity as an elected body. The body at the secondary level, the upazila parishad, has had a much shorter history as an elected body; and the elected body at the top level, i.e. the district, has begun operation only very recently. As of this writing, Bangladesh's local government institutions include 11 city corporations, 324 *pourashavas* (municipalities), 64 *zila* parishads (districts), 488 upazila parishads (subdistricts) and 4,500 UPs[1]. Besides these, there are three hill district councils; these are an additional system in force for the Chittagong Hill Tracts (Bandarban, Rangamati and Khagrachari districts), where, alongside the statutory local government institutions, these district councils are legally empowered to exercise customary law as well as act as the regional council. However, these are currently being run by nominated persons rather than elected representatives.

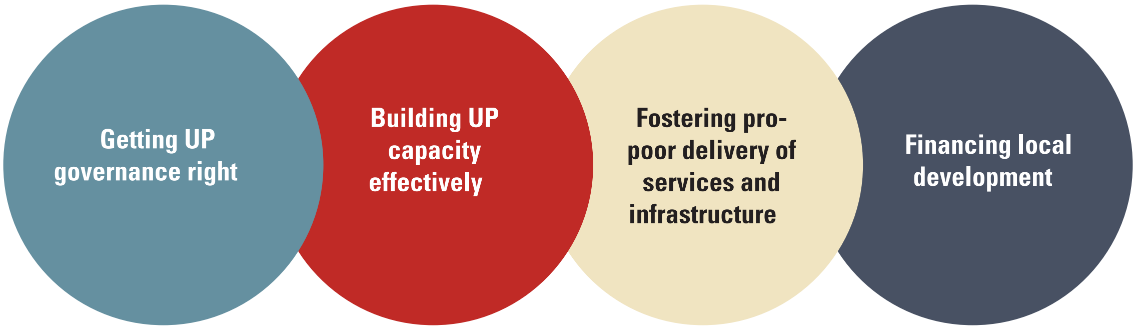
Local government is acknowledged in Bangladesh as a highly viable mechanism through which democratic processes and practices can be established and participatory development ensured. Historically, however, local governments in Bangladesh have remained weak and susceptible to the influence and pressures of the central government. Through the years, local government institutions have struggled for sufficient fiscal and administrative power. They were also constrained by a lack of transparency, low capacity, bureaucratic control, political interference, limited authority, a lack of accountability on the part of service providers, weak financial resources and a limited orientation towards local communities.

In post-independence Bangladesh, decentralization policy has moved through different phases. Despite having professed objectives of promoting democracy and development at the lower levels, all of these approaches suffered from weak national commitment to democratic and accountable local government, with unclear responsibilities and limited, unpredictable resources. The challenges faced by local government institutions in general and UPs in particular are highlighted in Figure 1.1.

UPs – the longest-standing form of elected local government – were broadly responsible for economic, social and community development and were mandated to fulfil 38 functions. However, their effectiveness was severely constrained by the broader policy context of devolution in Bangladesh, where the union was subordinated to higher tiers of government and had little fiscal or functional autonomy. UPs never received any funds directly from the central government to their

[1] Bhattachariya, Monem and Rezbana (2013).

FIGURE 1.1 **Challenges of UP governance before the SLGDFP pilot**



accounts. Fiscal and revenue issues before the reform process of the new millennium included the following:

- Although there was a formula for allocation of funds among UPs, this was not usually followed and there was no consistency in allocations among UPs and from year to year.
- There was great uncertainty about the amount and timing of future grants, which made planning and implementation of works difficult.
- Annual development programme funds also did not flow directly to the UPs but were channelled through the upazila level with long delays.
- Actual use of resources under the annual development programme was influenced by national guidelines prescribing a set range of sectoral allocations, maximum number of projects, and the amount that could be undertaken using community labour (USD 830).
- UPs were reluctant and/or unable to raise additional resources from own revenue.
- There were no incentives to improve performance in core areas such as public financial management, revenue mobilization, governance and accountability, and a lack of trust in the UP level.

A long-standing tradition pertained of little or no contribution to, and an attitude of general non-compliance towards, own revenue funding of local development. Revenue from own sources had remained static over the years at an annual average of BDT 100,000 (USD 1,660), in part due to the reluctance of elected officials to incur opposition and a lack of effective enforcement and penalties[2].

Piloting UNCDF's SLGDFP: seeding the paradigm shift

Based on these experiences in Bangladesh, UNCDF embarked on a first-generation local governance pilot project in 2000. It ran through 2006, covering 1 of the country's 64 districts (Sirajganj) and targeting 81 UPs of this district with a population ranging from 20,000 to 50,000. The pilot project was derived from UNCDF's international strategy to support participatory, decentralized planning and financing of development activities through area-based local development funds[3].

The Sirajganj Local Governance Development Fund Project (SLGDFP) aimed to show the potential benefits of decentralized funding to the UP level and promote infrastructure and service delivery (ISD) processes involving participatory planning and capacity building for poverty eradication, community empowerment and social development in UPs in the Sirajganj District. Major innovations piloted by the SLGDFP are shown in Figure 1.2.

[2] Nasir Uddin, 'Review of Local Government Revenue Regimes of Bangladesh towards Prospect of a Uniform Local Government Revenue Policy' (UNDP, 2015).

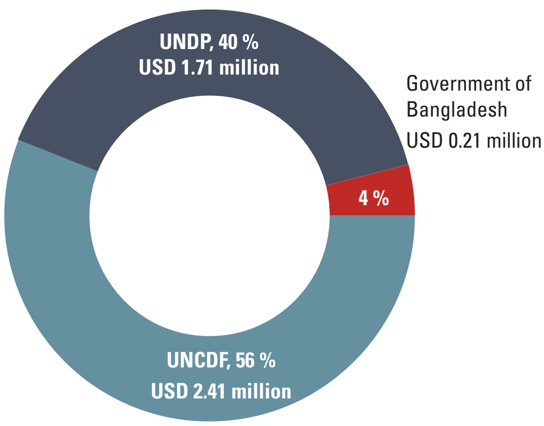
[3] Ian Barwell et al., 'Sirajganj Local Governance Development Fund Project, Project Formulation Report' (1998).

FIGURE 1.2 **Innovations piloted by the SLGDFP**

Financial status of the project

The total transfer of funds to UPs under the SLGDFP was USD 4.3 million; of that amount, UNCDF was to provide USD 4.1 million (the actual figure for transfers was USD 2.4 million, as shown in Figure 1.3); the United Nations Development Programme (UNDP) was to provide USD 1.7 million, and the Government of Bangladesh was committed to provide USD 0.21 million.

FIGURE 1.3 **Contributions to the SLGDFP budget**



The government's contribution was exclusively used for custom duty and value added tax (VAT), while a portion of UNCDF funding was earmarked for block grants to union and upazila parishads. As the upazila election was not held and there was no elected representative at the upazila level, upazila block grants were not disbursed to the upazila parishads, while more funds were utilized for capacity building of local government institutions.

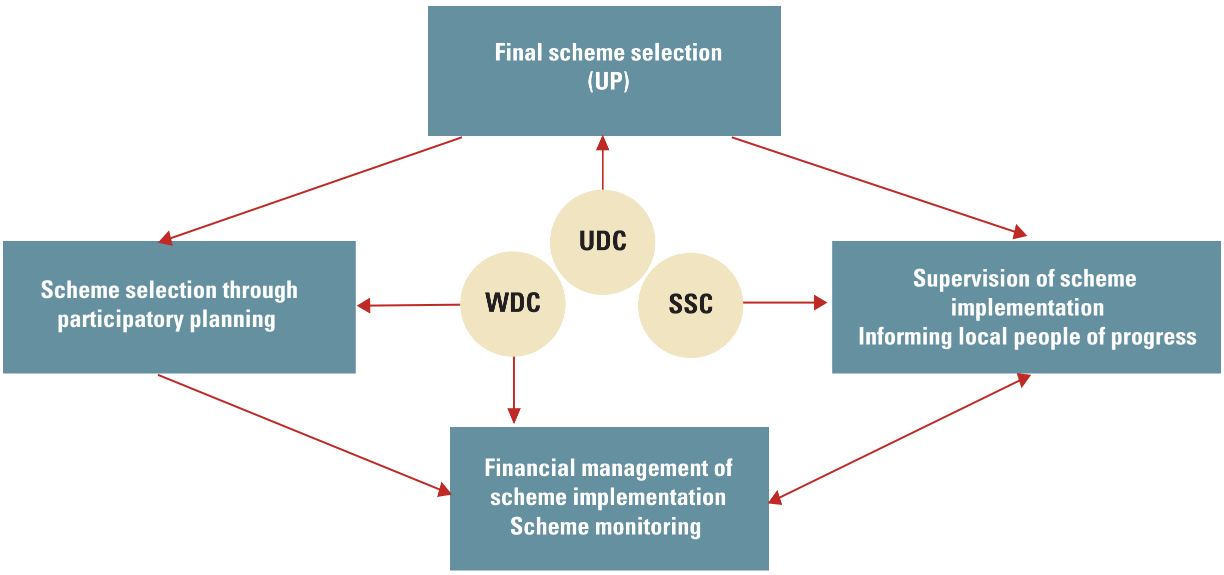
SLGDFP implementation strategies

The project followed a robust and effective implementation strategy, with a focus on internalizing the process within the government framework as well as within UPs' regular activities. The strategies were as follows:

- Support to UPs to enhance their administrative and financial capacities
- Assist UPs and communities to prepare their development plans in a participatory manner
- Support UPs to form various committees – ward development committee (WDC), scheme supervision committee (SSC) and union development committee (UDC) – in a transparent manner to assist them in planning, implementation and quality assurance of local development planning; and ensure women's leadership and participation (at least 30 per cent) in these committees
- Provide unconditional block grants and performance grants to the UPs to implement their development plans
- Assess UP performance in a participatory manner to identify UP strengths and weaknesses and to build their capacity in the identified weak areas
- Test different innovative approaches to contribute to decentralized participatory planning
- Support women UP representatives to exercise their roles and responsibilities in an effective manner through organizing women's development forums at the upazila and district levels
- Provide 30 per cent earmarked funds to implement women-prioritized schemes at the local level
- Involve local volunteers in assisting the committees and UPs in the planning process
- Involve local-level government agencies in technical assistance to UPs
- Support the Local Government Division in improving its existing monitoring system of local government bodies
- Conduct local and national workshops/seminars to disseminate SLGDFP learning to contribute to policy change

In the SLGDFP, community committees have played a key innovative role in planning, implementation, and quality control of local development initiatives including revenue generation of the UPs. In each ward in participating UPs, two types of committees were formed: WDCs and SSCs, each consisting of seven community representatives and at least 30 per cent female representation. Beside these, UDCs consisting of 20 members and citizen committees with 31 members have been organized in all 78 unions. All these committees had been organized in a transparent and participatory manner. In open public meetings, the community has selected committee members. In the 78 unions, 738 WDCs, 738 SSCs, 78 UDCs and 78 citizen committees have been organized; see Figure 1.4 for respective roles and responsibilities.

FIGURE 1.4 **Roles of different committees in UP planning and budgeting under the SLGDFP**



Physical support to UPs: unique capacity-building efforts

Before the project, UPs in the Sirajganj District suffered from a lack of capacity in different aspects: administrative – official and financial, documentation and reporting, community mobilization, gender mainstreaming, development planning and implementation etc. They also lacked adequate physical facilities (chairs, tables, file cabinets, typewriters, notice boards, etc.). The SLGDFP identified weaknesses and provided good-quality office furniture and rehabilitation assistance to the UPs; as a result, the performance of the UPs involved improved significantly.

Capacity-building training to the UP and community

In addition to the funding made available, the SLGDFP implemented various capacity-building trainings for the UP representatives, and community and local government officials. The project innovated a learning by doing approach, which has been proven to be an effective strategy to capacitate local government bodies. Some trainings were also provided to community and government officials working in the local government sector. Specific trainings provided are delineated in Table 1.1.

Major achievements of the SLGDFP

Institutionalization of performance assessment

Numerous reviews of the SLGDFP have proved the achievements of the project[4]. The SLGDFP experimented with providing direct funding to UPs on a block grant basis according to their level of performance. It ensured greater certainty in grant allocations. It also allowed additional funding to those UPs that met minimum standards. If a UP could utilize the initial funds properly and demonstrate its skills in scheme implementation, financial transparency, community participation and monitoring, financial management and efficient project management, it would receive funding in the next year.

Among the specific beneficial outcomes of the project was greater predictability in fund allocation, allowing the UPs to engage in medium-term budgeting and planning processes. The fund release mechanism also resulted in a greater degree of autonomy and greater control of the UPs over budget allocation and fund management. The improved timing of funds release allowed the UPs to undertake a proper budget preparation process.

It also enhanced competition among the UPs in demonstrating better performance. Beginning in 2002, the project introduced a public score card to assess UP performance. This score card revealed the strengths and weaknesses of the UPs, grading their officials, financial management, service delivery, female participation in decision-making, transparency, accountability, and overall governance. The assessments were undertaken annually, with the participation of community representatives, UP bodies, and – occasionally – local government officials. Some 100–300 people attended the assessment sessions. UP representatives facilitated the assessments. The scorecards were hung on a board, and participants provided their scores. Based on the assessments, the UP developed its capacity-building plan. Initially, the score card was developed by the project team based on the roles and functions of the UP. However, over time, most of the issues addressed by the project team were changed by the stakeholders, including the implementation modality. The score card system was subsequently supplemented by an external neutral performance assessment from 2004/05 to ensure impartiality, but the annual performance assessment has continued to be conducted, and has been rolled out to the entire country, as discussed below.

From 2002 to 2006, 34,248 men and 12,117 women participated in the performance assessment exercise. The participatory assessment created a scope for the communities to make the UPs accountable to them for their performance. Through the participatory

[4] See e.g. Unnayan Shamannay, 'Sirajganj Local Governance Development Fund Project' (Dhaka, 2007), and the programme documents for LGSP–LIC and LGSP.

TABLE 1.1 **Nature of training provided under the SLGDFP**

	Targeted recipients	Number of participants
Basic Training (3 days)	UDCs of 78 unions	1,230 people
Training on Participatory Planning (2 days)	WDCs of 78 unions	702 WDCs (4,902 people)
Training on Scheme Implementation and Management (2 days)	WDCs and SSCs of 78 unions	1,404 WDCs and SSCs (9,828 people)
Training of Trainers for Union Facilitation Team (UFT) (6 days)	UFTs of 78 unions	502 men, 204 women
Training for Standing Committees (1 day)	Selected members of different standing committees of 82 unions	1,066 committees
Citizen Committee Orientation Meeting (1 day)	Citizen committee members of 78 unions	9,207 men, 3,106 women
Monitoring and Evaluation Training for UNOs and Upazila engineers (2 days)	Respective UNOs and engineers of 9 upazilas	52 people
Basic Roles and Responsibility Training for UP Representatives (4 days)	All UP chairs, secretaries and members of 82 unions	884 men, 236 women
Budget Preparation and Financial Management Training (1 day)	All UP chairs and secretaries of 82 unions	164 men
Basic Training on UP Office and Financial Management (6 days)	All UP secretaries of 73 unions	73 men (8 secretary position were vacant)
Training on Typewriting and Computer for UP Secretaries (10 days)	All UP secretaries of 82 unions	82 men
Training on Village Court and Family Law (2 days)	UP representatives of 82 unions	870 men, 234 women
Training to MIE Wing Officials on Monitoring and Evaluation/MIS (6 days)	Senior assistant secretaries, officers of LGD-MIE wing	17 officers
Training on Roles and Responsibilities of Village Police (3 days)	All village police of 82 unions	745 men
In-country /study abroad tour / exposure visits	UP representatives, government officials, project staff	12 study tours: 112 men, 43 women; 34 exposure visits: 520 men, 140 women
Skills Development Training for Women Members	Women UP members of 82 unions	167 women members
Training to Government Officials on Fiscal Decentralization and Local Governance	Government officials	34 deputy secretaries and senior assistant secretaries

SOURCE: SLGDFP, Unnayan Shamannay, Dhaka, Bangladesh, 2007.

performance assessment, the UPs were able to identify – and overcome – weaknesses through effective capacity-building efforts.

The results of the performance assessments were linked to the performance grants as well as to the basic block grants. This performance-based funding mechanism brought about a number of specific outcomes[5]:

- About 95 per cent of the unions in the Sirajganj District were able to improve their performance.
- The average score provided by participants was 82 (out of 100); more than 75 per cent of the UPs scored 80 or above.
- Tax collection retention increased from BDT 1,776,750 (USD 30,938) in FY 2001/02 to BDT 58,42,660 (USD 99,129) in FY 2003/04[6], a 229 per cent improvement.
- Seventy-three unions had access to project funds after meeting the defined criteria.

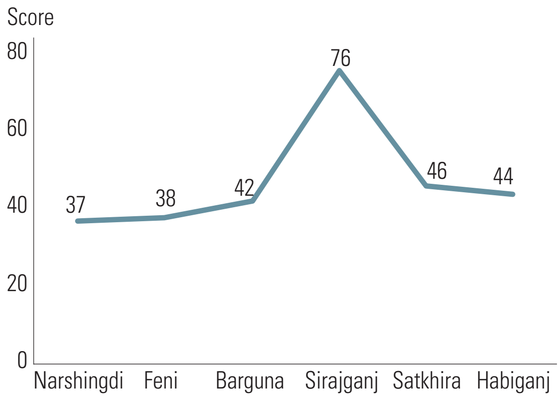
[5] Source: Shamannay (2007).

[6] FY 2002 exchange rate: BTD 57.43 = USD 1; FY 2004 exchange rate: BTD 58.94 = USD 1.

- Sixty-nine unions received decentralized funds, while 73 unions were qualified for funding.
- The Local Government Division has adopted the system and has applied it since 2004 throughout the country.

Various reviews, including Danida's appraisal report of the subsequent Local Government Support Project and its Learning and Innovation Component (LGSP-LIC), documented that performance in SLGDFP-funded UPs was much better than in other UPs after the project had ended in 2006. The project's success was in fact the reason for supporting upscaling in the later LIC, as discussed below. Danida's appraisal noted: 'The SLGDP has also had an impact on the overall policy reforms and showed the way forward for the government block grant reforms and the Government of Bangladesh's wish to roll out the approach'[7]. As shown in Figure 1.5, it was clear from the first performance assessment under the LIC that the UPs in the Sirajganj District performed significantly better than those in other districts.

FIGURE 1.5 **Average 2007 scores by district on performance measures**



SOURCE: Performance Assessment of 155 UPs, September 2007 cited in J. Steffensen, M. Monem, and E. Hossain, 'Final Report on the Assessment of the LGSP-LIC Performance-Based Grant System' (UNCDF and UNDP, 2011), p. 6.

Participatory planning process established

Communities in the Sirajganj District UPs had the authority to express their development needs through a participatory planning process. Participatory planning sessions were organized at the ward (village) levels to identify and prioritize local needs. WDCs and union facilitation team members facilitated the sessions. More than 150 people (30–40 per cent women) participated in the ward-level participatory planning sessions. These individuals represented 1,500–2,000 people in their ward. Tools including social mapping, problem identification, prioritization and action planning were used in the sessions. The sessions were organized in April-June to incorporate local plans into the UP budget. The sessions enabled the community – especially the voiceless poor and women – to address their problems.

Local development scheme implementation through decentralized funds

Beginning in 2001, local development funds (block grants) were provided directly to the UPs of the Sirajganj District according to a flexible guideline for implementing the priority schemes of the community. UP performance was assessed annually, and performance grants were disbursed to superior-performing UPs. The flow of funds directly to the UPs resulted in decentralization of decision-making and the scheme selection process. The number of schemes proposed by WDCs and the final approved schemes are shown in Table 1.2.

In each UP ward, the SSC members were chosen from the residents of the scheme site by the local people. This committee supervised the works done by the WDC. The WDC received the first instalment of the grant at the start of the work. To receive the second and final instalments, they required certification, via the signatures of a majority of the SSC members. Thus, any discrepancy or incompleteness in the scheme proposed had to be resolved for subsequent fund allocation. From 2000 to 2006, 78 unions received about BDT 151 million, or about

[7] Danida Appraisal Report, 2006, page 12.

TABLE 1.2 **Activities under the SLGDFP**

Activity	Planned	Achieved	Comments
Number of unions receiving SLGDF	82	78	4 unions did not met minimum accessibility criteria
Number of schemes prioritized by WDCs	5,868	10,566	An average of 3 schemes were prioritized in each ward
Number of schemes selected by UDCs	1,956	4,908	Demand of the people was overwhelming
Number of schemes approved by UPs	1,956	3,480	
Number of schemes implemented by WDCs	1,956	3,480	

SOURCE: Local Government Division, Sirajganj Local Governance Development Fund Project 2000–2007 final report, 2007.

USD 2.4 million[8], as decentralized funding and implemented 3,510 schemes (see Table 1.3).

According to the assessment done by the SSCs, the upazila officials, independent researchers and the project team, more than 95 per cent of the schemes were of very good quality[9].

Promoted open budget sessions for UPs

With a view to earning the trust of the community regarding financial transactions, the SLGDFP introduced an open budget system for the UPs beginning in 2002. The UP's annual income and expenditure statements were presented at the budget meeting, along with the succeeding year's income expenditure plan. Through this session, people were informed about the UP's plan, financial status and expenditure patterns. This transparent process helped the UPs mobilize local resources and made them accountable to the people.

Women's empowerment

The issue of women's empowerment was at the heart of the SLGDFP. By organizing a women's development forum with elected members at the upazila and district levels, the project has created a congenial environment for women within the UP to make their voices heard and exercise their rights. The project also introduced 30 per cent earmarked funding for implementing schemes prioritized by women. The project introduced this provision to ensure that at least 33 per cent of the schemes selected for implementation were prioritized by women. More than 8,000 very poor women were provided with training under the SLGDFP on different income-generating activities to maintain their livelihoods.

Key lessons learned from the SLGDFP that were widely shared across Bangladesh include the following:

- Direct fiscal transfer to UPs is effective.
- Community involvement in decision-making processes ensures efficient use of resources and creates ownership.
- Citizen committees are effective in local-level development.
- UPs are empowered to undertake development activities for their community.
- A fair bidding process at the union level ensures transparency and cost reduction.
- Flexibility in processes, social awareness, monitoring and project selection criteria ensure women's participation.
- The annual performance assessment of local governments plays an important role.

Mainstreaming the Local Development Fund through LGSP-1 and the LGSP-LIC (2007–2011)

The Government of Bangladesh and UNCDF showcased the success of the SLGDFP with various development partners at different forums, including high-level events such as the Regional Seminar and

[8] Exchange rate: BDT 60.55 = USD 1 (average for FY 2001–2006).

[9] Shamannay (2007).

TABLE 1.3 Funds disbursed and number of schemes implemented by UPs each fiscal year

Activity	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	Total
Funds disbursed (million USD)	0.140653	0.057411	0.265915	0.892553	1.057981	1.057981	2.414514
Number of UPs receiving block grant	19	09	34	73	59	59	
Number of schemes implemented	188	144	399	1,228	1,551	1,551	3,510

SOURCE: Local Government Division, 2007.

NOTE: Exchange rate for 2003–2004: BDT 60.17 = USD 1 (average for FY 2004 and FY 2005); exchange rate for 2005–2006: BDT 67.08 = USD 1 (FY 2006).

Learning Event on Local Governance and Pro-Poor Service Delivery organized by the Asian Development Bank in 2004[10]. One partners who showed interest at this stage was the World Bank, which had not previously supported rural subnational-level projects in Bangladesh. Given the close interaction of UNCDF and the World Bank in the context of scaling up the local governance fund intervention in Uganda, the inherent strength of the model and the visible results achieved in Bangladesh made a strong case for initiating a financing arrangement with the government to scale up the Sirajganj pilot through an integrated programme[11].

The second stage of this evolution came in the form of the LGSP-LIC, which ran between 2007 and 2011 using the SLGDFP-tested block grant modality. When the government decided to substantially scale up the financing of UPs to support local infrastructure development, it required financing that went well beyond the support normally provided by United Nations (UN) agencies. As a result, the strategy proposed was to access International Development Association (IDA) credit for the bulk of the additional financing required by the government, and to use the invaluable development support of the UN agencies – with support from bilateral partners – to provide critical technical assistance throughout the duration of the project.

[10] Roger Shotton, 'Local Government Initiative: Pro-Poor Infrastructure and Service Delivery in South Asia' (2004).

[11] World Bank, 'Project Appraisal Document on a Proposed Credit in the amount of USD 290 million to the People's Republic of Bangladesh for a Second Local Governance Support Project', Sustainable Development Unit, South Asia Region (2011), p. 3.

The LGSP combined internal resources and the IDA loan to finance expanded support to UPs. While the basic grant was a population-based allocation to all UPs in the country's 64 districts using the government's internal resources, the LGSP provided supplementary financing in four stages, bringing around 1,000 UPs under the supplemental financing each year – and all 4,500 UPs under the expanded financing umbrella over the four-year period. This financing was made available to the UPs with a few deliberately designed restrictions on how it could be spent. For example, this allowed for spending on capital or recurrent costs with no sectoral limitations.

The LIC, which operated as an integral part of the LGSP, was implemented in 6 districts of Bangladesh as a special 'window' of the wider programme. The project's total budget was about USD 18.1 million, which was contributed by a number of partners as shown in Table 1.4.

TABLE 1.4 Contribution of different partners to the LGSP-LIC budget

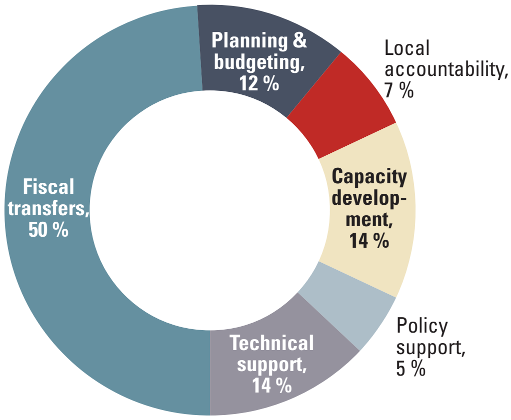
Partner	Amount (million USD)
European Union	11.814
Danida	2.000
UNCDF	2.510
UNDP	1.793
Total	18.118

SOURCE: UNCDF LGSP-LIC project document, 2006.

The LIC component 'topped up' the main grants provided to UPs through the LGSP; in doing so, the size of the LIC grants was determined on the basis of a size of population criterion as well as 12 performance measures. These performance measures included conduct of quarterly open community meetings for participatory planning and budgeting purposes, regular proactive disclosure of investments being made on notice boards, timely submission of quarterly reports to community and local government offices/ministries in approved formats, compliance with the requirements of environmental and social management guidelines, compliance with procurement regulations etc. Table 1.5 shows actual disbursements from the LIC.

An overview of funds allocation by output is presented in Figure 1.6. Note that about 50 per cent of the total budgetary allocations were earmarked as fiscal transfer to be made to the UPs in terms of block grants under the LGSP-LIC.

FIGURE 1.6 **LGSP-LIC project budget allocations by output**



Key achievements of the LGSP-LIC

Three fiscal year rounds of supplementary block grants have been disbursed to 80 UPs, 174 UPs and 264 UPs, respectively, totalling some USD 5.3 million. With this funding, over 5,000 development schemes have been implemented at the UP level based on participatory community planning and an open budgeting mechanism.

- **Community planning.** A total of 4,662 participatory planning sessions with about 450,000 combined participants were held; community committees for scheme identification and implementation (2,376 committees), scheme supervision (2,376 committees) and coordination (264 committees) were formed.
- **Budget and accountability mechanisms.** A total of 518 open budget sessions were held, 2,376 scheme supervision committees were formed, and 41 women's development forums were activated. Also, 41 upazila cooperative officers and 6 deputy directors for local government were mobilized and trained as focal persons for the upazila and district levels, respectively.
- **Capacity building.** A total of 1,848 union facilitation resource people were trained. All involved community committees and Government of Bangladesh officials were trained in participatory

TABLE 1.5 **LIC grant transfers to UPs (actual)**

	2007/08	2008/09	2009/10	2010/11	2011/12	Total
Supplementary block grant (SBG) (BDT)	53,221,347	121,800,000	184,800,000	253,400,000		613,221,347
Qualifying UPs (SBG)	80	174	264	362		
Performance-based grant (PBG) (BDT)				23,400,000		23,400,000
Qualifying UPs (PBG)				117		
Transitional block grant (TBG) (BDT)					54,300,000	54,300,000
Qualifying UPs (TBG)					362	
Total (BDT)	53,221,347	121,800,000	184,800,000	276,800,000	54,300,000	690,921,347
Total (USD)	858,409	1,778,881	2,566,667	3,690,667	662,195	9,556,819
Exchange rate (approximate)	62.00	68.47	72.00	75.00	82.00	

planning, accountability mechanisms and scheme implementation.

- **Policy development.** The Sirajganj pilot and the LGSP-LIC had a direct influence on the UP Act 2009, which provided for participatory planning at the ward level and open budgeting. Support was provided to the Local Government Division in drafting UP rules and regulations.

The LGSP-LIC experiences were subsequently applied in the LGSP-2 and Union Parishad Governance Project (UPGP), which developed full roll-out of performance-based grants in a general countrywide system with 12 performance measures (informed by the LIC), followed by a more detailed, refined system with 42 performance measures under the smaller pilot. The annual performance assessments were conducted in conjunction with UNCDF, which provided training and organizational support to the assessments.

For FY 2010–2011[12]:

- Expanded block grants of BDT 900,000 (USD 12,464) per UP were provided from the LGSP (Government of Bangladesh and the World Bank) for all 4,498 UPs.
- A supplementary block grant of BDT 700,000 (USD 9,836) was provided for each of the 369 UPs of the targeted 388 that complied with the minimum conditions for basic UP functioning. Total disbursements of supplementary block grants amounted to USD 4 million.
- A performance-based grant of BDT 200,000 (USD 2,810) was provided for each of the 120 UPs with scoring highest on a set of 12 additional performance criteria covering management skills, results obtained, dissemination of information among citizens, practice of participatory processes, enhancement of women's role and fiscal efforts and tax collection rates.

[12] Exchange rate: BDT 70.17 = USD 1 (FY 2011).

UPGP: third-generation pilot alongside the LGSP

The success of the SLGDFP and the LGSP-LIC contributed to the Government of Bangladesh's decision to introduce a system of nationwide local governance funding support to UPs with a performance-based grant component attached to it[13]. The lessons learned from these two rounds of local development funds disbursement triggered a set of mutually complementary actions by the key development partners – the Government, the World Bank and the UN agencies – to build on the experience and continue the effort to strengthen and expand the effective role of UPs. The close involvement of these three stakeholders in the LGSP-LIC made it possible to work closely in designing the third stage of engagement that responded to new needs:

- It was evident that a major increase in financing was needed, since all 4,500 UPs had been included in the programme.
- The institutional machinery in the districts and UPs to mainstream and manage the support system needed to be strengthened, along with a more inclusive pro-poor planning process.
- Accountability through independent audits needed to be sustained and reinforced.
- The use of performance-based grants, which had been established in the LIC, needed to be scaled up.
- The capacity of the ministry with overall responsibility needed to be reinforced through an upgraded management information and monitoring system[14].

[13] It was envisaged that performance-based grants would be phased in from year 2 of the project, while year 1 would be used to establish rules and systems, train personnel, disseminate information to the public and carry out baseline evaluations of the UPs. Based on field experience, it is expected that the grant system would need to be closely monitored and further fine-tuned incrementally. The system would be further strengthened based on piloting under the proposed UNCDF/UNDP–implemented UPGP. See World Bank Project Appraisal Document (2011), p. 6.

[14] Center for Resource Development Studies Ltd (CRDS), 'Final Evaluation Report on Second Local Governance Support Project (LGSP-2)' (Dhaka, 2017).

The LGSP-2 programme designed during 2011/12 responded to all of these needs and was supported by a nearly three-fold increase in financing through IDA loans. A phased reduction in the proportion of IDA resources used for annual grant-making was envisaged to decrease to about 40 per cent over a five-year period, with an increase in the government contribution. In light of the critical lessons on scaling up generated by the LGSP-LIC, the government encouraged the UN agencies to continue to provide technical support with an aligned project – the UPGP. An instrument of cooperation was signed between the Government of Bangladesh, UNCDF, UNDP and the World Bank to align the UPGP with the LGSP-2. This initiative led to new mechanisms being developed by the UPGP for UPs related to performance assessment, training of auditors and performance assessors, participatory planning, local resource mobilization, integrated accounting and management information systems – all to evolve in line with the UPGP's extended performance-based grant to 564 UPs across 7 districts, which topped up the LGSP-2 grants received by the UPs.

The mainstreamed national LGSP has thus been designed and administered by the government with a governance support component in which annual support is provided on the basis of performance assessment with a small set of 12 indicators. The UPGP applied a more intensive testing model with 41 performance measures, as discussed below.

The LGSP followed a two-step process in allocating basic block grant funds among the UPs. First, it allocates 25 per cent of the total basic block grant among all UPs equally. The remaining 75 per cent of the funds is distributed among those UPs that meet some governance performance indicators minimum conditions based on a transparent formula that takes into account UP population and area. Population receives a 90 per cent weighting; area is weighted 10 per cent. To be eligible for the remaining 75 per cent, a UP needs to meet the following criteria:

- A clean audit report (unqualified and qualified audit report)
- Evidence of participatory planning and budgeting
- Timely submission of a six-month report

The UPGP worked to further develop performance-based grants and other innovations to strengthen local governance; it operates in seven districts. The performance-based grants it provides are based on a set of 41 performance indicators, which reflect the next generation of innovations to strengthen local government[15]. Studies have shown that the UPs in the seven UPGP districts performed better than UPs outside the project area[16]. Similarly, the UPGP mid-term evaluation found that UPs were on their way to becoming more transparent, accountable and responsive to community needs in line with the targets of the project. The project interventions had made the UPs relatively more gender sensitive and responsive to the needs of the poor and marginalized community segments and had diversified investments to better target Millennium Development Goal (MDG) needs. There had been significant performance improvements in almost all major governance areas over the baseline period[17]. Other independent studies revealed an increasing level of satisfaction among local residents with the service delivered by UPs in the UPGP project areas as compared with the pre-intervention period[18].

Performance assessments focus on compliance with mandatory governance functions specified in legislation and rules – notably financial management, own source revenue mobilization, planning and budgeting, monitoring and accountability, implementation and expenditure efficiency. UPs are annually assessed against 41 governance indicators for a total score of 100, distributed as shown in Table 1.6.

[15] One of the ideas behind this elaborated approach was that, after the UPGP, some of the indicators would be included, as with the LIC, to the countrywide system rolled out subsequently. The project tested the use and impact of a more intensive system of performance-based grants, which would later demonstrate its impact through performance improvements.

[16] See the Impact Assessment Study of UPGP and UZGP, Department of Public Administration, University of Dhaka, 2017.

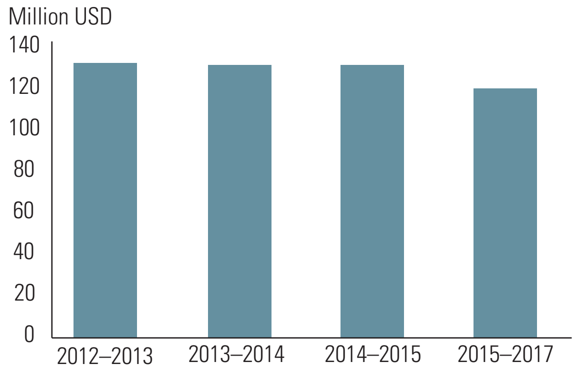
[17] Local Government Division and UNDP, 'UPGP and UZGP Mid-term Evaluation Report' (2014).

[18] Citizen's Perception Survey, Bangladesh Institute of Development Studies (Dhaka, 2014, 2015).

TABLE 1.6 UPGP composite governance performance indicators

Composite governance indicators	Maximum score
Preparation of planning and budgeting	24
UP expenditure / financial management / financial reporting	15
Own source revenue efforts and performance	18
Transparency and accountability	18
Implementation capacity	10
Democratic governance system	15
Total	100

FIGURE 1.7 Extended performance-based grants allocated to UPs under UPGP



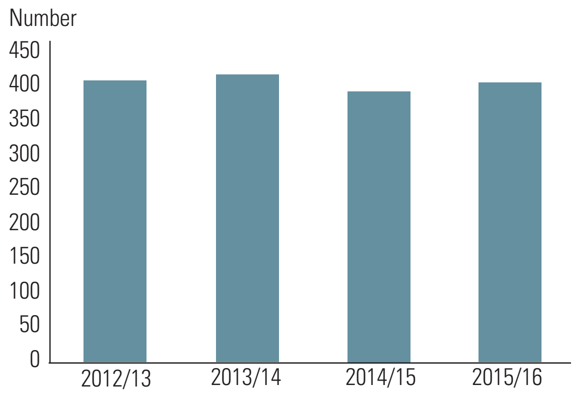
The overall objective of the UPGP was to strengthen the capacities of local governments and other stakeholders to foster participatory local development service delivery for the MDGs. This assistance was linked to a portfolio of support to develop policies and institutional mechanisms that provided an enabling environment for pro-poor service delivery managed by local governments. The UPGP operated across seven districts covering 564 UPs, and the funds transferred to UPs by the project were called extended performance-based grants. A total of about USD 6.7 million[19] was disbursed to the eligible UPs as extended performance-based grants between 2012 and 2016. This amount was made available for allocation in almost equal instalments over four fiscal years. Figure 1.7 shows the fiscal year allocations of extended performance-based grants to UPs under the UPGP.

Figure 1.8 shows the number of UPs that successfully crossed the eligibility bar since 2012.

Figure 1.9 provides an overview of the total grants disbursed by year to UPs under LGSP-1 and LGSP-2. As noted previously, from FY 2006/07 on, the allocations made to UPs were influenced by UNCDF's original SLGDFP pilot, and followed the block grant modality for the initial round between 2006 and 2011 under LGSP-1 and a performance-based grant provision from FY 2011/12 under LGSP-2.

[19] Exchange rate: BDT 78.54 = USD 1 (average for FY 2012–2016).

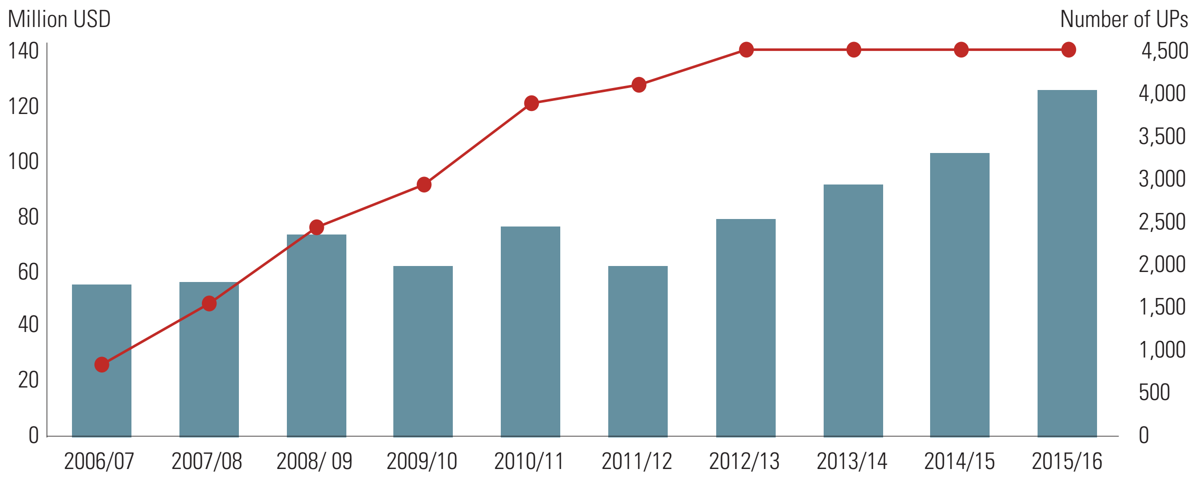
FIGURE 1.8 Number of UPs eligible for the extended performance-based grant



NOTE: $n = 564$.

Between 2001 and 2006, the SLGDFP covered only one district, and 78 UPs within that district, with its local development funds. From 2006 on, the government, under the IDA credit agreement, embarked on LGSP-1, which followed the same block grant modality as the SLGDFP and took a gradual approach in its local government coverage. By 2011, LGSP-1 brought 90 per cent (4,550) of the UPs under its coverage. This intergovernmental fiscal transfer system was followed by the LGSP-2 initiative, covering all UPs. During the second round, there was a provision for both a basic block grant and adoption of a performance-based grant system for the UPs. LGSP-1 and LGSP-2 also introduced an effective and demand-driven capacity-building approach, tested during the SLGDFP period, whereby local governments were allocated capacity-building

FIGURE 1.9 **Local development funding under LGSP-1 and LGSP-2 and coverage of UPs**



SOURCES: Programme documents, mid-term reviews, and final evaluation reports.

grants to address their capacity-building gaps. Under the LGSP, UPs are allowed to use a percentage of their respective development grants to fund capacity-building activities; a maximum of 10 per cent of grants can be used for capacity building. As of this writing, the country has entered LGSP-3, which is to run between 2017 and 2021.

To date, four cycles of LGSP-2 and UPGP grants to UPs have been completed. While LGSP-2 disbursed 20 per cent of the grant funds through performance-based grants, the UPGP disbursed 100 per cent of its grant funds on a performance basis. A support system is in place in the seven districts supported by the UPGP, consisting of (i) capacity-building support to UPs, implementation of performance assessment systems, and audits by independent external agencies; (ii) community-driven participatory planning and activation of UP-level committees; (iii) establishment of women's development forums; and (iv) an operational web-based accounting and management information system ready to be scaled up across the country.

Field-based evidence suggests that those UPs that have received direct support from the UPGP – particularly its performance-based grants – have outperformed those in the rest of the country in terms of compliance with mandated procedures for participatory planning and management, as well as local revenue mobilization (103 per cent in four years). The fiscal space has also been growing, with 81 per cent of the UPs in the project area completing tax assessments compared to 58 per cent of the control area; it was 19 per cent at the baseline stage. Around 3,500 service delivery investments have been completed since 2012, of which more than 50 per cent are oriented towards the social sectors. Given the emphasis on pro-poor investment, the project has succeeded in raising the participation of poor households in the planning process from 4 per cent in 2012 to 36 per cent in 2015. The stability and effectiveness of the innovations introduced by the UPGP offer lessons for scale-up and mainstreaming in the next cycle of the LGSP[20].

The impact evaluation study observed that:

> the UPGP by design wanted the UPs to focus on inclusive local development and target the poorer section of the community through different social sector schemes. The UPs and upazila Parishads undertook many social sector schemes including training programmes with the support received from these two projects and both poor men and women from the community were given training and orientation on skill development for different income generating activities. The men and women from the poorer sections brought under the training programmes were then linked with

[20] UPGP and UZGP Mid-term Review.

> the government service providing agencies at the upazila level, such as the BRDB, Social Welfare Department, Agriculture Department etc. The training programmes of UPGP helped the poorer participants gain confidence and also their awareness of having the capacity to access rights and services to improve their economic and social conditions[21].

The evolution of local government reforms in the country since the early 2000s is summarized in Table 1.7. Figure 1.10 provides a summary of how the original UNCDF-led pilot of a performance-based grant system has evolved to become part of the mainstreamed national system of local governance in Bangladesh.

Other pilots

Initiatives at the upazila level

Along with improving UP governance, UNCDF embarked on a pilot intervention on improving the fiscal space of upazila parishads through a joint programme with UNDP and a budget of about USD 19 million. This effort was initiated in 2012 and has achieved a major policy impact, with its approach being scaled up for nationwide implementation by the Government of Bangladesh with a Japan International Cooperation Agency (JICA) loan for USD 154 million. In the short period of four years, UNCDF assisted in the establishment of the Upazila Parishad Governance Project (UZGP), and a grant financing mechanism for upazilas, through which it disbursed about USD 3.5 million over the period to support 14 upazilas. The new project, the Upazilas Governance and Development Project (UGDP), scales up the UNCDF pilot and covers all 489 upazilas in the country. The major elements of the new project are performance-based grants, capacity development and support services.

The UZGP piloted a system of performance-based grants to upazilas consisting of three minimum conditions and 21 performance conditions. The JICA-supported UGDP has added one more minimum condition and 16 performance conditions in four broad areas. The UZGP adopted a formula-based allocation, where 14 pre-selected upazilas received an equal amount and additional performance-based grants on the basis of their performance in governance areas. In an open competition, 35 upazilas received grants purely on a performance basis. In the JICA-supported UGDP, both the absolute values of scores and year-to-year changes in scores are taken into account, thus giving recognition to those upazilas that rapidly improved their performance but whose overall scores remain relatively low. Figure 1.11 illustrates the evolution from the UZGP pilot to the full-scale UGDP.

Like the UZGP, the JICA-supported UGDP adopts a direct fiscal transfer to the upazila parishad account. The UGDP similarly focuses on local infrastructure investments. These are broadly categorized into rural roads, educational and medical facilities, educational and medical equipment, water supply equipment, agriculture, disaster prevention, capacity development and other activities. Additionally, the UZGP had the flexibility of investing in soft schemes (mid-day meals for school students, driver training for rural women) for MDG achievements; this has been included in the JICA-supported UGDP project as non-infrastructure capacity-building schemes. In the UZGP, direct fiscal transfers were tested initially in 14 pre-selected upazilas. Based on the lessons learned, this was opened up for a competitive process and thus expanded to a total of 49 upazilas in three years. The UGDP has taken a phased approach, wherein 100 upazilas will be provided with grants in the first year, adding 100 upazilas each year, to cover all 489 upazilas in five years. The key advantage the UGDP benefits from due to the UZGP is the ready availability of five-year plans developed by all upazilas and other governance improvements and related capacity built up at the upazila level by the UZGP.

Initiatives on climate change adaptation

The tremendous success of previous flagship projects encouraged UNCDF to apply a similar strategy to enable local governments to secure financing for climate change resilience investments. The pilot stage has been completed with UNCDF's Local Climate Adaptive Living Facility (LoCAL) in one district, and a

[21] Impact Evaluation of UPGP and UZGP.

TABLE 1.7 Evolution of local government reforms in Bangladesh 2000–2016

Pre-LGSP	LGSP and LGSP-LIC	LGSP-2 and UPGP
▪ No direct or discretionary resources to UPs ▪ Direct block grants piloted in one district under Sirajganj project supported by UNCDF	▪ Direct and discretionary block grants, determined on population basis and disbursed biannually across all UPs ▪ Supplementary grants under LGSP-LIC	▪ Institutionalized predictability through 3-year indicative funding ▪ Improved formula-based horizontal equalization and long-term vertical revenue sharing identified
Small-scale performance grants by government without clear criteria or transparent process	Performance measures and grants piloted in 6 districts under LGSP-LIC	▪ Nationwide performance grant system with clear criteria and transparent assessment ▪ Further testing of performance measures under UPGP before scaling up supported by UNCDF, UNDP and other development partners
Small-scale schemes decided mostly from top, some of which implemented by UPs	Small-scale schemes prioritized locally and implemented by UPs and communities	Gradual shift towards sustainable service delivery via 5-year UP periodic plans, UP-level asset registries and operations and maintenance emphasis
Random audits by CAG but mostly not on-site or using clear criteria	Independent financial audits of all UPs via independent chartered accountants with quality assurance by CAG and assurance audits for about 25 % of UPs	▪ Independent financial plus performance audits nationwide ▪ Accreditation of local government auditors nationally and audits eventually procured by UPs ▪ Audit unit/cell in LGD and quality assurance by CAG strengthened
Limited and ad hoc reporting mostly by central officials at upazila level	UPs submitting 6-month progress reports nationwide and captured by a central MIS	▪ Decentralized district level UP reporting infrastructure ▪ Decentralized web-based MIS at district and lower levels ▪ System of follow-up to UP reports in terms of oversight and support
Little local discretion in hiring or procuring need-based capacity development services	▪ Little local discretion in hiring or procuring need-based capacity development services ▪ Top-down core training via upazila-based resource teams	▪ Discretion to use up to 10 % of fiscal transfers for short-term local hiring, peer exchanges, capacity development ▪ Creation of a marketplace through accreditation of qualified capacity-building service providers ▪ Greater emphasis on peer learning networks

SOURCE: Adapted from World Bank, 'Project Appraisal Document on a Proposed Credit in the amount of USD 290 million to the People's Republic of Bangladesh for a Second Local Governance Support Project', Sustainable Development Unit, South Asia Region (2011).

FIGURE 1.10 Stages in total block grants transferred to UPs between 2000 and 2016

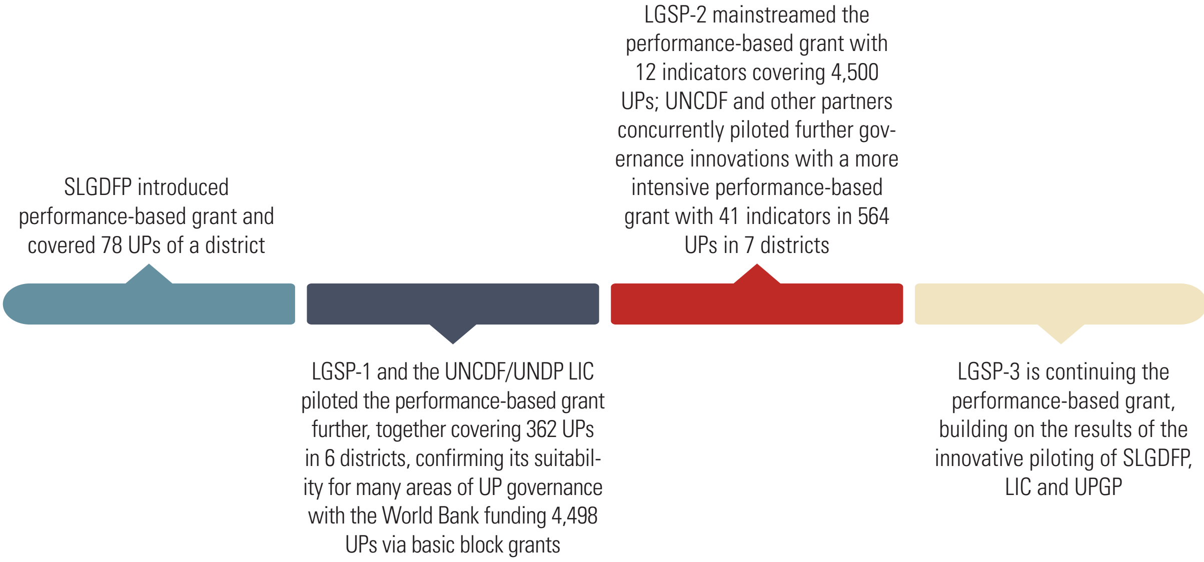


FIGURE 1.11 **Mainstreaming of performance based grant at the upazila level**

Initial piloting and quick wins

- Direct grants to 65 upazilas
- Experimentation with upazila performance grants system – Upazila Fiscal Facility
- Disbursed about USD 3.5 million over the period to support 65 upazilas
- Emphasis on planning and budgetary process
- Strengthening of transparency and accountability
- Emphasis on dissemination of lessons learned for policy change

Stage 2: Lessons upscaled and mainstreamed

- Government of Bangladesh ownership increased
- Initiated in 2012, UNCDF's joint programme has achieved a major policy impact with the approach scaled up for nationwide implementation by the Government of Bangladesh with a JICA loan for USD154 million
- The programme will cover all 489 upazilas of the country in phases
- The Local Government Division is in the driver's seat in implementing the JICA-supported upazila project

consolidation phase, covering six climate change–vulnerable districts was expected to start in late 2017. Funding from international financial institutions and the Green Climate Fund is being explored to prepare for nationwide scale-up of LoCAL in the near future. UNCDF is also exploring the use of this three-stage approach to accelerate investments in local economic development by local governments.

Conclusion

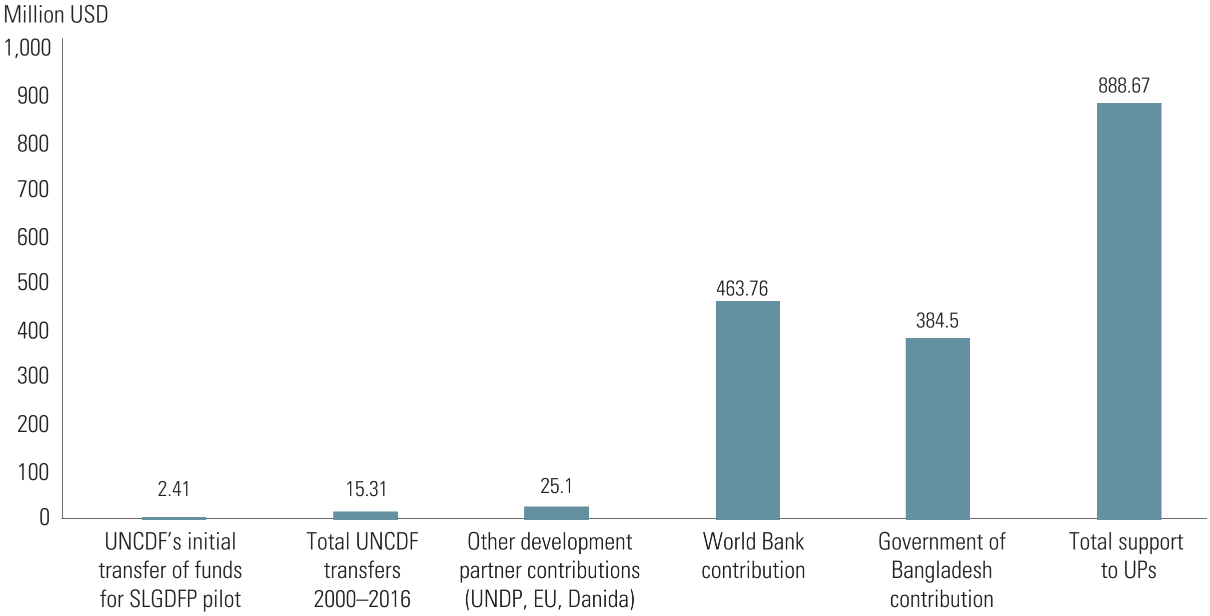
The small pilots of the SLGDFP, the LIC and the UPGP with financial contributions from UNCDF in the form of local development block grants have had a significant impact on wider block grant allocations in Bangladesh under LGSP-1 (2006–2011) and LGSP-2 (2012–2017). There is strong evidence indicating that the government grant system has significantly improved over the years as an effect of UNCDF's initial pilot (2001–2005) and subsequent support.

The new grant system was built around the lessons learned from the SLGDFP. UNCDF made an initial small investment of USD 2.4 million during the Sirajganj pilot and later during phase 2 (LGSP-LIC) and phase 3 (UPGP). The combined UNCDF investment was just USD 15.30 million, but grants using similar modalities totalled USD 888.67 million over the 2000–2016 period, with development partners (Danida, the European Union and UNDP) contributing USD 25.10 million and the World Bank and the Government of Bangladesh contributing USD 848.26 million to upscale the UNCDF-tested grant system through LGSP-1 and LGSP-2. Table 1.8 and Figure 1.12 show the levels, sources and growth of local development funds allocated by fiscal year and the coverage of UPs, clearly demonstrating how the small-scale UNCDF-led pilot

TABLE 1.8 **Transfer of local development funds to UPs, 2000–2016 (million USD)**

	2000–2006 SLGDFP pilot period	2006–2011 LIC and LGSP-1	2012–2016 UPGP and LGSP-2	Total
Total support to UPs	4.32	320.76	563.59	888.67
UNCDF's contribution	2.41	2.50	10.40	15.31
Other development partners' contributions (UNDP, EU, Danida)	1.70	15.6	7.80	25.1
World Bank's contribution	0	173.76	290.00	463.76
Government of Bangladesh contribution	0.21	128.9	255.39	384.5

FIGURE 1.12 **Scale-up of UNCDF-tested grant system, 2001–2016**



paved the way for a national mainstreamed intergovernmental fiscal transfer system in Bangladesh.

The UNCDF pilots also affected other projects/programmes such as the Swiss Agency for Development and Cooperation–supported Sharique programme, which also introduced performance-based grant elements and assessments of UP performance.

Now that they have been rolled out countrywide and are fully operational, it is clear to see that the UNCDF pilots have had a significant qualitative impact on Bangladesh's entire local government system and performance. Some core impacts on the grant system include the following:

- Direct transfers to UPs with a clear formula for allocation
- Introduction of performance-based grant with gradual improvements in the credibility of assessments and combined with annual audit
- Stronger monitoring and evaluation systems
- Strong involvement of citizens in all phases from planning to monitoring and strong accountability and trust in the local governments

Replicating the SLGDFP and the LGSP-LIC has brought about manifold success in other parts of Bangladesh in the broader perspective of accelerated poverty alleviation, social development and community empowerment. The SLGDFP, the LGSP-LIC and the UPGP have brought about real changes in rural development through participatory local governance. UPs are now truly effective in implementing rural infrastructure schemes. Villagers, most of whom are poor, can now effectively participate in the identification, implementation, management and supervision of infrastructure schemes.

These projects have had many visible and invisible impacts, notably on women's empowerment, the poor's participation in developmental decision-making, and changed governance structures at the UP level. They have also helped reduce the gap that previously existed between poor villagers and UPs. The UPs are now providing pro-poor service delivery, largely reflected in the spending of discretionary block grants and improved revenue mobilization. The committees set up under the projects have gathered valuable technical knowledge and their capacity has been much improved through implementation of pro-poor infrastructure schemes; this has important implications for future development of the villages.

The Bangladesh experience is consistent with UNCDF's maturity model approach of innovation, consolidation and scale-up. In this case, the innovation was small scale and financed through internal funds. The consolidation was partly financed by international financial institutions, and full scale-up was financed by the Government with the support of international financial institutions. The UNCDF pilots were flagship initiatives wherein central and local governments have promoted participatory planning, decision-making and monitoring of local infrastructure, pre- and post-budget participation of stakeholders, public hearing and monitoring through civic engagement and facilitated spontaneously by the relevant local stakeholders. Reviews and evaluations show that these projects have demonstrated effectiveness and promising results in ensuring effective participation through community engagement at the local level. It has been observed that the quality of public expenditure and service delivery and women's empowerment have been enhanced through the participatory practices exclusively designed by these projects. These innovative good practices and lessons learned need to be sustained in the next generation of projects to be supported by UN Agencies, with refinements where necessary.

Good practices have also been learned from the UZGP grant facility, which after a short period of piloting in 65 upazilas has been upscaled countrywide with some small changes – providing upazilas with similar incentives and discretionary funding for local development. The LoCAL pilot on climate resilience performance-based grants also promises positive impacts in the future. This becomes all the more important if Bangladesh is to make further progress in its fight against poverty, particularly in light of its vision 2021 and 2041.

CASE STUDY 2

Benin

Background

Benin is a unitary state with a one-tier decentralization system based on 77 municipalities, 3 of which are special status cities (Porto Novo, Cotonou, Parakou). The constitution provides financial and administrative autonomy for local governments which have their own budget. The central state exercises control and support to municipalities throughout its deconcentrated entities (departments). Local governments are empowered with exclusive, shared and delegated functions including local development and planning; infrastructure, utilities and transportation; environment; primary education; primary healthcare; social and cultural action; and business services and investments.

Benin's decentralization process started in February 1990 after the National Conference of Active Forces of the Nation in Cotonou. The Commune Development Fund (Fonds d'Appui au Développement des Communes – FADeC) is the national funding mechanism for municipalities in Benin. Fiscal transfers have gradually increased since the creation of the fund and reached about USD 76.4 billion in 2015 (approximately USD 7 per capita). In terms of fiscal deconcentration, between 1 per cent and 12 per cent of the resources allocated to sectoral ministries are transferred to technical service providers at the local level.

Local governments in Benin mobilize financial resources through intergovernmental transfers (FADeC funds) and revenue generation. Total revenues generated by local governments represent just 1.3 per cent of national gross domestic product (GDP). Grants and subsidies represent the largest share (60 per cent in 2015) of total local revenue, but the resources transferred to municipalities represent less than 4 per cent of total government expenditure (3.89 per cent in 2015). Grants are allocated to local governments according to their annual performance, which is reviewed based on criteria including functionality of elected bodies, municipal administration, FADeC execution and local finance (revenue, expenditure and investment).

Tax revenues, including business tax, land tax, local development tax and shared tax, constitute 29.3 per cent of total local revenue. With a large transfer of taxation power from the central government, municipalities are having difficulties collecting taxes owed them and mobilizing sufficient resources for local development. In 2015, the share of tax revenue collected by municipalities represented just 5 per cent of total tax revenue. As intergovernmental transfers increased, local governments' own resources decreased by 13 per cent in 2015 (compared to 2014). Moreover, local governments have limited access to loans, which require the approval of the central government.

According to its 2014 Public Expenditure and Financial Accountability report, transparency of intergovernmental fiscal relations ranks among Benin's lowest scores; this includes the transparency and timeliness of funding allocations from the central government to subnational governments. Furthermore, there is no central government monitoring of local governments' fiscal position. Benin performed better with regard to fiscal planning, budgeting and budget execution at the national level. Future efforts need to focus on the disclosure of fiscal information.

UNCDF-supported LDF

Timing and elements of LDF grants

With technical support from the Ministry of Decentralization and other financial partners, municipalities in Benin develop five-year local development plans, which elaborate development outcomes and resource allocations. The completion rate of the second generation of these plans remains low (between 45 per cent and 68 per cent). The municipal budget allocations are also low (the average was 50.70 per cent in 2015), which reflects a downward trend since 2012 (60.79 per cent in 2012, 58.42 per cent in 2013 and 51.73 per cent in 2014).

Faced with challenges that include a lack of resources, limited local budgets and insufficient revenue generation, subnational investments account for a very small portion of GDP (0.6 per cent) and total public expenditures (9.1 per cent). However, there is an emerging and promising trend of public-private partnerships. In 2015, total subnational government investments amounted to nearly USD 52.1 million (corresponding to only 50 per cent of forecast and less than USD 5 per capita), suggesting a huge potential in terms of municipalities' interest and capacity in local investments. Even though subnational investment expenditures represent more than 50 per cent of total local expenditures, opportunities need to be explored in resource mobilization so local investments can make a greater contribution to GDP.

Elements of performance-based allocations

Local governments in Benin have accelerated their progress in local development. However, their potential is constrained by a limited budget and dependence on intergovernmental transfers. Better realization is possible through a wider array of investments and partnerships:

- **Performance-based grants.** It is important for local governments to have better access to grants and subsidies, since they are the largest component of local revenue. Performance-based grants cannot only incentivize local governments' better performance, but also grant more access to those that have better absorptive capacity. Benin needs to develop a more comprehensive performance measurement system that addresses accountability.
- **Public-private partnership.** In 2016, the Public-Private Partnership Law was adopted by Parliament, which will provide more opportunities for the mobilization of private sector resources to finance local development. In 2015, domestic credit to the private sector accounted for only 21.2 per cent of GDP. Benin should leverage this effective financing model to unlock capital from the private sector for local infrastructure development and economic growth.
- **Green Climate Fund.** The Green Climate Fund is a potential financial resource for Benin to access funds for climate-resilient development. Benin's government, with support from UNCDF, has implemented the Local Climate Change Adaptation Facility (LoCAL), which is essentially performance-based climate resilience grants. For scaling up, the government is preparing to submit this experience to the Green Climate Fund under its Enhancing Direct Access pilot.
- **Fiscal revenue.** For sustainable development, local authorities need to increase fiscal revenue. Due to limited taxation power, local tax revenue currently only represents a small portion of total tax revenue. This requires more efforts for fiscal decentralization.

Impact on the intergovernmental fiscal transfer system

Development partners (the European Union, the KfW Development Bank, the World Bank Group, the

Swiss Agency for Development and Cooperation, the Deutsche Gesellschaft für Internationale Zusammenarbeit, the United Nations Development Programme, UNCDF, etc.) helped to double the transfer rate to local governments from 2011 to 2014 compared to the general budget of the state. Annually, municipalities produce thousands of basic service infrastructures (health, education, village water supply, market infrastructures, etc.) for the well-being of local populations and the improvement of their own resources. Municipal project management has improved with good follow-up on procurement processes. Table 2.1 provides an overview compiled by UNCDF.

FADeC serves as a national instrument for financing local development. From 2003 to 2007, the Government of Benin paid more than USD 12 million to the municipalities under the Inter-Municipal Solidarity Fund (ISF), the forerunner of FADeC. From 2008 to 2012, FADeC transferred close to USD 140 million to the municipalities, as shown in Table 2.2.

In recent years, UNCDF has funded climate change–related performance-based resilience grants through its Local Climate Adaptive Living Facility (LoCAL) – a proven mechanism that includes minimum conditions for access, performance criteria and an indicative investment list to inform the process of integrating adaptation into local planning and budgeting in

TABLE 2.2 FADeC allocations

Sector	Million USD
Water and energy	3.5
Health	6.5
Secondary education and technical, professional development	2.5
Maternal and primary education	22.5
Unconditional FADeC 2008 to 2012	105.0

complement the existing FACeC performance-based grant system. A memorandum of understanding to put these grants into practice was signed in November 2013.

LoCAL-Benin has been implemented in municipalities in northern Benin, specifically Boukoumbé, Copargo and Toukountouna (population: 195,068). These were selected as pilots on the basis of their being the most vulnerable agro-ecological areas according to studies carried out in relation to the national adaptation plan of action, and because of their institutional capacity to handle concerns related to climate change.

By providing funding in addition to regular transfers, LoCAL helps make public funding systems more robust and transparent. LoCAL performance-based resilience grants in Benin support and supplement the

TABLE 2.1 UNCDF piloting and World Bank scale-up in Benin

UNCDF piloting and testing				World Bank (IDA) scale-up			
Project	Project duration	UNCDF funding (USD)	Total size of project (USD)	Project	Project duration	IDA funding (USD)	Total size of IDA project (USD)
Support to Communal Development and Local Initiatives in the Borgou (ADECOI)	2002–2006	4.00	5.30	National Community Driven Development Project and additional financing	2004–2012	62.00	77.87
Project to support decentralization, devolution and local economic development in Benin (PA3D)	2009–2013	2.00	9.70	Decentralized Community Driven Services Project and additional financing	2012–2017	76.00	76.00
Total		6.00	15.00			138.00	153.87
Ratio: UNCDF seed capital to World Bank scale-up		1.00				23.00	25.65

NOTE: IDA = International Development Association.

regular funding transfers municipalities already receive from the state through FADeC. Grants for the first year represent an additional amount of around 8.5 per cent of the non-allocated portion of FADeC for the targeted municipalities.

In Benin, minimum conditions for accessing performance-based grants include, among other things, the establishment of an agreement between the municipality and the central ministry; accountability issues related to public financial management, operation of the local committee responsible for environmental issues; existence of an up-to-date, local adaptation plan; audit results; implementation rate and reporting. Performance criteria in Benin relate to climate information; local adaptation plans; integrating adaptation into local development plans, investment plans and budgets; citizen participation; implementation of adaptation measures; and reporting.

Concluding comments

The analysis done by UNCDF shows that UNCDF seed funds for the Local Development Fund in Benin was USD 6 million over the period 2002–2006 (Support to Communal Development and Local Initiatives in the Borgou) and 2009–2013 (Project to Support Decentralization, Devolution and Local Economic Development in Benin) and that World Bank upscaling of the system has been approximately USD 153 million over the same periods.

CASE STUDY 3

Bhutan

Introduction

Objective of the case study

The objective of this country case study is to review and document UNCDF support in Bhutan aimed at fiscal decentralization, in particular through the annual capital grant system and the performance-based grant mechanism for local governments, and how this support over the years has leveraged larger support and impacts in terms of establishing and institutionalizing these systems within the national agenda and strategy of delivering sustainable development through enhanced decentralization.

Overview of local governance and fiscal decentralization in Bhutan

Promotion of good governance is one of the principal tenets of Gross National Happiness (GNH), which serves as an overarching development philosophy for the Bhutanese to design and implement their development plans, programmes and projects. In relation to good governance, the GNH philosophy advocates the development of national institutions, human resources and systems of governance and enhancing opportunities for people at all levels to fully participate and effectively make development choices in line with the circumstances and needs of their families, communities and the nation as a whole.

The decentralization process in Bhutan was launched in 1981 with the inception of the 5th Five-Year Plan (FYP), under which a district development committee (*dzongkhag yargye tshogchung*) was formed in all dzongkhags. This was followed by the establishment of block development committees (*gewog yargye tshogchungs*) in 1991. Regulations (*chathrims*) were promulgated in 2002 to guide the functioning of these local bodies and specify their authority and responsibilities. These have since been repealed by the Local Government Act of Bhutan 2009 and the Local Government Rules and Regulations of Bhutan 2012.

The advent of democracy and the 2008 adoption of the Bhutanese Constitution further reinforced the role and importance of local governments. Article 22 of the Constitution is dedicated to local governments, stating that power and authority shall be decentralized and devolved to elected local governments to facilitate the direct participation of the people in the development and management of their own social, economic and environmental well-being. Pursuant to the Constitution, the Local Government Act of Bhutan was enacted in 2009 and Local Government Rules and Regulations of Bhutan were promulgated in 2012, providing a legal and regulatory framework for the management and functioning of local governments and delineating their duties, roles and responsibilities. A full-fledged Department of Local Governance was created in 2009 within the Ministry of Home and Cultural Affairs to support, coordinate and strengthen local governance.

Fiscal decentralization got under way in the 9th FYP (2003–2008) with the introduction of intergovernmental fiscal transfers to local governments. Under the 9th FYP, the total plan budget was shared between the central and local governments in the ratio 75:25. The ratio was not based on any technical calculation; the results of the plan discussions basically dictated the allocation of funds. There was also no fixed ratio for resource allocation between the dzongkhags and gewogs. Within the given budgetary ceiling, local governments could plan and incur expenditures related to responsibilities and functions assigned to them. A resource allocation formula based on an objective set of criteria for capital grant allocations was introduced in the 10th FYP; the objective was to ensure an unbiased, transparent and systematic method of allocating resources equitably[1]. This formula was further modified for the 11th FYP, as discussed further below.

UNCDF in Bhutan

UNCDF support to Bhutan began in 1979. Its focus has grown from small-scale infrastructure and agriculture in the early years to fiscal decentralization, local governance and inclusive finance of late. Particularly over the past 20 years, UNCDF has become an increasingly active partner of Bhutan in supporting and strengthening the country's local development capital financing system as an important part of the national process of decentralization and local governance.

The agency has channelled funds to support local development capital financing through the following projects/programmes, in collaboration with various other development partners; these initiatives are detailed in the next section:

- Strengthening Capacities for Development Management and Decentralization Project (1998–1999)
- Decentralization Support Programme (DSP) (2003–2006)
- Local Governance Support Programme (LGSP) (2008–2013)
- Joint Support Programme on Environment, Climate Change and Poverty Mainstreaming (JSP) (2009–2013)
- Local Governance Sustainable Development Programme (LGSDP) (2013–2018)
- Local Climate Adaptive Living Facility (LoCAL), channelling increased local development capital financing with a focus on climate change adaptation (since 2011/12); this support was initially linked with the JSP and subsequently with the LGSDP

UNCDF support to fiscal decentralization and local development capital financing

Strengthening Capacities for Development Management and Decentralization Project (1998–1999)

This project marked the first major UNCDF support to local development capital financing in Bhutan. This collaborative initiative of UNCDF and the United Nations Development Programme (UNDP), with a total budget of USD 1.67 million (UNCDF's contribution being USD 502,000), was aimed at strengthening institutional capacity and coordination for implementation of the decentralization process; strengthening planning, information, and monitoring and evaluation systems to enhance transparency and accountability in dzongkhag- and gewog-level planning; improving the capacity of local government officials and functionaries in development planning and funds utilization; and establishing an experimental financial facility – the Gewog Development Facilitating Agency (GDFA) – to pilot local development capital financing in 10 gewogs based on GDFA grant guidelines developed in consonance with government financial rules and regulations. The GDFA was operationalized with USD 300,000 from UNCDF.

[1] As part of the preparation of the LGSP, development partners, including UNCDF, supported the GNH Commission in formulating the resource allocation formula and related guidelines.

Decentralization Support Programme (2003–2006)

The DSP was designed to create a local enabling environment for effective implementation of the national decentralization policy; enhance citizen participation in local planning, decision-making and implementation management through provision of capital investment funds to 40 gewogs; support implementation of the 2001 co-operatives legislation; and enhance capacity in the Ministry of Home and Cultural Affairs to provide overall management support for the decentralization policy, including through regular participatory policy reviews.

UNCDF provided capital investment resources and technical backstopping services for local development financing. The DSP was based on a strategy involving multiple development partners. UNDP provided resources for upstream technical assistance, capacity building, programme management and capital investment. The SNV Netherlands Development Organisation's support was primarily technical assistance with financial support for various aspects of capacity-building activities. Danida concentrated its resources on institutional capacity building of the Ministry of Home and Cultural Affairs and preparation and dissemination of lessons learned. External funding assistance to the DSP totalled about USD 3.6 million. UNCDF's contribution was USD 1 million (see Table 3.1).

A salient feature of the DSP was the creation of the Decentralization Support Fund to channel local development capital financing to 40 selected gewogs for implementation of development projects selected from the Gewog Annual Operational Plan and in accordance with the Government of Bhutan's financial management regulations. This fund was created with capital financing from UNDP (USD 862,000) and UNCDF (USD 850,000). The piloting of the local development capital grants through the DSP generated lessons for further work on such grants and a basis for introducing a resource allocation formula in the 10th FYP[2].

TABLE 3.1 DSP funding by development partners (USD)

Development partner	Funding
UNDP	1,756,500
UNCDF	1,000,000
SNV Netherlands Development Organisation	592,400
Government of Denmark	242,000

Local Governance Support Programme (2008–2013)

Under the joint framework signed between the Government of Bhutan and development partners to support the goals of good governance outlined in the 10th FYP and especially focusing on strengthening local governance and the decentralization process, the LGSP was launched in 2008 and concluded in 2013. The LGSP was both timely and relevant, as it coincided with the advent of parliamentary democracy in the country – marked by the first general elections and the adoption of the Constitution in 2008, and local government elections in 2011. The programme built on the achievements and lessons of the DSP, and reinforced decentralization and local governance.

The LGSP was designed to help strengthen and broaden the block grant mechanism and provide budget support to capitalize gewog capital grants; improve overall public expenditure management procedures (planning, programming, budgeting, procurement, implementation, reporting, asset management, monitoring and evaluation); improve overall capacity development and training for local governments; continue to build capacity in accountability and transparency; develop and pilot a block grant facility in at least two districts; enhance policy support for local government; and pilot effective models for integrated public service and information delivery at local levels. As with the DSP, a collaborative strategy between various development partners was pursued to support the LGSP. The development partners that directly supported the LGSP included UNDP, UNCDF,

[2] Royal Government of Bhutan in cooperation with UNDP, UNCDF and JICA, 'Lessons Learned from Block Grant Pilot Projects' (2008), pp. 2–3. The pilots and the study generated a wealth of lessons for the subsequent LGSP and the introduction of formula-based block grants.

the Government of Denmark and the Government of Austria (see Table 3.2).

TABLE 3.2 LGSP funding by development partners (USD)

Development partner	Funding
UNDP	1,500,000
UNCDF	750,000
Government of Denmark	5,000,000
Government of Austria[a]	700,000

SOURCE: LGSP Programme Document.

a. The LGSP programme document reflects an in-principle commitment of EUR 500,000 (about USD 700,000 at the time of LGSP design). However, the total budget of USD 7.25 million for the LGSP was worked out based on definitive commitments from UNDP, UNCDF and the Government of Denmark.

In addition to the above direct assistance, the Japan International Cooperation Agency (JICA), SNV and Helvetas provided complementary technical assistance and capacity development.

About 62 per cent – USD 4.5 million (USD 4.0 million from the Government of Denmark and USD 0.5 million from UNCDF) – of the LGSP budget was earmarked for annual capital grants for local development through the Gewog Annual Capital Grant Facility in accordance with a financial management agreement detailing fund flows, disbursement, minimum conditions of access, release triggers, performance measures, audits and reporting requirements.

Joint Support Programme on Environment, Climate Change and Poverty Mainstreaming (2009–2013)

Almost concurrently with the LGSP, the JSP for capacity development to mainstream environmental, climate change and poverty issues in policies, plans and programmes at the national and local levels was developed. Initially, the JSP was supported by the Government of Denmark and the UNDP–United Nations Environment Programme (UNEP) Poverty-Environment Initiative. UNCDF joined the programme in 2011, providing support to increase the resilience and adaptive capacity of local communities to climate change. UNCDF support provided support to the JSP through its LoCAL programme, designed in 2010, which channels performance-based grants to local governments to address the adaptation priorities of local communities and enhance local resilience to climate change. With a budget of USD 500,000, LoCAL supported two dzongkhags and two gewogs within those dzongkhags with performance-based grants to local governments for investments in local climate change adaptation on a pilot basis. The grants were released in two tranches: a first tranche of USD 300,000 and the second of USD 140,000 spilling over FYs 2011/12 and 2012/13. LoCAL also provided technical assistance to design the performance-based grant system and get it under way. Integration of UNCDF LoCAL in the JSP in 2011 enabled the launch of LoCAL in Bhutan, making it one of the first two pilot LoCAL countries (the other being Cambodia).

External financing for the JSP is shown in Table 3.3.

TABLE 3.3 JSP funding by development partners (USD)

Development partner	Funding
UNDP-UNEP Poverty-Environment Initiative	860,000
UNCDF	500,000
Government of Denmark	3,270,000

SOURCE, JSP Programme Document.

Local Governance Sustainable Development Programme (2013–2018)

The LGSDP was designed to optimally channel multi-donor support to strengthen good governance and promote inclusive green socioeconomic development at the local level. It is aligned with the time frame and strategic context of the 11th FYP, which has an overall goal of self-reliance and inclusive green socioeconomic development. It merges, and builds on, the LGSP and the JSP. However, it was not conceived as a linear extension of those programmes but rather an integrated programme to advance the core areas of good governance and green socioeconomic development at the local level in mutually reinforcing ways.

The programme has three major outcomes or components: (i) inclusive and equitable socioeconomic development at the local level, (ii) conservation and sustainable use of the environment at the local level and (iii) strengthening good governance at the local level.

- The first outcome focuses on strengthening the system of fiscal decentralization, including annual capital grants and performance-based grants, for equitable local socioeconomic development.
- The second outcome focuses on institutionalizing responsibility and knowledge for mainstreaming gender, the environment, climate, disaster and poverty (GECDP) issues in local government; monitoring, advocacy and training to enhance the effectiveness and sustainability of GECDP mainstreaming; promoting best sustainable practices and integrated local area–based planning; and fostering enabling conditions for green development at the local level.
- The third outcome focuses on improving utilization of the integrated national monitoring and evaluation system by local governments; strengthening access to demand-driven capacity development for local governments; implementation of the Government of Bhutan-approved Capacity Development Strategy for Local Governance; and enhancing public participation, transparency and accountability of local governments.

UNCDF injected USD 500,000 into the LGSDP through LoCAL to support performance-based grants to local governments for climate change adaptation and capacity development to plan, utilize and monitor these grants. Other development partners involved in the LGSDP include the UNDP-UNEP Poverty-Environment Initiative, the Government of Denmark, the Government of Switzerland and the European Union (EU). The Governments of Denmark and Switzerland have completed their financial support and phased out, while EU support to LGSDP will cover the period from 2016/17 to 2020/21, exceeding the programme's original time frame of 2018[3]. EU funds will support the performance-based grant mechanism, enabling the LGSDP to scale up these grants from 6 gewogs to another 14 gewogs and eventually to 100 gewogs by 2020/21.

LGSDP funding status is shown in Table 3.4.

Support to local development capital financing

The contribution of development partners (including UNCDF) to local development capital financing in Bhutan was approximately BTN 1.1 million (USD 19.7 million),[4] accounting for less than 3 per cent of total local development capital financing (about BTN 38.4 billion, or USD 710.14 million) since the onset of

[3] EU support was delayed, and the first tranche of EU funding was expected in FY 2017/18.

[4] Exchange rates to USD: 48.6 in 2008/09; 46.5 in 2009/10; 44.7 in 2010/11; 53.0 in 2011/12; 54.8 in 2012/13; 61.8 in 2013/14; 63.2 in 2014/15; and 66.3 in 2015/16 (source: www.oanda.com).

TABLE 3.4 **LGSDP funding by development partners**

Development partner	Currency	Amount
UNDP-UNEP Poverty-Environment Initiative	USD	230,000
UNCDF	USD	500,000
Government of Denmark (completed in 2016)	EUR	3,659,000
Government of Switzerland (completed in 2016)	CHF	1,000,000
EU (2017–2020)	EUR	20,000,000

SOURCE: LGSDP Programme Document and Financing Agreement between the Government of Bhutan and EU for Capacity Development for Local Government and Fiscal Decentralization in Bhutan.

the formula-based annual capital grant system in the 10th FYP (see Table 3.5). Although not significant in fiscal terms, this contribution had considerable leverage in instituting the annual capital grant as a principal mechanism for intergovernmental fiscal transfer, as discussed further below.

UNCDF's contribution, albeit modest, has been consistent over the years, ranging from BTN 11.65 to 23.4 million annually and averaging BTN 12.71 million each year since 2008/09. Of the total contribution of all development partners to local development capital financing in the 10th and 11th FYPs, UNCDF's share amounted to BTN 101.67 million (9.4 per cent), or about USD 1.9 million. In addition, UNCDF had injected a total of BTN 51.21 million (about USD 1.15 million) towards the piloting of annual local development capital grants before the 10th FYP.

Note that local development capital financing from development partners peaked in 2012/13 and 2013/14, and ebbed thereafter, particularly in 2015/16 (see Figure 3.1). This is due to the phasing out of support from the Governments of Denmark and Switzerland, which had been major donors to Bhutan's local development capital financing. The trend was set to pick up again with the inception of EU budgetary support to local development capital financing in 2017/18.

UNCDF's leverage role

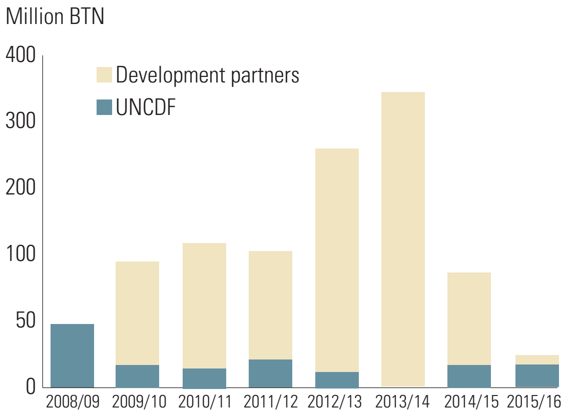
Desk reviews and interactions with stakeholders suggest that it has been the collective effort and resources of the government and its development partners that have led to the various achievements of fiscal decentralization. Within this collective effort, UNCDF has played a significant role as a catalyst supporting and setting models on a pilot basis, which the government then strengthened and institutionalized in further collaboration with its development partners, including UNCDF. The three key areas in which UNCDF has played a distinct role are (i) development of a formula-based annual capital grant system, (ii) capacity

TABLE 3.5 **Local development capital financing shares**

Year	UNCDF		Other development partners		Government of Bhutan+		Total	
	mil. BTN	mil. USD	mil. BTN	mil. USD	mil. BTN	mil. USD	mil. BTN	mil. USD
1998–99 (1st Pilot, SCDMD Project)	12.74	0.30	–	–	–	–	–	–
2003–2006 (2nd Pilot, DSP)	38.47	0.85	39.00	0.86	–	–	–	–
2008/09 (10th FYP)	–	–	48.84	1.00	2,612.77	53.76	2,661.61	54.77
2009/10 (10th FYP)	21.90	0.47	80.08	1.72	3,998.09	85.98	4,100.07	88.17
2010/11 (10th FYP)	11.65	0.26	96.41	2.16	5,550.92	124.18	5,658.98	126.60
2011/12 (10th FYP)	23.44	0.44	81.78	1.54	6,843.56	129.12	6,948.78	131.11
2012/13 (10th FYP)	12.73	0.23	248.82	4.54	4,824.99	88.05	5,086.54	92.82
2013/14 (11th FYP)	–	–	349.24	5.65	3,571.09	57.78	3,920.33	63.44
2014/15 (11th FYP)	15.46	0.25	72.42	1.15	3,663.23	57.96	3,751.11	59.35
2015/16 (11th FYP)	16.49	0.25	2.40	0.04	6,205.12	93.59	6,224.01	93.88
Total since 10th FYP (2008/09)	101.67	1.90	979.99	17.80	37,269.77	690.42	38,351.43	710.14

NOTES: SCDMD = Strengthening Capacities for Development Management and Decentralization. Total local development capital financing is the sum of the local development capital budget allocated each year to dzongkhags, gewogs and thromdes (municipalities) as reflected in annual financial statements. The Government of Bhutan+ includes Government of India budgetary support. UNCDF and other development partner contributions have been disaggregated from international grants figures for local development financing support as reflected in annual financial statements.

FIGURE 3.1 **Local development capital financing support**



development for local development capital finance management and (iii) establishing the LoCAL model for a performance-based grant mechanism – and enhancing the capacity and readiness of the government to embark on its use on a much larger scale.

Development of a formula-based annual capital grant system

A formula-based annual capital grant system was established and rolled out to all dzongkhags and gewogs in the 10th FYP with a set of objective criteria; this was further modified in the 11th FYP based on good international practices and with associated annual grant guidelines (2010, updated in 2013), grant release guidelines (2009) and the Local Development Planning Manual (2010). The size of the capital grants in the 10th FYP were significant: on average, USD 64 per capita for dzongkhags and USD 44 for gewogs (Resource Allocation Formula, 2013/14). This was comparatively higher than for all neighbouring countries and constitutes about 20 per cent of total capital expenditures under the 10th FYP. In the 11th FYP, the capital resource allocation to local governments further increased to 27 per cent of total government capital outlay. As of this writing, the capital resource allocation to local governments is to substantially increase to 50 per cent in the 12th FYP (Guidelines Preparation of the 12th FYP, 2016) in keeping with the overall plan objective of a 'just, harmonious and sustainable society through enhanced decentralization'.

The formula for capital resource allocation to local governments in the 10th FYP was based on a set of criteria that included population, poverty and geographical area. This was modified in the 11th FYP by replacing the poverty rate with a multidimensional poverty index and including a transport cost index as an additional criterion. The weighting of the criteria was also fine-tuned, with the multidimensional poverty index receiving the highest weighting, followed by population (see Table 3.6).

TABLE 3.6 **Resource allocation formula (%)**

Criteria	10th FYP	11th FYP	12th FYP[a]
Population	70	35	35
Poverty	25	–	–
Area	5	10	10
Multidimensional poverty index[b]	–	45	45
Transport cost index	–	10	10

SOURCE: FYP documents, GNH Commission.

a. Provisional.

b. This index was applicable only to dzongkhags. At the gewog level, the population poverty rate was applied in the absence of multidimensional poverty index data for gewogs.

It is evident from the aforesaid that there has been remarkable progress in fiscal decentralization and the annual capital grant system for local governments over the past 10 years. This is primarily due to the many initiatives the government has persistently pursued with support from various development partners. UNCDF has been a long-standing development partner of the Bhutan Government in initiating and strengthening the annual grant system. Initially, in partnership with UNDP, UNCDF piloted block grants in 10 gewogs through the Project on Strengthening Capacities for Development Management and Decentralization in 1998–99. This was followed by the DSP (2003–2006), where again UNCDF partnered with UNDP to further develop the block grant system and extend it to 40 gewogs, with the Government of Denmark and SNV providing complementary policy, technical and capacity development support. The lessons emanating from implementation of the DSP provided the basis for development and delivery of annual local capital grants at a nationwide scale in the 10th FYP, including through the LGSP (2008–2013) which UNCDF supported along with UNDP, and the Governments of Denmark and Austria. UNCDF here focused on intergovernmental fiscal transfer aspects with vital technical assistance and capacity development support[5]. The LGSP evaluation report notes that the annual capital grant system has not only provided local governments autonomy in planning but has also strengthened their capacity for implementation of planned activities through policy guidelines. Additionally, the resource allocation formula has provided clarity in terms of resource allocation and consequently greatly facilitated the planning of activities at the local level.

The progress made through the LGSP is being consolidated through the ongoing LGSDP in the 11th FYP. The annual capital grant system for local governments will assume far greater significance in the 12th FYP with local governments' share of the total capital outlay increasing to 50 per cent. This is a hugely positive sign of the advancement of the local development capital grant system within a relatively short period (two FYP cycles, i.e. the 10th and 11th), with the seed of the idea sown by the Strengthening Capacities for Development Management and Decentralization Project in the 8th FYP and the DSP in the 9th FYP. It also reflects the trust and confidence in the system that the pilot support was able to build within the government. UNCDF, along with UNDP, can be credited as having played a very useful catalytic role through its support to the pilot annual capital grants system for local government; this is increasingly gaining importance as a key tool for decentralization and empowerment of local governments in public finance management and development decision-making.

Capacity development for local development finance management

Significant capacity has been developed within the government for managing public finance and fiscal decentralization. In particular, the annual capital grant mechanism for local governments has catalysed several capacity development initiatives (LGSP Evaluation Report and Joint Reviews). These include the development of the Local Development Planning Manual and training of local government functionaries and staff in the use of the manual; training to monitor and report on local capital investments through online systems, including the Planning and Monitoring System (PlaMS) and the Public Expenditure Management System (PEMS) instituted by the GNH Commission and the Ministry of Finance; and training on annual capital grant guidelines including minimum conditions and fund triggers.

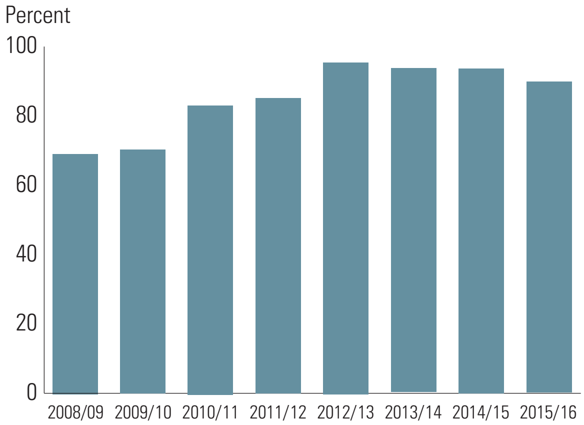
Training on prioritization for local development planning was given emphasis so that local development capital funds were used effectively to address the most important local development needs and not be fragmented and thinly spread over several activities. The LGSP and the LGSDP carried significant capacity development value; they helped meet the needs of strengthening local governments following the first local government elections in 2011 and the introduction of planning and budgeting mechanisms for local capital development funds in line with the increasingly important role of local governments.

The impact of capacity development support is evident from the increased ability within local governments to utilize allocated funds, as compared to initial years of the annual capital grant system when substantial amounts of unutilized capital funds were returned to the central government. Computation of actual expenditure against local development capital budget as reflected in the annual financial statements reveals that budget expenditure improved from 66.4 per cent and 70.0 per cent in the initial years to more than 90 per cent in more recent years (see Figure 3.2).

Furthermore, the ability to use the Public Expenditure Management System has resulted in efficient expenditure reporting/tracking and nationwide operationalization of a transparent mechanism for budget management. Trainings provided to district officials on the use of the Planning and Monitoring System and the Public Expenditure Management System enhanced the work efficiency of local government officials and improved their outputs.

[5] An example of this is UNCDF assistance in the development of annual capital grant guidelines and subsequent revisions including of investment menu and formulas.

FIGURE 3.2 **Expenditure percentage of allocated capital budget by local governments**



Performance-based grant system for climate change adaptation

The system of performance-based grants for climate change adaptation was introduced in Bhutan in 2011 through UNCDF's LoCAL. LoCAL is a global programme, designed in 2010 to enhance the adaptive capacity and resilience of local communities to climate change through increased financing to local governments for investments in climate change adaptation. Bhutan and Cambodia were the first two countries where the innovate LoCAL financing mechanism was piloted. Initially covering FYs 2011/12 and 2012/13, LoCAL was piloted in two dzongkhags and two gewogs within these dzongkhags. It was subsequently scaled up to cover six gewogs in two dzongkhags in FYs 2014/15 and 2015/16 with additional UNCDF financial support. The LoCAL programme in Bhutan now consists of more than 90 local-level investments pertaining to improvement of rural livelihood infrastructure such as farm roads, bridges, rural water supply schemes, and community irrigation systems for enhanced climate resilience, sustainable farmland management and climate-adaptive farming practices, crop diversification, and stabilization of landslide risk areas. Initially, a LoCAL grant is a 25 per cent top-up of local governments' annual capital budget. In successive years, the size of the grant is determined by the performance of the local governments, which is assessed based on a set of criteria related to public finance management and quality of climate change adaptation planning and investment. Planning guidelines and a performance assessment manual have been developed, and training on their use has been provided to national and local government staff to aid in the planning and utilization of the grants and assessment of their performance. The relevance of performance-based grants goes beyond increased capital financing to local governments for climate change adaptation. The final assessment report of the LoCAL pilot phase in Bhutan (January 2014) made the following observation:

> The concept of performance-based climate change adaptation grants is of immense value to Bhutan. It is envisaged to contribute to environmental sustainability, equitable socioeconomic development, and good governance, which constitute three of the four GNH pillars. Considering the premise that it is the poor who are the most vulnerable to climate change, the grants have significance for poverty reduction which is an overarching development goal for Bhutan and its development partners.

LoCAL can be credited with having successfully established a model for the government to scale up performance-based grants to significantly more local governments in the country. In this regard, the Department of Local Governance has plans to scale up the system of performance-based grants to 20 gewogs (in six dzongkhags) in 2017/18 and to 100 gewogs (in all 20 dzongkhags) by 2020/21, using some of EUR 16 million in budgetary support provided by the EU to the LGSDP to strengthen fiscal decentralization including through mechanisms for capital, performance-based and capacity development grants to local governments. As a result of this massive upscaling, the performance-based grant system is expected to have increasingly intensive and visible impacts in terms of the quality of development investments through mainstreaming GECDP cross-cutting issues and the performance of local governments in public finance management. With extensive experience in performance-based micro-capital financing in several countries around the world, in particular through LoCAL, UNCDF is well placed to play a key role in developing the capacity, especially in terms of tools, training and knowledge dissemination to support optimal management and utilization of performance-based grants that comes through EU and other development partners.

Conclusion

The role of UNCDF has clearly been a catalytic one, moving the annual capital grant system from a pilot scale – through collaboration with UNDP in the early years of the system via the Strengthening Capacities for Development Management and Decentralization Project and the DSP – to a nationwide mechanism through support to the LGSP, the JSP and the LGSDP, corresponding with national goals and strategies set in the 10th and 11th FYPs. In successive collaborative programmes, UNCDF continued its support with smaller financial contributions but with vital technical assistance for further development and fine-tuning of the entire grant system. Its direct financial support for local development capital financing, combined with advisory support for development of the fiscal decentralization and annual capital grant mechanism including the resource allocation formula, in synergy with larger resources from other development partners, have progressively built the government's capacity and confidence to roll out and expand the annual capital grant mechanism on a national scale.

UNCDF has contributed a total of USD 3.05 million – USD 1.9 million to the core annual capital grant system since its onset in 2008 and USD 1.15 million during the annual capital grant piloting phases. Although relatively small in fiscal terms, these contributions have leveraged increased funding support from other development partners (USD 17.8 million in the 10th and 11th FYPs) and instituted a growing amount of local development capital financing totalling more than USD 710 million since 2008.

Intergovernmental fiscal transfer and the annual capital grant mechanism are now well established in Bhutan. They are set to becoming increasingly significant in the coming years in keeping with the national objective of enhanced decentralization and in view of the fact that, in the 12th FYP, local governments will have a substantial share – 50 per cent – of the total capital outlay. In the coming years, the annual capital grant system will also benefit from the performance-based grant mechanism, a model that has been established by UNCDF through its LoCAL programme and is now planned for a massive scale-up through EU support. The LoCAL pilot, which is now ready for large-scale roll-out, introduced new features of the grant system such as targeted support and performance-based allocations, and strengthened monitoring and evaluation systems. It provides a viable mechanism for mainstreaming GECDP needs in local development capital investments and improving the quality of such investments – thereby enhancing the cost-effectiveness and efficiency of annual local development capital grants over the long term.

There is a clear trend of UNCDF providing piloting support, in both the case of annual capital grants and performance-based grants, before larger donors / development partners join in to scale up and support the government to institutionalize the systems.

CASE STUDY 4

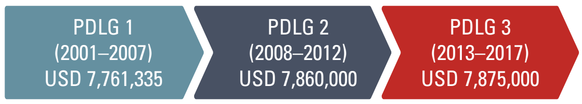
Guinea

Background

UNCDF has been present in Guinea since the early 1980s (see Figure 4.1) with the implementation of a project to support small-scale fisheries in Guinea-Maritime and an eco-development project in Middle Guinea. Its decision to support the decentralization process in rural areas through the establishment of a decentralized funding instrument and improvement of participatory local planning practices follows discussions initiated between the government and UNCDF in 1996.

The first Local Development Programme in Guinea (Programme de développement local en Guinée – PDLG) was launched in 2001. This programme was followed by PDLG 2 and PDLG 3; the latter was to be completed by the end of 2017 (see Figure 4.2).

FIGURE 4.2 **PDLG phases**



The PDLG is the first UNCDF initiative in Guinea to support decentralization through the Local Development Fund (LDF) mechanism.

FIGURE 4.1 **UNCDF programmatic evolution**

UNCDF-supported LDF

Timing and elements of LDF grants

Under PDLG 1 and 2, the LDF was made available to rural development committees under a floor/ceiling system. The LDF includes the following mechanisms:

- **Local investment fund**, for priority infrastructure of local governments; this represents 70 per cent of the LDF
- **Village investment fund**, to support income-generating activities in the districts and develop taxpayer potential
- **Municipal investment fund**, intended to support the priorities and implementation of a group of municipalities

The municipality is the client for the LDF and acts as authorizing officer and receiver. It must receive prior agreement from the consultative bodies before expenses and the support necessary to ensure good use of the funds can be committed.

The LDF uses an indicative lump sum mechanism (dotation indicative forfaitaire – DIF) to transfer funds to local authorities. The DIF allocation is determined as follows:

- A flat basic lump sum for each rural municipality of USD 2,500 per year
- An amount expressed as a function of the population as of the 1996 census x USD 1.6 / year
- An amount corresponding to 10 per cent of the LDF allocated to the municipality to be used to finance inter-municipal activities

This formula can be expressed as follows:

DIF = USD 2,500 + USD 1.6 / head / year
*** 1996 census population**

In addition, a floor and ceiling are set to define the participation of the communities in the process (see Table 4.1).

The allocation system is based on the mechanism shown in Figure 4.3.

- A protocol exists between the government (the Ministry of Local Government and Decentralization) and the PDLG.
- A bank account is opened for the beneficiary local authorities.
- Allocation is based on annual investment plans in the local development plans.

Elements of performance-based allocations

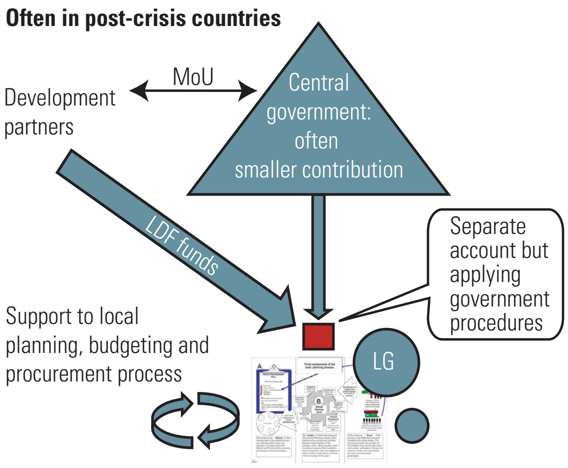
The LDF implemented under various phases of the PDLG is based on performance. After five years of implementation of the PDLG, a number of shortcomings were noted in the DIF, which required reformulation of its method of calculation.

- The amounts of the DIF for municipalities with a small population are insufficient for construction of infrastructure corresponding to the needs of these communities.
- The cost of the actions envisaged in the context of sustainability of PDLG achievements far exceeds the DIF.

TABLE 4.1 **UNCDF LDF co-financing matrix (%)**

LDF mechanism	2002–2004			2005–2006		
	LDF ceiling	Rural development committee floor	District/ village/association floor	LDF ceiling	Rural development committee floor	District/ village/association floor
Local investment fund	75	20	5	85	10	5
Village investment fund	70	10	20	70		30
Municipal investment fund	60	40		85	15	

FIGURE 4.3 Scheme 1: LDF phase / variant 1



SOURCE: Adjusted/adapted from UNCDF presentations on the evolution of LDFs and ideas from UNCDF, presentation by David Jackson.

- The calculation does not take into account the current absorption capacity of the LDF by the municipalities.

Beginning with the second phase of the PDLG, the DIF was therefore modified. The 23 municipalities concerned are all eligible for at least one infrastructure project per year and per municipality financed from the LDF.

Once this mechanism has been applied, the communities that are most efficient in mobilizing their own resources are eligible to finance new infrastructure until the fund is exhausted.

Linkages between grants and capacity-building support

Throughout the various phases of the PDLG, the LDF has been associated with a capacity-building programme. Thus, capacity building was the subject of a component in each phase of the PDLG. The PDLG has been able to develop tools for communities such as the Community Financial and Institutional Analysis System (Système d'analyse financière et institutionnelle des collectivités locales – SAFIC), which has helped strengthen communities' knowledge of their territory and the functioning of their communities.

Linkages between the pilot and the overall intergovernmental fiscal transfer system

The PDLG and the World Bank's Support Program for Village Communities (Programme d'Appui aux Communautés Villageoise – PACV) are the two main local development programmes in Guinea (Table 4.2). Their example has inspired the Guinean government and

TABLE 4.2 LDF funds, periods and projects

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
UNCDF			PDLG 1							PDLG 2					PDLG 3					
Size (USD)			820,948							970,851					1,098,574					2,890,373
No. of LAs			23							23					23					
World Bank	PACV1									PACV2							PACV3			
Size (USD)	8,120,000									17,012,894							16,167,609			41,300,504
No. of LAs	159									304							304			
Government													GoG	GoG	GoG	GoG				
Size (USD)													2,363,281	2,363,281	4,719,866	7,907,366				17,353,795
No. of LAs													342	342	342	342				
Total	159		182					23		304			342							

NOTE: Exchange rate: USD 1 = GNF 8,960. GoG = Government of Guinea; LA = local authority. The PDLG uses the modalities described in the text; the PACV uses similar modalities with a ceiling of USD 50,000 / local government. The Government of Guinea established funding of GNF 25 million/quarter for 304 rural communes and GNR 50 million/quarter for 38 urban communes. Ultimately, these payments were not respected by the government as foreseen in the budget laws.

allowed it to structure its policy on local development and decentralization. For example, the Local Government Code was implemented in 2006 in Guinea with the support of these two programmes. In addition, technical support for implementation of the National Policy Letter on Decentralization and Local Development is a product of PDLG 3 (see PRODOC-PDLG3, product 1).

Other modalities related to the grant system

Beginning from the second phase of the PDLG, as documented in a memorandum of understanding, the LDF of the 23 municipalities of Kouroussa and Siguiri were supplemented by PACV funds (see PACV 2 assessment report). The same mechanisms have been retained; however, the backer has become the World Bank. This memorandum of understanding shows the national recognition and relevance of the expertise of the PDLG Project Management Unit (UNCDF).

Impact on the intergovernmental fiscal transfer system

Guinea has 342 local authorities, but only some of them were involved in the pilot projects. Figure 4.4 shows the evolution of the number of communities benefiting from the LDF. It can be seen that as early as 1999 (implementation start of the World Bank pilots) and 2001 (implementation start of the UNCDF pilots), the number of local authorities involved was very high; by 2001, 53 per cent of Guinean local authorities were affected. The pilots thus had a very significant impact at the national level.

Examining the number of communities affected and the amounts invested, scale-up from 2008 can be clearly seen. The pilots were conducted from 1999 to 2007. These first projects focused on rural municipalities, moving on, starting in 2011, to all local authorities in the country. In particular, the PACV has, over three phases, increased its coverage from 70 municipalities to 159 municipalities. PACV 2 represents a scale-up from 2008 for this sustainable development programme, since it has involved all the rural municipalities. The Ministry of Local Government and Decentralization has implemented a state endowment scheme from 2011 onwards which has enabled all local authorities to have an investment budget.

Table 4.3 shows the various phases of scale-up.

In examining the evolution of the financing of local authorities in Guinea, it is possible to see the relevance of implementation of local development funds.

The contribution of development programmes such as the PDLG is highlighted in several documents, such as the National Policy Letter on Decentralization and Local Development, and the study on the establishment of a financing mechanism for decentralization and local development; these highlight the importance of pilot projects in developing government strategies.

FIGURE 4.4 **Number of local governments with an LDF over the period 1999–2016**

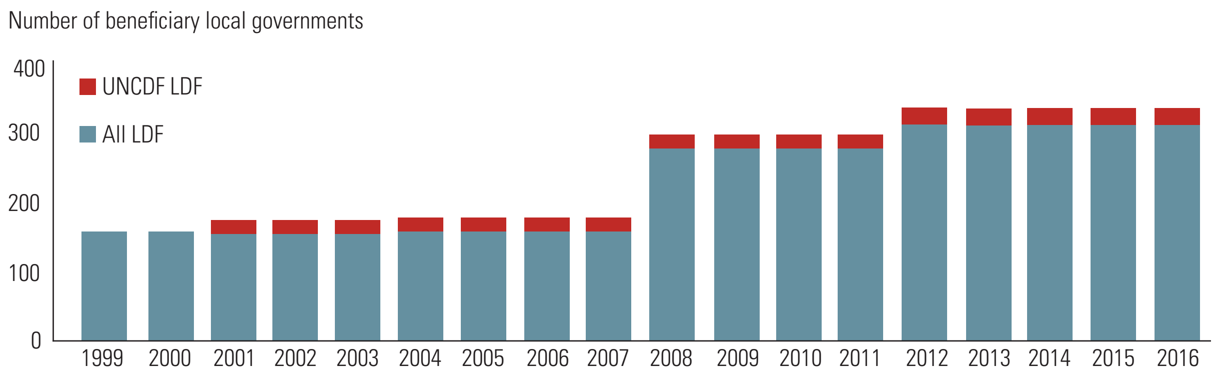


TABLE 4.3 LDF scale-up over time

	1999–2007	2008–2010	2011–2016
Number of local governments	182	304	342
LDF funding (USD)	8,940,000	10,207,000	42,395,987
Development partners	World Bank, UNCDF	World Bank, UNCDF	World Bank, UNCDF, Government of Guinea

In terms of the modalities implemented by the government at the launching of state grants, it is interesting to note that the state has chosen to make flat-rate transfers linked to typologies of municipalities (rural or urban).

This scheme, launched in 2011, will be replaced in 2018 by a new national development fund, which will be managed by a public administrative institution, the National Agency for the Financing of Local Governments (Agence Nationale de Financement des Collectivités Locales – ANAFIC). ANAFIC will be in charge of implementing this fund, which will include in its allocation equalization criteria similar to those implemented in the PDLG (fixed amount, population, performance of resource mobilization); see Table 4.4.

This national fund will be supplemented by a transfer of 15 per cent of taxes on mining royalties and various contributions such as those of various technical and financial partners (see Figure 4.5).

Concluding comments

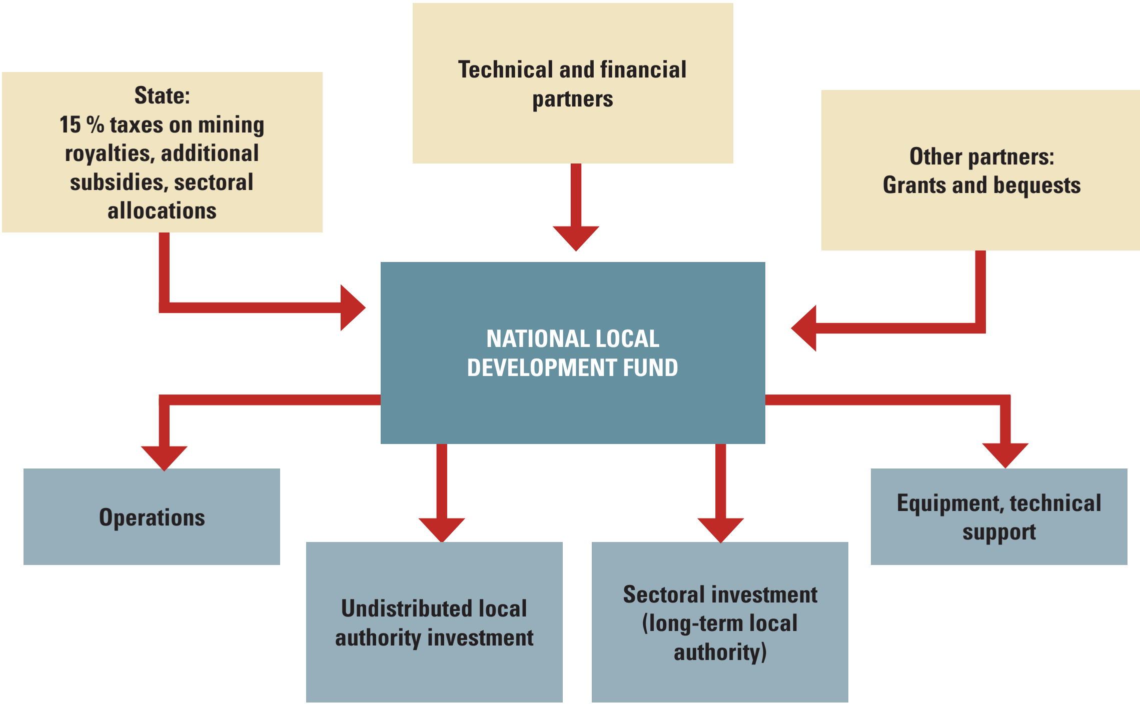
UNCDF is a key player in the process of local development and decentralization in Guinea. Its approach through its pilot programme the PDLG has been a success, and the programme has been extended over three phases until the end of 2017.

In parallel, the World Bank's PACV has allowed sharing of practices within the framework of the LDF in Guinea. UNCDF has had experience in strengthening national policy through its participation in implementation

TABLE 4.4 ANAFIC equalization criteria

No.	Criterion	%	Weighting
1	Structures	45	
1.1	Fixed amount	35	Fixed amount per capita (GNF/capita)
1.2	Number of districts/neighbourhoods	10	Amount for the minimum number of districts/neighbourhoods + a proportional supplement for the remaining districts/neighbourhoods
2	Equalization	40	
2.1	Population	10	Amount per local authority's share of population
2.2	Poverty	20	Amount per local authority's share of the country's poor, calculated based on the poverty index
2.3	Level of investment	10	Amount per local authority's share at the national level
3	Performance	15	Rating determined by a committee based on information provided by ANAFIC from monitoring and evaluation data
3.1	Local governance	3	Proper accounting of the local authority's resources; submission of annual accounts
3.2	Level of budget execution	2	Budget execution rate higher than 50 percent
3.3	Mobilization of own resources	10	Collection rate of local authority's own revenues higher than 75 percent

FIGURE 4.5 **Schematic of national local development fund**



of the National Policy Letter on Decentralization and Local Development.

Notwithstanding the 2008 scale-up of the LDF in 2008, implementation of a national fund for local development will not take shape until the 2018 creation of ANAFIC. The previous government initiative in 2011–2017 did not allow for replication of lessons learned through the UNCDF pilots. On the other hand, the ongoing feasibility study on ANAFIC highlights the importance of the UNCDF pilot. Indeed, the performance-related equalization system correctly summarizes the practices of the PDLG in Upper Guinea.

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CASE STUDY 5

Lesotho

Background

The Government of Lesotho has been implementing the Deepening Decentralization Programme (DDP) since 2012 through its Ministry of Local Government and Chieftainship (MoLGC), Ministry of Finance and Ministry of Public Service in partnership with the European Union (EU), UNCDF and the United Nations Development Programme (UNDP). The EU is the main funding partner, providing EUR 8.0 million (USD 8.8 million), with another USD 880,000 from UNCDF.

The DDP is a multi-stakeholder programme whose overarching purpose is to promote decentralized service delivery for social and economic growth through the development of transparent funding mechanisms and by improving the accountability of local authorities. Its overall objective is to support the government in reducing poverty, promoting inclusive economic growth and entrenching democratic principles. To this end, the DDP has three key outputs and one programme management output:

- Increased development funding through local authorities
- Developing accountability systems at the local level
- Enhancing the capacity of line ministries to decentralize functions and resources
- Effective and efficient programme management and implementation by the MoLGC and UNCDF technical assistance staff

Earlier initiatives and donor interventions have informed the DDP, particularly technical assistance provided by UNCDF to the MoLGC under the Lesotho Local Development Programme (LLDP); this is discussed further below. Structural and attitudinal challenges within the MoLGC have influenced DDP achievements.

UNCDF-supported LDF

Timing and elements of LDF grants

Through the DDP, financial and technical support has been provided to districts to build their capacity through two kinds of grants: **capacity-building grants (CBGs)** meant to enhance the capacity of districts in key functional areas to support implementation of local development and **local development grants (LDGs)** for the delivery of public services. LDG funding was allocated to local investment such as water supply and sanitation systems, community and health centres, schools, markets and taxi ranks, tourism, culture and environment, and education and training. The imposition of a progressive number of minimum conditions to be met by district councils in order to qualify to receive grants (3 conditions in the first year, 6 in the second year and 10 in the third year) was an ambitious goal established to improve local governance – given the nature of governance in Lesotho and the country's history of highly centralized service delivery and lack of experience in applying such conditions for funding purposes.

Elements of performance-based allocations

Allocations to district councils were based on a formula allocating funding according to distribution of land area (15 per cent), poverty count (40 per cent) and population (45 per cent). An annual allocation of USD 1.2 million was decided on: 80 per cent for capital development and 20 per cent for capacity building. The first round of overall assessment results revealed that no districts had met all three minimum conditions out right. However, five local authorities – Berea, Butha Buthe, Maseru, Mokhotlong and the Maseru City Council – had managed to pass all three minimum conditions, with late submission of financial accounts to the MoLGC. These districts were assessed to have met all three minimum conditions, and the DDP Programme Steering Committee (PSC) approved a waiver of timely submission. Six districts – Mafeteng, Mohale's Hoek, Qacha's Nek, Thaba Tseka, Leribe and Quthing – failed on at least one of the minimum conditions assessed.

Consequently, all councils received CBGs and retooling grants to update office equipment for the enhancement of their performance instead of LDGs in the second round of allocations in 2016. The retooling grant benefits all of the 64 community council offices, 10 district council offices, 11 urban councils and the Maseru City Council. Refresher training workshops were facilitated in all councils after the CBGs and retooling grants were transferred to the councils to promote compliance and efficiency. These courses were attended by over 600 technical staff and councillors. To ensure transparency, the grant amounts received by the 10 district councils and the Maseru City Council and the results of the assessment were announced in two national newspapers.

The DDP has made the CBG available for councils to implement capacity-building interventions to enhance performance and improve service delivery. The programme has made the retooling grant available alongside the CBG for the purchase of office equipment and furniture aimed at enhancing staff performance on public financial management, procurement and development planning. The CBG and retooling grant are not performance based, and all district councils and the Maseru City Council benefited (see Tables 5.1 and 5.2).

Impact on the intergovernmental fiscal transfer system

Consultations were held to build a common understanding of key issues essential to fiscal decentralization. These include tax assignment between the central and local governments; clarity and equity of fiscal transfers to local governments; how districts can be financed if they take on more functions; and how the central government should support, monitor and oversee local governments. A concept note was developed for discussion and to kick-start the development of the framework. The framework was intended to provide guidance on the collection and management of district fiscal resources in light of devolution. However, at the end of the DDP, very little had been achieved in putting this perceived support to fiscal decentralization into practice. The districts continue to function with very little direct funding for service delivery activities.

A change in government before the expected five-year term disrupted DDP implementation. This was coupled with logistic challenges, including the length of time required to open a central account through which to channel the LDG to the district councils. To address this delay, the PSC resolved to reduce the number of LDG cycles from three to two.

Fiscal decentralization is one of the strategic actions in the Decentralization Policy that the DDP intended to support in order to provide clear guidance on a system of intergovernmental fiscal relations where local governments would have authority and a degree of fiscal autonomy. The Government of Lesotho appreciates in principle the fact that devolution cannot effectively work without adequate and reliable financing to districts and that districts must be supported in developing their own revenue potentials. This is expected to boost public sector efficiency, accountability and transparency in service delivery at the local level. However, to date, very little action has been taken on fiscal decentralization matters.

TABLE 5.1 **Allocation of LDGs and CBGs 2015 (USD)**

No.	District	LDG	CBG	Total
1	Maseru	140,356	28,500	168,856
2	Maseru City Council	123,725	19,252	142,977
3	Butha Buthe	77,294	14,060	91,355
4	Leribe	183,151	32,213	215,364
5	Berea	150,406	26,931	177,338
6	Mafeteng	124,249	21,876	146,125
7	Quthing	80,708	18,381	99,089
8	Mokhotlong	80,111	19,399	99,511
9	Mohales Hoek		24,476	24,476
10	Qacha's Nek		12,298	12,298
11	Thaba Tseka		22,613	22,613
	Total	960,000	240,000	1,200,000

NOTE: Amounts are rounded to the nearest whole dollar.

TABLE 5.2 **CBG and Retooling Support by district 2016 (LSL)**

No.	District	CBG	Retooling support	Total
1	Maseru	749,863	975,448	1,725,311
2	Maseru City Council	684,503	890,427	1,574,930
3	Butha Buthe	416,469	541,758	958,227
4	Leribe	995,800	1,295,373	2,291,173
5	Berea	818,368	1,064,562	1,882,930
6	Mafeteng	674,237	877,072	1,551,309
7	Quthing	427,491	556,096	983,588
8	Mokhotlong	416,526	541,832	958,357
9	Mohales Hoek	688,206	894,773	1,582,979
10	Qacha's Nek	269,718	350,858	620,576
11	Thaba Tseka	494,891	643,679	1,138,570
	Total	6,636,000	8,632,348	15,268,348

NOTE: Amounts are rounded to the nearest whole Lesotho loti (LSL).

Concluding comments

There is some question regarding the Government of Lesotho's commitment to the Decentralization Policy and implementation of the decentralization reform process. The local government bill has still not been passed by Parliament and has yet to receive wide stakeholder consultation. The bill had been tabled in Parliament, but fell upon the dissolution of Parliament. Although the new government may need time to familiarize itself with the bill, it should not need several years to finalize whatever processes may be necessary before legislating the bill.

Decentralization was a component of the 2005 Public Sector Improvement and Reform Programme, but the Local Government Act of 1997 (amended several times) remains in force – along with built-in ambiguities as to the respective roles of central and local government in service delivery at the local level. Allowing for wider stakeholder consultation regarding the local government bill would at least enable verification of where the main gaps are now and how these could be adequately addressed.

Because it was designed long before its actual implementation, it is fair to say that previous initiatives and donor interventions have informed the DDP. For example, UNCDF was active in providing technical assistance to the MoLGC, during its piloting of the Lesotho Local Development Programme in the districts of Maseru, Thaba Tseka and Berea. This pilot should have established that none of Lesotho's districts had audited accounts; however, it seems to have had little influence on DDP implementation in terms of lessons learned in applying minimum conditions for the 10 DDP districts (i.e. lack of accounts and no audits as a starting point). Application of minimum conditions in the 10 districts and the Maseru City Council has contributed to more councils complying with rules and regulations, but only after several rounds of assessment – and considerable additional workload for programme management.

During the first round of DDP grants (2014/15), only three minimum conditions were to be met. Even so, most of the districts could not meet the minimum conditions. In districts that had not qualified due to a lack of key staff, the PSC gave the MoLGC one month to fill the vacant positions; this was done. Councils that had not prepared and submitted annual financial statements within three months after the end of the fiscal year were considered on the basis of those financial reports that were in place and had been submitted. It was therefore decided that the criteria should not be strictly followed. This led to frustration on the part of the EU Delegation (probably because the same issues regarding the potential of councils to meet the conditions had been raised at the beginning but had been disregarded). Prolonged discussion between the implementation partners – UNDP, UNCDF, the MoLGC and the EU Delegation – resulted, as opinions differed on how to apply the minimum conditions.

For the second round of district assessments, none of the districts were in compliance with all six minimum conditions, mostly due to having been given unqualified audit reports[1]. The third round would have requested that 10 conditions be met, but given the delay and limited time for implementation, new grants were not awarded, and it was decided to provide the districts with combined CBGs and retooling grants for the second round of LDGs/CBGs in 2016.

Three districts – Leribe, Mafeteng and Quthing – failed to meet the minimum conditions in the first round of assessments due to an absence of key staff. This represents a special category of failure because, as noted by the districts, the responsibility to provide staff lies outside their control, as the MoLGC is entirely responsible for recruiting for all categories of district staff. It was recommended that the DDP PSC not fault districts on this minimum condition, provided the MoLGC could recruit and deploy the missing staff within one month before the disbursement date of the LDG.

In the second round of assessments, the 10 district councils and the Maseru City Council were assessed for the second LDG cycle on six minimum conditions. Eight local authorities met five of these conditions, but only one – Mohale's Hoek district council – had a completely clean audit. However, this district could not access the grant because its audit report was delayed after several deadlines set by the PSC were not met[2]. Thus, by failing to access the LDG, the local government authorities missed the opportunity to implement development projects that could improve access to socioeconomic services. Districts also missed an opportunity to build their capacity and experience in project management, participatory planning and budgeting, procurement, and public financial management. The districts felt they lacked adequate and timely support from the central government to enable their compliance on such factors as external audits and staffing.

[1] One district had a clean audit, and 8 districts met five conditions.

[2] This is an example of inadequate capacity for compliance with minimum conditions in the Office of the Auditor General, even when funds were provided to subcontractors to conduct the audits.

CASE STUDY 6

Mali

Introduction

The first UNCDF interventions in Mali date back to the 1970s for the construction of infrastructure, particularly for agricultural development, water supply, rural development and roads. Beginning in 1990, and adopting a policy of full decentralization in Mali, UNCDF focused its actions, on the one hand, to strengthen the project management capacities of the new local governments; and, on the other hand, towards improvement of beneficiary living conditions through the provision of local development funds.

Established in the year 2000 with the task of managing grants allocated to the realization of local investments undertaken under local authorities and guaranteeing certain loans contracted by them, the Agence Nationale d'Investissement des Collectivités Territoriales (ANICT – National Agency for Local Government Investment) is responsible in particular for receiving and allocating subsidies for the realization of investments to local authorities. The ANICT's resources derive mainly from the contributions of local and regional authorities to agency operations, state subsidies to local authorities and contributions by development partners. Development partners are the largest contributors of ANICT funding and include UNCDF, which has been participating in the financing of local and regional authorities for decades in Mali.

The first funding received by the ANICT for the benefit of local and regional authorities was in 2001–2005 through the National Support Programme for Local and Regional Authorities (PNACT I). UNCDF interventions during this first start-up phase amounted to about XOF 1.25 billion (USD 2.4 million) – an annual average of about XOF 250 million. UNCDF funding almost doubled between 2006 and 2010, totalling more than XOF 3 billion (USD 5.5 million) for the period. UNCDF's funding to local and regional authorities began to grow from 2006 onwards and is characterized not only by its duration (2006–2012) but also by its amount (more than USD 12 million) and for being exclusively for decentralization and local development.

Implemented by the ANICT, this funding was invested in the regions of Mopti and Timbuktu through the Local Development Fund (LDF) project. To implement this project, UNCDF developed a multiple and diversified partnership through the co-financing system. As of 2012, when Mali was facing a political and security crisis that would result in the occupation of three regions in the north of the country, UNCDF interventions were redirected to other regions (Ségou and Kayes) and their amounts and terms changed. Specifically, UNCDF from 2011 onwards focused on regions outside insecure areas and on issues such as climate change, food security, etc. Also, UNCDF interventions will no longer be executed exclusively by the ANICT. New projects will be implemented by UNCDF with communities through direct transfers.

UNCDF financing of local governments: evolution and characteristics

UNCDF funding from 2006 to 2017 varied from year to year, with the lowest amount of subsidies provided in 2010 (about XOF 3.91 million) and the highest amount in 2008 (about XOF 1.25 billion). The Local Government and Development Programme (Programme des collectivités territoriales et développement local – CTDL), described below, was implemented from 2006 to 2012 and amounted to about USD 12 million. The CTDL community support component will be resumed and extended in a different form through the Project to Support Decentralization at the Regional Level–Local Authorities Financial and Institutional Analysis System (Projet d'appui au développement des cercles–Système d'analyse financière et institutionnelle des collectivités – PADC-SAFIC). A short spin-off project of the PADC-SAFIC was implemented from 2011 to 2013 in the region of Ségou. As of this writing, three UNCDF initiatives addressing food security and nutrition were under implementation: one in partnership with the Belgian Fund for Food Security (BFFS), the LoCAL-Mali initiative and the Finance for Food Programme.

The LDF Programme: a uniform and long-term investment fund

The CTDL was UNCDF's flagship programme in Mali between 2006 and 2012 and was financed through the LDF. The year 2006 was a pivotal one for the project, in that it saw the start of the second phase of financial support for the national support programme (PNACT II) and implementation of sectoral budget support for the first time under the Programme for Support to Administrative Reform and Decentralization (PARAD). LDF financing in 2006 amounted to about XOF 13.29 billion; of this, the UNCDF share accounted for about XOF 271.62 million (or 2.4 per cent of the total budget). UNCDF partners in the CTDL project were the Government of Mali, the United Nations Development Programme (UNDP), the Belgian Survival Fund, the Government of Luxembourg and the European Union.

The year 2006 also saw the conditionality imposed by the Agence française de développement linked to the achievement of performance indicators, which were associated with the payment of two annual tranches: one fixed and one variable. As a result of this performance conditionality, the allocated funds could not be fully mobilized – which explains, among other things, the decrease in grants for 2006 compared to the overall amount announced by the partners.

In 2007, subsidies allocated to local and regional authorities underwent changes in both amount and distribution, with a predominance of sectoral funds (about 80 per cent) versus general funds (about 20 per cent), thereby modifying the structure of the Investment Fund for Local and Regional Authorities (FICT). While this fund ended in 2007, to be replaced by the National Support Fund for Local Authorities (Fonds National d'Appui aux Collectivités Territoriales – FNACT), its value more than doubled from XOF 13.29 billion in 2006 to about XOF 29.76 billion in 2007.

UNCDF financing for investment by local and regional authorities reached its peak in 2008. Three new programmes were added to those already in existence, for a total amount of about XOF 3.08 billion, of which approximately XOF 1.25 billion was for the support of local authorities and local development project of the UNCDF.

UNCDF funding for local and regional authorities began in the Mopti region before expanding to the Timbuktu region from 2008 onwards. Funding was limited to these two regions throughout the first two phases of the UNCDF intervention. Along with the United Nations Conference on Trade and Development, UNCDF is starting a new round of funding with subsidies that have more than doubled, rising from approximately XOF 1.25 billion to about XOF 3.02 billion (an annual average of about XOF 250 million) and expanding to the region of Timbuktu. This is also the beginning of a new round of funding with the CTDL.

In 2009, financing for investment by local and regional authorities amounted to about XOF 26.55 billion. It was down by about 12 per cent compared to 2008, despite the arrival of new projects such as the DDE PAD-K Community region Koulikoro, the KFW-Dialokorodji-Safo inter-communal road, KFW-North Mali and the Programme Integrated Development of the Kidal Region. In 2010, FNACT funding amounted to about XOF 15.45 billion – a decrease compared to 2008 and 2009 funding (see Table 6.1).

UNCDF's share through the CTDL is about XOF 391.01 million (3 per cent of overall funding). UNCDF resources to support local authorities and local development in the Mopti and Timbuktu regions during 2009/10 experienced two consecutive declines, dropping from about XOF 1.2 billion in 2008 to about XOF 859.7 million in 2009. UNCDF funding did not pass through the ANICT at the high point of the Malian crisis. Rather, given its support in 2011–2013 through the PADC-SAFIC in the Ségou region, it seems that UNCDF chose to withdraw from its traditional intervention zones of Mopti and Timbuktu during the Malian crisis in favour of Ségou, as it presented less risk at the time. In 2013, about XOF 16.5 billion was devoted to community investment through the ANICT windows. UNCDF's share of about XOF 131.6 million (less than 1 per cent of total funding) was fully invested in the Mopti region under the CTDL.

Towards a reorientation of UNCDF interventions in Mali

UNCDF returned to Mali after the crisis with a food insecurity and nutrition initiative supported by the Belgian Fund for Food Security (BFFS) and implemented in the Nara and Nioro circles of the Sahel (Programme de Lutte Contre l'Insécurité Alimentaire et la Malnutrition dans les Cercles de Nara et Nioro du Sahel – PLIAM P2N) in partnership with the Directorate General of Territorial Collectivities. Other new projects began in the regions of Koulikoro and Kayes. The BFFS programme has a budget of about EUR 15.8 million and involves 27 municipalities including 11 in Nara and 16 in Nioro. As of this writing, the programme has already completed two cycles of 32 structuring investments for a total of nearly USD 4 million covering such items as micro-dams, road and school infrastructure, health centres, market garden areas, etc. The Support to Local Authorities component (Appui aux collectivités locales – ACL) of the PLIAM P2N effort is one of two ongoing major UNCDF initiatives in Mali; the second is the Local Climate Adaptive Living Facility (LoCAL). Both are discussed below.

ACL

The ACL component of the PLIAM programme is a joint project that contributes to the establishment of a governance mechanism for the local promotion of food and nutrition security. The ACL comprises eight components implemented by as many national and international partners. UNCDF implements the 'Support to Local Communities' component, which began

TABLE 6.1 Local government funding in Mali, 2006–2014

Source		2006	2007	2008	2009	2010	2013	2014	Total
LDF									> USD 12 million
FICT	Pilot UNCDF	XOF 271.6 million							USD 500,000
	Total FICT	XOF 13.3 billion							USD 28 million
	# local gov'ts	147							147
FNACT	UNCDF		XOF 250.1 million	XOF 1.2 billion	XOF 856.7 million	XOF 391.0 million	XOF 131.7 million		USD 4.3 million
	Total FNACT		XOF 29.8 billion	XOF 30.1 billion	XOF 26.5 billion	XOF 15.4 billion	XOF 16.5 billion		USD 180 million
	# local gov'ts		147	147	147	147	147		147
ACL	UNCDF							XOF 750.5 million	USD 1.1 million
	Total FNACT							XOF 14.5 billion	USD 22 million
	%							5.18	5.18
	# local gov'ts							27	27

in 2012 and was scheduled to end in 2017. As financed by UNCDF, the component has a budget of about USD 8.7 million. It aims to strengthen the capacity of actors to analyse, plan, implement and coordinate food insecurity and malnutrition strategies at the national and local levels. The amounts invested by UNCDF on behalf of the P2N project increased to approximately XOF 750.48 million, or about 5 per cent of the total investment made through the ANICT investment component, in 2014.

LoCAL-Mali

LoCAL is a unique mechanism for strengthening the financing of local communities and their skills. It builds on a given country's national system and provides complementary resources for municipalities wishing to improve the resilience of their territory and communities to climate change.

In Mali, the LoCAL pilot phase, which began in 2014 and ended in 2017, tested the approach in two Nioro communes (Simby, Sandaré). This first phase was carried out as a financing mechanism parallel to the existing financing system of the municipalities. Funding totalled USD 250,000.

Phase II, which was to start in 2018, anticipates the integration of LoCAL into the national funding system for local and regional authorities, and is thus being coordinated through the ANICT. The advantage of using ANICT funding channels is that they are already based on equalization criteria, which include the fundamental governance principles of the municipality (the role of the council and accountability through presentation of the administrative account). Thus, if a municipality meets the FNACT criteria, it would in principle be eligible for LoCAL – provided it does not deviate from the other additional minimum conditions required by LoCAL, which relate to (among others) local governance and the role of the communal council in the project management of adaptation activities.

Conclusion

In nearly a half-century of intervention in Mali, UNCDF has made approximately USD 38.8 million in investments in a portfolio of varied projects, including more than USD 12 million for the LDF programme through 141 investments and the CTDL in Timbuktu (about USD 8.9 million) and PADC-SAFIC in Ségou (USD 600,824). The remainder was invested in various projects such as health in the Djenné circle (USD 2.4 million), hydro-agricultural development in the Bankass region (USD 500,732), food security in Nioro Sahel (USD 2.8 million), Timbuktu and Gao (about USD 1.5 million).

In mobilizing these resources, UNCDF rarely acted as the sole intervener. The sums mobilized are the result of combined actions of various partners, some of which were led by UNCDF through a pilot project. This was the case with the CTDL, which UNCDF began in the Mopti region before extending to the Timbuktu region. It was also the case with the PLIAM and LoCAL initiatives.

According to ANICT activity reports, UNCDF was the sole contributor in 2006 for financing the CTDL pilot in the Mopti region. In 2007, it came back jointly with the PACR before its investments were part of the CTDL from 2008 onwards. This is reflected, as noted above, in a substantial increase in the number of subsidies allocated to local and regional authorities in that year by UNCDF and its partners. Through its pilot project, UNCDF has therefore engaged in a dynamic that mobilizes other partners and resources.

UNCDF's approach is generally based on a pilot project, the results of which are used to convince other partners to join for a second phase. UNCDF may also mobilize other partners as soon as the pilot begins, in cases where the intervention is limited to a pilot project (e.g. the ACL component). The number and profile of partners thus varies from one project to another. UNCDF's financial partners have the primary role of contributing to the project budget. Technical partners may be more involved in implementation. Partners can also be state, institutional, national or international non-governmental organizations, private actors, etc. A variety of stakeholders can thus end up on the same project with different roles or different tasks to perform. To mobilize multiple partners, especially at the start of a project, a capacity based on trust, quality and relevance must be assumed.

The PLIAM initiative exemplifies such an open partnership. It brings together some 15 partners, both financial and technical, as well as institutional donors (e.g. the Food and Agriculture Organization of the United Nations), international organizations (e.g. SOS Faim, VSF Belgique), national (Conseils et Appui pour l'Education à la Base, Initiatives-Conseils-Développement) and a private financial actor (Kondo Jigima).

For CTDL, five partners besides UNCDF provided funding after the pilot phase (UNDP, the Belgian Survival Fund, the Government of Luxembourg, the European Union and the Government of Mali). Analysis of the funding structure in both Mopti and Timbuktu shows that UNCDF is often among the main donors, if not the main contributor, in the projects in which it participates. In Timbuktu, out of a total budget of about USD 8.9 million, UNCDF contributed about USD 2.9 million compared to about USD 3.2 million from the Belgian Survival Fund. The remainder was shared among UNDP, the World Food Programme, the Malian government and local governments. In Mopti, the project budget was USD 13 million, almost half of which was funded by UNCDF (USD 6 million). It should be noted that the Government of Mali and local governments contributed almost one-third of the budget. These contributions from the state, and in particular from the communities themselves, form part of the conditionality of the external donors.

Even though UNCDF interventions are generally limited to one or two regions, the number of beneficiaries is high, both in terms of the number of municipalities and the number of inhabitants. Indeed, whether a project has been in its pilot or subsequent phases, the number of beneficiaries has been sufficiently high for the projects to have had a significant impact and involved various beneficiaries: men, women, young people, students, farmers and agricultural producers, etc.

The CTDL covered 147 local and regional authorities (including 134 municipalities): 116 in the Mopti region and 31 in the Timbuktu region. For the P2N effort, 27 communes were beneficiaries, including 11 in Nara and 16 in Nioro.

UNCDF interventions in Mali are characterized by their diversity and consistency in carrying out agricultural infrastructure projects and basic social services. UNCDF has always been able to adapt to the national situations and policies of the Malian state. Very early on, it was able to align itself with the new political orientation of Mali emphasizing decentralization. Thus, from 2000 onwards, its interventions aimed essentially to (i) reinforce the capacities of contracting authorities of local governments and (ii) improve the living conditions of beneficiaries through making LDF funding available.

This policy of supporting local and regional authorities, which resulted in implementation of the CTDL from 2006 until 2012, was pursued with the P2N from 2012 to 2017, UNCDF financing cycle in Mali. In 2018, a new round of funding was expected to start, also appears to be part of the open partnership strategy that UNCDF has always mobilized through a dynamic co-financing system.

CASE STUDY 7

Nepal

Objective of the case study

The objective of the Nepal case study is to review and document the experience and lessons learned from UNCDF support of the Decentralized Financing and Development Programme (DFDP) and its impact on the size and modalities of the country's intergovernmental fiscal transfer system, with a focus on expanding discretionary development funding to local governments linked to performance-based grant funding.

DFDP

UNCDF, in partnership with the Government of Nepal, piloted the Local Development Fund (LDF) project with a total budget of USD 5 million. The project came into operation in 2001 and covered eight districts of Nepal. After two years of LDF operation, the U.K. Department for International Development (DFID; now the Foreign, Commonwealth and Development Office) supported UNCDF with an additional USD 5 million to expand the programme in an additional 12 districts of Nepal. DFID support was for three years, aligning with the original LDF project period. With the new agreement with DFID, the project name was changed from LDF to DFDP.

The aim of the DFDP is 'to reduce poverty in the pilot districts through provision of rural infrastructure and human resource opportunities'. Underlying this development objective is the expectation that the DFDP would:

- Have a direct local impact on socioeconomic development and poverty alleviation through the improved sustainable provision of basic public and community infrastructure and services
- Contribute to evolving procedures, practices and policies of wider relevance for decentralization processes in Nepal
- Strengthen the capacities and legitimacy of local governments, including elected representatives (which have been absent since 2002), and thus contribute to improved local democratic governance

In Nepal, there are two tiers of local governments: district development committees (DDCs) at the district level and village development committees (VDCs) and municipalities at the local level. The DFDP was implemented only through DDCs. For the first two years (2001–2003), it was implemented in eight districts. With the additional DFID funding, it was expanded to 12 more districts, for a total of 20 programme districts in all.

The DFDP is the pioneer agency that has directly provided discretionary capital development block grants to programme districts. It provided an annual budget ceiling of approximately USD 90,000 per district for the first two years (2001–2003). This funding was directly transferred to the account of the District Development

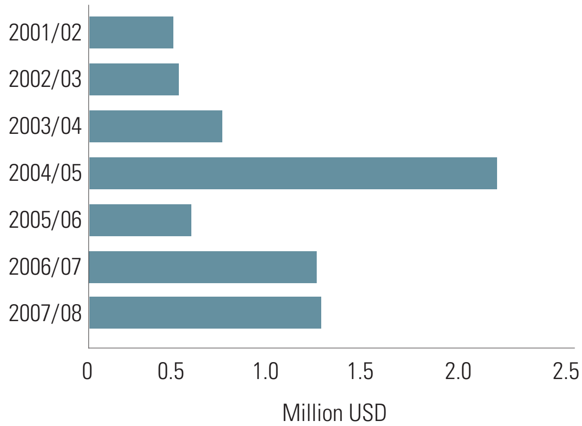
Fund, which was subject to audit by the Office of the Auditor General. Beginning with the second year, the DFDP annual budget ceiling was formula based.

Table 7.1 and Figure 7.1 show the DFDP grant allocations to the DDCs by fiscal year. The grant size was approximately USD 90,000–100,000 per year. When DFID support started covering an additional 20 districts in FY 2003/04, the DFDP could not transfer budget and was limited to preparatory work. Therefore, it transferred USD 2,152,000 as a block grant, which was allocated for both FY 2003/04 and FY 2004/05. The DFDP introduced performance-based grant funding effective from FY 2003/04. Districts that could not meet minimum conditions were not eligible to receive the DFDP block grant allocated for that fiscal year. Similarly, the size of the allocation could be increased or decreased based on the results of performance

TABLE 7.1 DFDP annual block grant allocation to DDCs

FY	Block grant (USD)	Remarks
2001/02	443,000	8 districts
2002/03	473,000	8 districts
2003/04	702,000	20 district
2004/05	2,152,000	20 districts
2005/06	543,000	20 districts
2006/07	1,202,000	20 districts
2007/08	1,224,000	20 districts
Total	6,739,000	

FIGURE 7.1 DFDP annual block grant allocation to DDCs in USD



measures. The DFDP adopted some internal controls with regard to sending the block grant to DDCs. Consequently, the DFDP did not transfer additional budget if the previous budget was not expended. Therefore, annual transfers to districts have varied.

Formula-based block grants to local governments

In Nepal, local governments are dependent on central transfer. Under the Local Self-Governance Act of 1999 and the Local Self-Governance Rule of 2000, local governments' authority over own source revenue is low compared to their functional assignment. Local governments' main sources of revenue are land tax, rental income and service fees; sales of sand, gravel and boulders; and royalties from electricity, forestry, tourism etc. The collection of own source revenue is not sufficient to cover recurring costs. The transfer from the central government is minimal, covering just core basic recurring costs and some development expenditures.

VDCs are the smallest unit of local government in Nepal and have had very small budgets for many years. Beginning in FY 1995/96, the Government of Nepal decided to provide a lump sum grant of NPR 300,000 to each of the country's 3,915 VDCs, despite the vast differences in VDC population size, cost of services and area. For example, some VDCs have a population of 500; others have more than 35,000. Similarly, VDCs located in the mountains might spend 10–15 times more for the same level of service as VDCs in the Terai region. Nonetheless, the central transfer was the same for each VDC. This system of allocation continued for some years. In FY 1997/98, the government increased the annual grant amount to NPR 500,000; this rose to NPR 1 million in FY 2006/07.

After the peace accord, the Government of Nepal was interested in doubling the VDC grant to NPR 2 million in FY 2008/09. This suggestion met significant resistance from some political parties opposing the adoption of a formula for grant allocation. These opponents argued that the country was still in a transition phase and that any change in formula would have a negative political impact. UNCDF and the DFDP played a strong advocacy role in the design of a grant allocation formula. Ultimately, the Government of Nepal agreed to adopt a formula with some adjustments. The decision was made that every VDC would receive a minimum grant of NPR 1.5 million, with further grant funding being formula based. It was also decided to set a maximum grant value per VDC of NPR 3.0 million. Therefore, the VDC grant allocation formula is applied between a minimum of NPR 1.5 million to a maximum of NPR 3.0 million.

This formula has been used for VDC grant allocations since FY 2008/09. No similar formula was established for block grant allocations to municipalities and DDCs. This changed in FY 2013/14, when the government designed and adopted a formula-based grant allocation for DDCs and municipalities. Table 7.2 presents the grant allocation formula for local governments in Nepal. The formula is used only after allocating minimum grants to all local governments as per the provisions of the Local Self-Governance Act of 1999.

Block grant allocations to local governments

The UNCDF-funded DFDP was closed in July 2008, setting a good policy precedent for designing formula-based grant allocations, performance-based grant funding and generic capacity development for local governments. It also supported enhancing the capacity development of the Local Body Fiscal Commission (LBFC) and local government associations. The innovations and policy improvements of the DFDP, such as instituting formula-based grant allocations and a government commitment to adopting minimum conditions and performance measures in entire local governments, was the major foundation in designing and implementing the Local Governance and Community Development Programme (LGCDP I), which became effective at the close of the DFDP in July 2008. In LGCDP I, all development partners agreed on a joint financing agreement and put their resources in the central treasury. The LGCDP was led by the government authorities, which has a significant impact on fiscal leverage.

Under the LGCDP, the annual unconditional grant transfers to local governments increased significantly (see Table 7.3 and Figure 7.2). Development partners' contribution to local governments is a discretionary grant provided through LGCDP I and LGCDP II and has totalled more than USD 203 million over the programme period. Assessing the transfer of discretionary grants to local governments over the period, it can be concluded that the Government of Nepal has highly prioritized strengthening local government.

Performance-based funding grant to local councils

The DFDP had introduced performance-based grant funding based on minimum conditions and performance measures in DDCs beginning in FY 2003/04. Initially, this covered 20 programme districts and was linked to DFDP capital grants. This practice continued

TABLE 7.2 **Grant allocation formula for local governments in Nepal (%)**

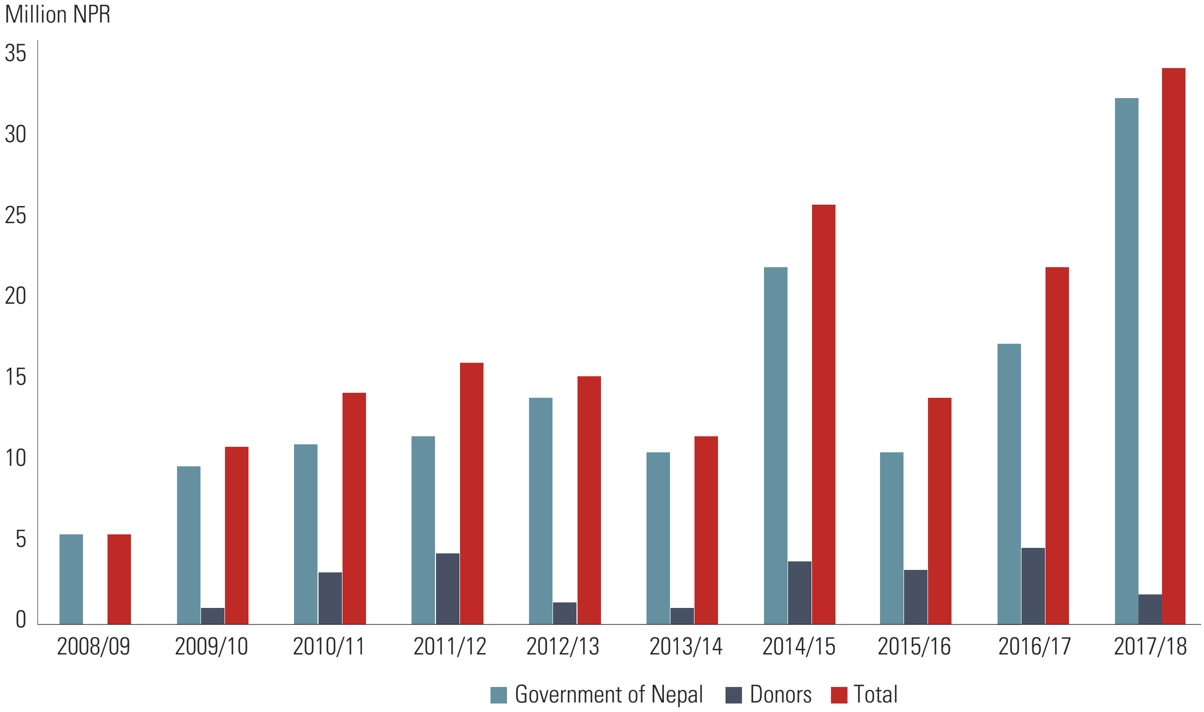
Indicator	VDCs	Municipalities	DDCs
Population	60	50	40
Area in square kilometres	10	10	10
Weighted cost	30	X	25
Weighted poverty	X	25	25
Weighted internal tax revenue	X	15	X
Total	100	100	100

SOURCE: Local Body Resource Mobilization Guideline, 2009.

TABLE 7.3 **LGCDP block grant allocations to local governments by source**

FY	Government of Nepal (million NPR)	Development partners		Total (million NPR)
		Million NPR	% of total	
2008/09	5.251	0	0.0	5.2
2009/10	9.354	0.985	9.5	10.3
2010/11	10.563	3.021	22.2	13.5
2011/12	11.092	4.247	27.7	15.3
2012/13	13.350	1.271	8.7	14.6
2013/14	10.016	1.026	9.3	11.0
2014/15	20.881	3.730	15.2	24.6
2015/16	10.116	3.164	23.8	13.2
2016/17	16.428	4.512	21.5	20.9

FIGURE 7.2 **Block grant allocations to local governments by government and development partners**



until FY 2007/08. The remaining 55 DDCs were not involved in the minimum condition / performance measure assessment system. The development partners were very much interested in replicating the system, and this was a foundation for preparing the LGCDP. Therefore, at the request of the government, the DFDP provided financial and technical support to a minimum condition / performance measure orientation and created a baseline in FY 2006/07. Further, the DFDP supported the conduct of an actual minimum condition / performance measure assessment of all 75 districts in FY 2007/08, which had an impact on the DDC grant allocation for FY 2008/09. The performance grant was entirely linked to the government budget. The LBFC conducted the minimum condition /

performance measure assessment process and recommended the grant allocation to the government.

The LBFC gradually expanded the assessment system to other units of local government. It started minimum condition / performance measure assessment in municipalities in FY 2008/09, which affected the grant allocation for FY 2009/10. Similarly, it began to assess minimum conditions in VDCs in FY 2010/11, affecting grant allocation for FY 2011/12. By FY 2010/11, performance assessments were done for all local governments – DDCs, VDCs and municipalities.

The DFDP significantly influenced the intergovernmental fiscal transfer system, instituting performance-based grant funding; working with local government associations for capacity development; strengthening the internal audit section; designing Local Body Financial Administration Rule 2007; and advocating for stronger, efficient, transparent and accountable local governments in Nepal.

CASE STUDY 8

Solomon Islands

Background

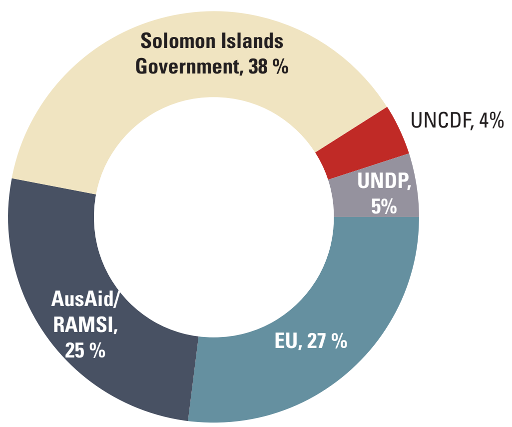
The Solomon Islands Government and UNCDF, in coordination with the United Nations Development Programme (UNDP) and development partners – the European Union (EU) and the Australian Agency for International Development (AusAid) through the Regional Assistance Mission to Solomon Islands (RAMSI) – initiated the Provincial Capacity Development Fund (PCDF) as a component of the Provincial Governance Strengthening Programme (PGSP) in 2008. The purpose of the fund, which was the first of its kind in Solomon Islands, was (and still is) to provide budget support to all nine provincial governments for small-scale capital development project funding. The grant was designed as a performance-based grant with the aim of promoting a good public expenditure management system and good governance.

Overall, UNCDF and its donor partners leveraged USD 11.3 million in support of the PGSP and USD 3.5 million for the PCDF. The Solomon Islands contribution was for the PCDF, and amounted to USD 9.2 million over the PGSP 2008–2013 phase (see Table 8.1). Additionally, UNCDF provided all technical staff that supported the ministry in programme implementation, while UNDP provided administrative and procurement support (see Figure 8.1).

TABLE 8.1 **Funding leveraged by the PGSP, 2008–2013**

Contributing Partners	Amount contributed (million USD)
Solomon Islands Government	9.2
EU	6.4
AusAid/RAMSI	6.2
UNCDF	1.0
UNDP	1.2
Total funding	24.0

FIGURE 8.1 **Funding leveraged by the PGSP, 2008–2013**



Objectives of the PCDF grant

As a performance-based grant, the PCDF has been designed to promote and stimulate provincial public financial/expenditure management systems, procedures and practices by enhancing provincial incentives to improve performance; and by providing funds to make the local planning and budgeting process meaningful, efficient and participatory. It helps provide funds for small-scale investments in needed infrastructure and service delivery within areas prioritized by the provincial governments and in line with their mandatory functions and in a transparent and formula-based manner[1]. The grant is combined with comprehensive capacity building so as to improve institutional capacities in public financial/expenditure management, good governance and accountability and to address gaps revealed during the annual performance assessment which was introduced as part of the grant mechanism.

Size and upscaling of grant allocation

Initial PCDF allocation

The grant for capital investments started on a small scale, as per the agreed project document, totalling SBD 10.8 million, or about USD 1.4 million, per year from 2008/9 to 2013/14. About 50 per cent of the funding was contributed directly by the Solomon Islands Government and 50 per cent by the development partners through UNCDF. Both parties to the agreement honoured their contribution obligations, except in 2009 when, due to the worldwide economic crisis, the Solomon Islands Government could not pay its contribution of SBD 5.4 million (about USD 700,000), but instead paid just SBD 2 million (about USD 263,500).

The grant was designed and initially funded by partners as a pilot scheme and was meant to be implemented for 15 years in three 5-year phases under the PGSP. Any upscaling by the Solomon Islands Government was expected to take place after piloting the scheme in phase 1; however, the government soon realized the impact of the scheme and felt it critical it providing essential infrastructure services to rural communities and in building the institutional capacities of provincial officers for effective service delivery. As a result, by 2012, the national government responded positively to the Cabinet Paper presented by the implementing ministry, which explained the model and its benefits. Consequently, the contribution was increased to SBD 25 million (USD 3.2 million) from SBD 5.4 million (USD 700,000) per year (see Figure 8.2). Since 2012, the amount of funding provided has increased fairly steadily based on the lessons learned from the initial piloting and gradual expansion. Overall, between 2008/09 and 2016/17 funding grew 359 per cent.

The first phase of the PGSP ran from 2008/09 to 2013/14, during which the amount of the PCDF released to provincial governments was about USD 12.7 million; of this, the UNCDF and donor contribution (mainly from the EU and AusAid passed through UNCDF) was USD 3.5 million; the Solomon Islands Government contributed USD 9.2 million. After the closure of the pilot phase, the Solomon Islands Government continued funding the grants. From 2014/15 to 2016/17, the government contributed about USD 14.4 million; this includes the 2017 allocation which, as of this writing, had been approved by the Parliament and was about to be disbursed to qualifying provinces.

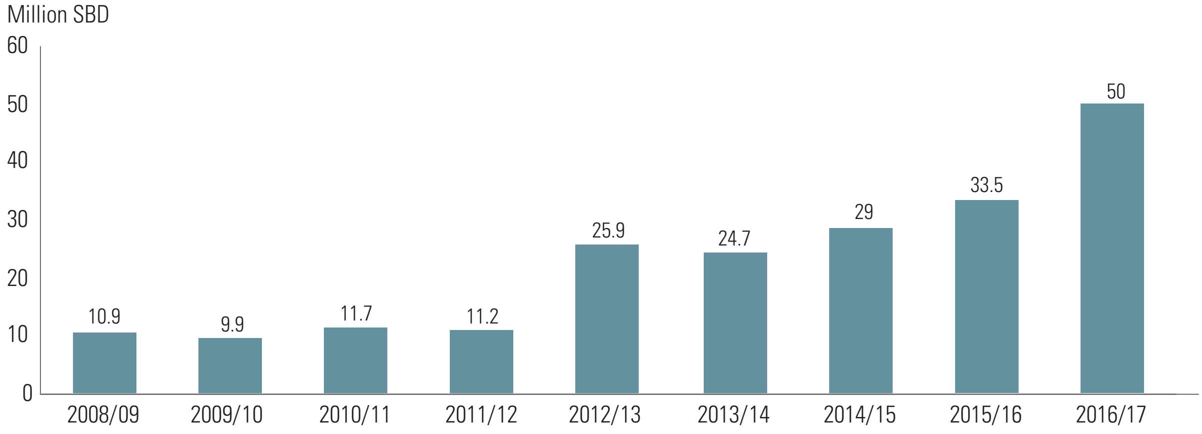
PCDF elements

The PCDF grant was established as a performance-based grant – the first of its kind in the Pacific – in 2008. It required the provinces to qualify before they could access the funds and included a number of qualitative performance measures to incentivize good performance. The original principles have been kept intact, with rounds of gradual improvements and refinements over the period 2008–2017.

There are currently seven minimum conditions provinces have to meet before they can qualify for the fund. When the initiative began in 2008, there were 17 minimum conditions, but these were reduced to 8 in 2009 and to 7 in 2012 after thorough review.

[1] Before the PCDF, funds were largely allocated based on recurrent budget and without any clear formula for allocation (based on historical developments).

FIGURE 8.2 **PCDF growth over time (actual expenditure by year)**



Performance measures were introduced in 2009. Since then, eight thematic performance measures with 50–60 indicators are assessed on an annual basis, weighted with scoring for each to provide results in a range of 1–100 points. Performance above the average score is rewarded. The areas assessed annually include the following.

Minimum conditions

- **Core staffing.** This has to be in place to ensure funds are well managed and core officers implement projects.
- **Natural justice.** This is designed to protect hard-working core officers from political pressure.
- **Management of PCDF account.** This is designed to ensure funds going into and out of PCDF accounts are spent mainly on PCDF activities.
- **Financial reporting.** One way of accounting for funds is through submission of provincial government annual financial statements in accordance with the requirements of the Provincial Governance Act of 1997.
- **Bank reconciliation.** This is designed to ensure there is proper control and that cash books are reconciled with what is in the bank.
- **Audit report.** An important element of public sector accountability, audit reports are expected to be tabled in the legislative assemblies and issues raised in the reports are addressed.
- **Co-funding.** A certain percentage of the annual grant is supposed to be contributed by the provinces so as to ensure their full ownership of the projects.

With regard to these minimum conditions, performance of the provinces has not been consistent but there is an improving trend, as indicated in Table 8.2. (Note that the provincial governments received significant support prior to and during the programme to enhance their capacity and to comply with the conditions.) With targeted capacity building, the larger provinces that initially found it difficult to qualify have been able to meet all minimum conditions since the 2014/15 assessment.

Various reports, including the Mid-Term Review, confirm the impact of the minimum condition / performance measure system on the performance of provincial governments. During phase 1, the EU conducted three monitoring visits based on results-oriented monitoring and concluded that the project was relevant to Solomon Islands and that the minimum condition / performance measure system was having a gradual impact.

Performance measures

- Existence and quality of development and annual budget
- Achievement of budget and project implementation
- Revenue collection performance and contribution to own development

TABLE 8.2 **Minimum conditions assessment performance, 2008–2016**

Year of assessment	Number of provinces that met all minimum conditions and qualified for grant	Number of provinces that did not all minimum conditions and did not qualify for grant
2007/08	7	2
2008/09	9	0
2009/10	8	1
2010/11	7	2
2011/12	8	1
2012/13	6	3
2013/14	7	2
2014/15	9	0
2015/16	8	1

- Human resource management capacity and performance
- Financial management
- Procurement
- Transparency and governance
- Provincial assembly operation and links to administration

Performance measures have been refined over time. After their introduction in 2009, the indicators were reviewed in 2012, with an emphasis on planning and financial performance. The general trend has improved, although precise comparison over time is difficult given the changes that occur after every review. However, the provinces have made much progress on indicators in such areas as development planning, human resource management, revenue, budgeting and governance; and all provinces are performing above average. With targeted training, it is hoped that performance in financial management and procurement shall also improve over time.

In addition to the minimum conditions and performance measures, the funding system has a number of **triggers** for actual release of grants. Thus, even after qualifying for grants, funds are not released to the respective provincial account unless these sub-conditions are met:

- Regular, quarterly reporting is required in order for grants to be paid into individual provincial government accounts.
- The provincial budget must be passed by the Assembly on or before 31 March, as the last day of the fiscal year.
- Projects that are approved by the Assembly must be linked to those in the three-year development plan.

Note that, in order to lessen the chance of political influence, projects do not have to be allocated by ward.

Institutional framework

New institutional arrangements were established to coordinate grant issues, reforms and allocations. As this is a national programme, there is a Joint Oversight Committee that serves as a project board responsible for monitoring project performance, including of the PCDF, and for making decisions on funding allocations through the annual work plans. The committee members include permanent secretaries of those ministries that have a stake in provincial service delivery. The committee is supported by a Provincial Fiscal Grant Coordination Committee, which advises on technical issues including the PCDF and other fiscal issues relating to the provinces. These arrangements have continued beyond the pilot and have been effective even after the end of development partner support.

Impact of the PCDF

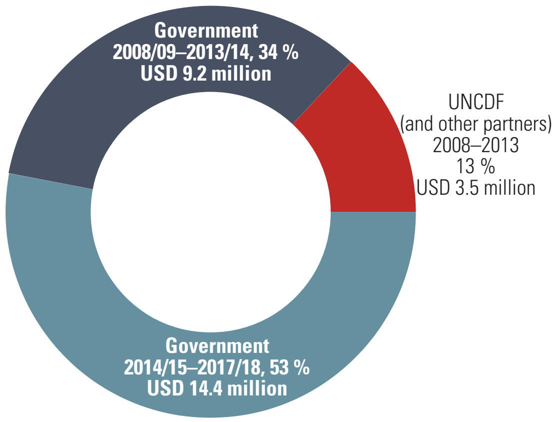
Leverage on size of grants

The PCDF pilot grant scheme ran from 2008 to 2013 with financial support from UNCDF (and handling of funds from AusAid/EU)[2]. Technical assistance for systems development provided useful lessons and quickly built the confidence of the national government in the system. The government saw that the performance of the provinces improved rapidly, and that projects were planned, budgeted, implemented and accounted for. Its reaction was an immediate scale-up through approval of a Cabinet Paper[3], and an actual increase in allocations as a clear demonstration of the fact that the modality was working well for Solomon Islands. This growing confidence in the PCDF pilot scheme has led to the national government's continuous support of the programme even after donor funding ended in 2013. From 2014/15 to 2017/18, the government increased its support with a total of USD 14.4 million to keep the grant scheme upscaled.

The inflow from development partners over the 2008–2013 period (USD 3.5 million from UNCDF and other development partners) has been met with a contribution by Solomon Islands of USD 9.2 million, for a total of USD 12.7 million. From 2014/15 on, the Solomon Islands Government provided USD 14.4 million – 113 per cent higher than the original pilot allocation. In upscaling the project, the pilot was directly referenced as the model for funds transfer and the system to be applied as the main vehicle for directing needed funds for local-level provincial government infrastructure and services; hence, the new grant allocation system has been fully mainstreamed in government policy and systems.

Figure 8.3 shows the leveraging of funds from the development partners on overall allocations to the PCDF (note that there were no capital grants prior to 2008). Since the start of the PCDF, the Government of Solomon Islands has contributed around 87 per cent of the funds. UNCDF's input, which was critical in the design and piloting, was only about USD 1 million. This has been leveraged to a total of USD 27.1 million in PCDF grants (USD 12.7 million from 2008 to 2013; and USD 14.4 million subsequently). Most of these funds have come from the Government of Solomon Islands.

FIGURE 8.3 Overview of PCDF grants from 2008–2017



In addition to upscaling the PCDF, the Solomon Islands Government has been allocating funding for recurrent budget support to the PGSP through the Ministry of Provincial Government and Institutional Strengthening. A total of about USD 2.0 million per year since 2015 has been allocated to the programme to continue the roll-out of capacity-building support for provincial governments initiated in phase 1. The recurrent funding leveraged so far has been a direct result of the UNCDF pilot scheme in PGSP phase 1 and totals USD 6.0 million.

Capacity-building support and its immediate impact

The national government, having realized that the capacity building funded by donors through UNCDF was a contributing factor to the success of the PCDF, decided to keep the capacity component of the PGSP functioning even without donor support. The Solomon

[2] UNDP also provided funding support for technical assistance and capacity building.

[3] The first Cabinet decision to increase the PCDF was in August 2011; the amount was SBD 25 million (USD 3.3 million). The second Cabinet decision to increase the PCDF was on 26 September 2013; it increased it to SBD 40 million (USD 5.3 million). See Cabinet Conclusion C28-26/09/2013.

Islands Government has since 2015 allocated about USD 2 million per year in recurrent budget support to the PGSP to enable the implementing ministry to continue with capacity building in the areas of public financial/expenditure management and good governance to ensure sustainability over the long run[4].

During the first phase of the programme, the ministry had international and local technical support to support implementation of key components of the programme, particularly capacity building. In the first five years of the UNCDF intervention, the programme employed nine national advisors and nine United Nations Volunteers – one of each per province.

In phase 2, with no donor partner support, the Solomon Islands Government has, through the implementing ministry, recruited nine national advisors based in the nine provinces. The ministry has also recruited one international advisor to support the ministry executive in providing technical support in project operation of the project, policy development and capacity building in various areas of public financial/expenditure management and good governance and capacitating advisors and their counterparts.

Despite the absence of donor partner support, the ministry continues to implement the communication strategy designed in phase 1 by recruiting a communications officer based in the ministry headquarters.

Results from the annual performance assessments have continued to provide inputs to better targeting of the capacity-building support needed, and the provincial governments have been supported in strengthening their own demand-driven capacity-building improvements as well.

Impact on national approach

- **Mainstreaming UNCDF best practices.** Given the capacity issues in Solomon Islands at the time of programme design, it was envisaged that it would take at least 15 years for most of the international best practices to be mainstreamed into the Solomon Islands fiscal transfer system. Mainstreaming was faster than expected, however. With the imminent withdrawal of donor partners, the Solomon Islands Government took decisive action, demonstrating its appreciation of the best practices initiated by UNCDF and other partners (especially UNDP on capacity-building support) in phase 1.
- **Major improvements in the grant system.** The pilot introduced formula-based allocations for grants to provincial governments – not only for capital grants but also for the recurrent grants – and the linkages between allocation, performance and capacity-building support. Provincial governments now have to demonstrate their capacity to handle funds and have strong incentives in place to improve their performance. This system has been incorporated in the major funding flows to the provincial governments, and is likely to be sustained, driven by the success rate in proven capacity enhancements.
- **Flow of funds procedures established.** With the PCDF, clear procedures for the flow of funds, in terms of timing, release and, reporting have been established. These have been maintained and refined since the start in 2008.
- **Major support for capacity building not seen before the pilot.** The current allocation of USD 2 million per year for the implementing ministry's recurrent budget was designed to pay for recurrent spending of the PGSP and to maintain officers who are supporting continuous capacity building at the provincial and ministry levels. The fund is also used to pay for both local and international consultants who provide specific inputs in areas where technical skills are not available within the programme, ministry and provinces. For the second phase of the PGSP, the impact of the national government decision on recurrent support amounts of about USD 10 million (2016–2020) signifies the gradual influence the PGSP pilot has had on national government planning and budgetary policies. The central government has gradually come to see the provincial governments as front-line providers of local infrastructure in line with national policy intent and has increased its support to the provincial governments.

[4] The decision by the Cabinet to allocate SBD 15 million per year in recurrent budget support to PGSP phase 2 was made through Cabinet Conclusion C28. The first allocation in the government budget was in 2015.

- **Stronger organization of core support functions.** Creation of the PGSP division within the Ministry of Provincial Government and Institutional Strengthening represents the final step in mainstreaming the pilot programme. As a division, the PGSP work plan is aligned to every other division in the ministry and is headed by the National Project Coordinator. This bodes well for its financial sustainability and to the sustainability of capacity building for many years to come. Continuous capacity building cannot be sustained without guaranteed financial support; this has apparently been provided with the emergence of the PGSP recurrent budget in the ministry budget. The recurrent budget concept has ensured that training on public expenditure management, public financial management and governance continues, ensuring long-term sustainability and that all best practices are deeply rooted in provincial government systems.
- **Continued deepening of public financial management reforms at the provincial level and budget stability.** The launch of the Government Public Financial Management Act of 2013 has provided a legal framework for the programme. According to the act and its discussion of targeted balance, PGSP funds and the PCDF may not be affected by the November cut-off date of national accounts (Section 31 (2)); instead, full authority is granted to the Ministry of Finance and Treasury over the utilization, guidelines and procedures of how the fund should be spent (Section 27–28).
- **Increased trust in provincial government capacity to handle funds.** The increase in PCDF funding over time is an indication of the phase 1 success story, which was implemented with UNCDF technical support. With many good-quality projects completed and funds accounted for, the national government has been convinced that the provinces are gradually gaining the capacities they need to deliver infrastructure of good quality and within a given time frame.
- **PCDF assessment continuity.** Annual performance assessment of provincial governments determines the eligibility of individual provinces’ access to the fund and the size of the grants. This continues to be conducted, and a committee has been established – and continues to be operational – to make decisions on grant allocations and qualifications. Three independent assessors are recruited annually to conduct the assessment, since the end of UNCDF support. This practice maintains the integrity of the entire system, and provides strong incentives for provincial governments to improve, as well as targets capacity-building support to weaker areas.
- **Continued strengthening of public financial management performance.** In public expenditure management, provinces have made progress in a wide range of areas, which has been made possible through sustained capacity building. The improved areas include participatory planning, budgeting, financial reporting (all provincial governments are now able to produce financial accounts to comply with the Provincial Governance Act of 1997), procurement, internal controls, governance, revenue mobilization and public accounts committees (which were established for the first time).
- **Continued capacity-building support to provincial governments.** Some 889 officers and politicians were trained from 2008/09 to 2013; of these, 167 were women, representing about 19 per cent of the total trained in various aspects of governance and public expenditure management. This training continues as an integrated part of the government reform to strengthen provincial governments[5].
- **Improved accountability for funds.** The provinces were able to account (100 per cent) for SBD 228.9 million (USD 28.6 million) in fixed service grants delivered to them by the Solomon Islands central government from 2008/09 to 2013/14 in the form of regular reporting and auditing; in comparison, during the 1993–2007/08 period, only 14 per cent of SBD 222.9 million (USD 27.2 million) of fixed service grants was accounted for. These represented funds transferred by the national government to the provincial governments as recurrent expenditures through the implementing ministry. This performance is likely to be sustained and deepened.

[5] The updated National Development Strategy Objective 5 (Medium Term Strategy 12) requires the PGSP to strengthen provincial government capacities for effective service delivery.

- **Financial statements.** The provinces gained the ability to prepare and produce financial statements. From 2008/09 to 2015/16, 100 per cent of the 72 financial statements were produced, compared to 2 out of 126 financial statements for the 1993–2007/08 period. Thus, a culture and practice of accountability, reporting, accounting and auditing has been established and is relatively robust compared to a very weak point of departure. For the first time, provinces are producing financial statements based on an internationally recognized accounting standard (International Public Sector Accounting Standards). This standard was first applied in 2010.
- **Annual audit established.** For the 15 years between 1993 and 2007/08, only 6 audits of 126 were carried out on provincial government transactions, compared to 100 per cent audit on provincial government financial statements and transactions from 2008/09 to 2014/15. As of this writing, all financial statements for 2015/16 have been submitted to the Office of the Auditor General; it is thus expected that all nine provinces will have their audits carried out before September 2017.
- **Audit opinion.** Disclaimer of opinion reports were received for all financial statements audited for the 1993–2017/18 period; in comparison, from 2008/09 to 2014/15 'qualified audit opinions' were obtained five times by three provinces, and the most recent audits showed reduced audit queries.
- **Improved reporting system.** Provincial governments have adopted an improved financial reporting system based on a recognized international accounting standard (International Public Sector Accounting Standard). The implementing ministry has, with PGSP technical support, been providing continuous training to provincial governments for enhanced appreciation of the new standard and its proper application.
- **Project implementation capacity improved and poverty reduction and creation of job opportunities enhanced.** About USD 25 million has so far been delivered and confirmed as spent through the PCDF in various provinces, reaching thousands of households. The 989 projects completed have created employment opportunities for about 3,326 Solomon Islanders as of the end of 2015/16 (see annex tables and figure), while 176 ongoing projects are creating job opportunities for some 996 Solomon Islanders as a result of the implementation of public sector infrastructures. Before the PCDF, there was no funding to the provinces to support infrastructure development projects. The government and line ministries had little or no trust in the provincial governments' capacity to handle funds and projects. The current success stories have changed that dynamic.
- **Strengthening capacities of local contractors and creating a pool of contractors at the provincial level.** Most of the money being spent on projects is awarded to local contractors, which, in the process of implementation, offer job opportunities to many young people. The community- and locally based contracts have built and reinforced the capacities/capabilities of local contractors – which have ultimately become quite competitive in the construction market. The performance-based projects have led to the creation of many companies in various provinces that (to a large extent) implement most of the infrastructure projects in their localities.
- **Institutional set-up.** Finally, but not least important, project support has been provided to set up proper institutional arrangements for handling funds, including the Joint Oversight Committee (with representation from core ministries, stakeholders and provincial governments) and the PCDF Fiscal Grant Coordination Committee (with technical representation from all involved parties). These committees were established at the start of the pilot, but have been maintained and refined since, and are currently robust tools for inter- and intra-governmental coordination and dialogue.

Conclusions

The PCDF pilot, with initial support from development partners of some USD 3.5 million (passed through UNCDF) for grants (2008–2013) and capacity building, has directly leveraged co-funding from the government of USD 9.2 million and has been crucial to the subsequent upscaling of a similar system with allocations totalling to USD 14.4 million over the period

2014–2017. The system will be maintained and is embedded and sustained by government policy and practices.

In addition, the modalities established have led to a substantial increase in recurrent funding, and to formula-based allocations and incentives. The recurrent allocation as a direct result of the PCDF pilot phase was USD 6.0 million from 2015 to 2017.

The original pilot has had a substantial impact on the direct performance improvements of the provincial governments, as well as on the overall systems and procedures for supporting these provincial governments through comprehensive support to system development and capacity-building support; this has included issuing guidelines for performance assessment, grant allocations and management, public financial management, reporting, and monitoring and evaluation systems.

TABLE 8A.1 **Actual annual PDCF disbursement by province (SBD)**

Province	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Central	765,565	510,000	824,684	814,684	3,080,630	2,690,918	5,106,661	3,385,625	4,220,973	21,399,740
Choiseul	970,000	646,030	954,190	1,062,359	3,816,086	2,679,086	5,296,871	3,858,944	4,888,334	24,171,900
Guadalcanal	2,000,000	1,991,712	1,474,348	0	6,216,176	3,733,392	0	0	7,817,453	23,233,081
Isabel	0	747,000	761,065	853,110	1,349,278	2,407,465	2,967,214	3,603,329	4,308,850	16,997,311
Makira Ulawa	1,287,607	882,598	1,294,154	1,759,500	4,519,503	3,551,592	3,619,969	3,749,603	3,522,739	24,187,265
Malaita	3,140,254	1,692,434	3,316,042	3,376,839	0	0	0	8920280	11215275	31,661,124
Rennell & Bellona	0	260,000	255,067	351,225	0	1,718,809	0	0	1,399,590	3,984,691
Temotu	750,000	800,000	785,858	839,293	944,529	2,221,919	2,590,161	3,120,256	3,925,118	15,977,134
Western	2,000,000	1,328,679	2,001,184	2,183,703	5,974,281	5,659,800	9,419,124	6,861,963	8,701,668	44,130,402
Total	10,913,426	8,858,453	11,666,592	11,240,713	25,900,483	24,662,981	29,000,000	33,500,000	50,000,000	205,742,648

FIGURE 8A.1 **Allocation of PCDF grants by sector, 2008/09–2016/17 (actual)**

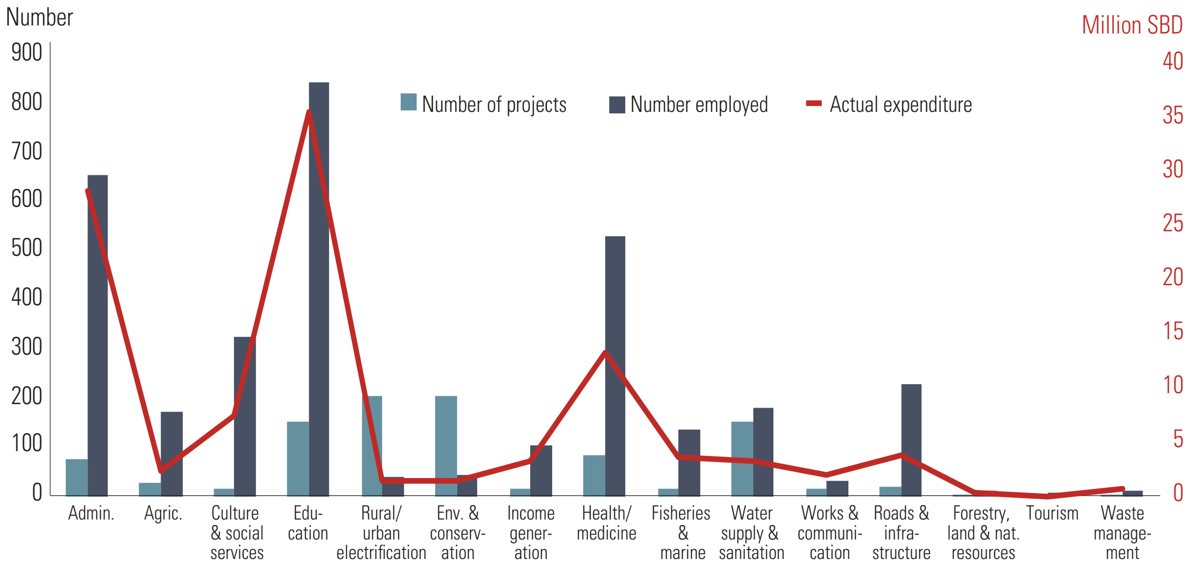


TABLE 8A.2 **PCDF grant funding by sector, province and beneficiary, 2008/09–2015/16**

Sector	Grant funding by province (SBD)										No. of grants	Population reached	No. of wards	No. of constitu-encies	No. of house-holds	No. em-ployed
	Central	Choiseul	Guadal-canal	Isabel	Makira	Malaita	Renbel	Temotu	Western	Sub-total						
Admin	1,058,166	2,342,654	2,595,760	1,923,765	8,962,716	2,535,854	–	1,613,761	6,686,540	27,719,216	75	112,980	15	14	54,799	658
Agriculture	240,000	468,189	–	100,000	850,684	417,000	–	–	223,268	2,299,141	26	24,132	25	11	6,587	173
Culture & social services	1,150,050	4,094,145	455,428	290,000	902,187	143,530	119,771	200,000	–	7,355,111	17	21,483	15	9	11,250	325
Education	2,296,758	3,178,943	3,207,322	895,000	2,230,500	6,713,372	316,969	1,315,000	14,793,793	34,947,657	153	51,899	51	28	32,181	847
Rural/urban electrification	356,465	248,955	–	–	–	–	–	130,999	629,966	1,366,385	206	15,340	30	12	9,442	41
Environment & conservation	99,976	–	–	599,995	–	–	–	–	629,966	1,329,937	205	14,928	29	12	7,737	43
Income generation	116,520	719,483	–	795,451	–	750,000	–	778,598	–	3,160,052	14	8,680	7	5	4,514	104
Health/medical service	1,309,916	9,500	3,207,322	1,767,152	4,182,093	2,405,387	–	150,000	–	13,031,370	85	54,628	33	20	46,463	530
Fisheries & marine	530,000	972,119	78,403	431,855	980,694	–	–	104,500	385,509	3,483,080	15	10,553	14	11	9,413	136
Water supply & sanitation	1,020,020	99,296	–	186,000	559,036	408,979	–	117,000	867,897	3,258,228	153	22,402	96	15	7,954	182
Works & communication	558,437	687,098	–	–	484,800	–	15,000	–	235,905	1,981,240	15	26,777	6	6	17,989	30
Roads/ infrastructure	120,000	686,168	–	681,513	–	2,272,946	–	–	–	3,760,627	18	10,862	16	10	3,266	228
Forestry, land & natural resources	–	170,921	–	–	176,000	–	–	–	–	346,921	4	3,014	3	3	618	12
Tourism	–	–	–	–	–	–	37,000	–	–	37,000	1	239	1	1	60	5
Waste management	–	–	–	–	–	–	–	672,400	–	672,400	2	1,982	1	1	351	12
Total	8,856,308	13,677,471	9,544,235	7,670,731	19,328,710	15,647,068	488,740	5,082,258	–	104,748,365	989					3,326

TABLE 8A.3 **Ongoing PCDF-funded projects as of end 2015/16, by sector, province and beneficiary**

Sector	Grant funding by province (SBD)										No. of grants	Population reached	No. of wards	No. of constitu-encies	No. of house-holds	No. em-ployed
	Central	Choiseul	Guadal-canal	Isabel	Makira	Malaita	Renbel	Temotu	Western	Sub-total						
Admin	97,600	1,819,145	–	1,987,052	700,000	850,000	–	1,210,000	2,418,387	9,082,184	24	4,106	9	9	7,688	294
Agriculture	300,000	–	–	–	294,770	–	–	–	56,500	651,270	4	2,689	4	4	1,529	39
Health/ medical service	1,066,000	1,120,230	–	570	745,713	630,000	–	–	426,000	3,988,513	14	6,138	47	5	3,064	111
Education	440,000	1,000,000	–	2,828,373	2,169,177	2,400,136	–	–	317,579	9,155,265	24	6,766	21	14	3,225	264
Works, comm. & culture	499,000	36,012	–	670,000	–	–	–	–	–	1,205,012	6	2,359	6	5	698	33
Commerce & income generation	4,000,000	350,789	–	–	–	–	–	–	845,323	5,196,112	3	9,290	3	3	2,043	37
Water supply & sanitation	–	336,013	–	881,282	–	1,033,961	–	580,000	918,820	3,750,076	91	7,708	10	9	4,908	126
Roads/ infrastruc-ture	–	–	–	300,000	–	35,000	–	–	–	335,000	2	50,000	2	2	8,435	23
Fisheries	–	–	–	–	564,934	–	–	–	1,346,913	1,911,847	5	4,600	6	4	1,947	28
Women	–	–	–	160,000	879,436	–	–	–	599,000	1,638,436	3	8,497	2	2	1,535	41
Total	6,402,600	4,662,189	–	6,827,277	5,354,030	4,949,097	–	1,790,000	6,928,522	36,913,715	176					996

CASE STUDY 9

Tanzania

Objective of the case study

The objective of this case study is to review and document how experiences and lessons learned from the UNCDF Support to Good Local Governance Programme – especially its Local Development Fund (LDF) component – affected the size and modalities of intergovernmental fiscal transfers in Tanzania. The main focus is on the expansion of discretionary development funding to local governments over time.

Programme pilot and background

In 1997, UNCDF, in partnership with the United Nations Development Programme and the Government of Tanzania, initiated the Support to Decentralization Programme in Mwanza Region, which comprised the Rehabilitation and Maintenance of District and Feeder Roads project and the LDF. Both projects aimed to promote economic development and alleviate poverty in the six rural districts of the Mwanza region by strengthening the capacities of the local government authorities (LGAs) and empowering the rural communities through development planning.

The programme, particularly its LDF component, faced difficulties in launching[1]; and in 1999, the programme was redesigned. The LDF component was redesigned to be more suitable for piloting a system for decentralized development grants. With a formula for grant distribution, explicit access conditions, performance criteria and testing of lower-level local government indicative planning figures, the programme was based on the experiences of the District Development Project (DDP) pilot in Uganda[2].

The Support to Good Local Governance Programme was introduced as an umbrella programme with the aim of optimizing the operation and outputs of the predecessor Support to Decentralization Programme. Among its objectives were widening the scope to include all LGAs in the region and strengthening the linkage between programme and national policy processes through the inclusion of a fiscal contribution to the basket-funded Local Government Reform Programme (LGRP). At that time, the LGRP was about

[1] The problems were partly operational (e.g. difficulties in getting the right staff in place), but were also related to the wider policy context in Tanzania. Debate was ongoing on the direction of local government reform: a policy was under development and had been approved by the Cabinet in 1998, and a basket-funded Local Government Reform Programme was under design; this was completed in 1999 and effectively launched in 2000.

[2] The UNCDF task leader and the DDP design consultant (Doug Porter and Per Tidemand, respectively) for the Uganda 1997 pilot had also worked on the LDF design in Mwanza in 1999.

to become the overriding national programme for implementation of the decentralization policy. Box 9.1 presents a summary of programme features.

After its reorientation in 1999, the LDF component included support to all six rural districts of the Mwanza region. This reorientation looked to redesign the LDG in line with the experiences of the Uganda DDP pilot as a formula-based and incentivized (performance-based) development grant. Consideration was also given to including a demand-driven capacity-building grant; however, this idea was abandoned, as much of the budget for capacity building was already tied up by a fairly large technical assistance team and as other conditions for an effective capacity-building grant were not thought to be present (existence of sufficient market for capacity-building providers and the infeasibility of trying to regulate that within a short time span and limited geographical focus).

Key aspects of the reformulated LDF included the following:

- Allocation of funding across the LGAs using an objective allocation formula
- Inclusion of subdistrict indicative planning figures for wards and villages to ensure that participatory planning is undertaken within realistic budget constraints and to establish some minimum lower-level local government fiscal entitlements
- Testing the opportunities and obstacles to development procedures for participatory planning facilitation at the village and ward levels[3]
- Performance-based grant allocations, introducing a set of minimum conditions that local governments had to meet before accessing the LDF (as safeguards for the proper use of funds)
- Introduction of incentives and sanctions whereby LGA performance was assessed retrospectively using a mix of regional administration staff and technical assistance; local governments that performed well were allocated 20 per cent more than the LDF basic allocation, and those that performed poorly were allocated 20 per cent less
- Funding flows through the government system with minimum subsequent interference in LGA planning, procurement and investment management; funds were allocated from UNCDF to LGAs through a project account held at the regional level (i.e. not through the central-level Treasury)

BOX 9.1 Features of the Support to Good Local Governance Programme

- Total UNCDF budget: About USD 5.8 million (for both the feeder road and LDF components). Fiscal allocations for the LDF were reduced and delayed; at the time of project evaluation in 2004, only about USD 1.5 million had been effectively disbursed and spent.
- Norwegian Agency for Development Cooperation budget: USD 795,000 (earmarked roads) and USD 337,000 (LDF).
- United Nations Development Programme budget: about USD 1.2 million for capacity building / programme management for both the LDF and feeder road components.
- Total project budget: about USD 8.1 million, with approximately 50 per cent or USD 4.0 million for LDF.
- Project approval date: July 2000.
- Project start date: January 2000; revised to July 2000.
- Project completion date: December 2003; revised to December 2004.

SOURCE: UNCDF, URT/99/C01: Support to Good Local Governance, Final Mid Term Evaluation Report, April 2004.

[3] The opportunities and obstacles to development procedures for participatory planning were at that time advocated for by some sections of the Prime Minister's Office, Regional Administration and Local Government, and of the United Nations, particularly UNICEF. The process was considered very resource-intensive by UNCDF advisors, but it was agreed to include procedures for testing in order to inform possible upscaling.

Impact and leverage of the UNCDF-supported LDF

Overview of Tanzania's development grant system

Prior to 2004, more than 95 per cent of development funding of LGAs in Tanzania was provided through various scattered donor-funded area-based programmes (see Table 9.6), which led to a very uneven distribution of funds and used a multitude of systems for LGA capacity development. Beginning in 2003, the Government of Tanzania and its development partners started to work together to develop a system for devolution of the development budget through an innovative formula-based grant system with built-in incentives for improved local government performance. Design of this system – which was initially referred to as the Local Government Capital Development Grant (LGCDG) and later as the Local Government Development Grant (LGDG), which is the term used here – was undertaken by a relatively large team of consultants in March–December 2003 through an extensive analytical and consultative process. The team was contracted by the LGRP basket fund but technically managed by the World Bank[4].

The design work was completed in December 2003, and grant funding – initially only from the World Bank – began in FY 2004/05. The LDF was soon co-funded by various bilateral development partners and increasingly by the Tanzanian Government. In the period up to and including FY 2010/11, a total of USD 383.5 million was disbursed; annual allocations reached USD 90 million at the end of the period. As shown in Table 9.1, during the initiative's first year, the universe of LGAs eligible for the grant was approximately one-third of all LGAs; this was quickly upscaled, and from 2005/06 on, all LGAs on mainland Tanzania were eligible for the grant.

In addition to these 'core LGDG' allocations, the Government of Tanzania and its development partners began to introduce various sector windows of the LGDG system. These grants were sector-specific performance-based development grants, managed along the same principles as the core LGDG – i.e. with access conditions and performance criteria; these were the same as for the LGDG, but with a few additional sector-specific conditions. The total annual budget allocations for these grants exceeded USD 200 million per year from 2010 to 2012 (see Table 9.2).

In order to standardize the LGDG and extend its reach across as many sectors as possible, an attempt was made by the Government of Tanzania and its development partners to arrive at a set of common principles grant schemes would have to adhere to in order to be considered part of the broader LGDG system. These principles were similar to those incorporated in the original Support to Good Local Governance programme and are shown in Box 9.2; they were incorporated into the LGDG via a December 2008 memorandum of understanding. It should be noted that the World Bank was not a signatory to this document, which was negotiated primarily by the Government of Tanzania and the development partners contributing to the LGRP basket[5].

While development partner funding for most elements of the LGDG system started to decrease after 2011, the Government of Tanzania began to increase its budget allocations (although with low levels of execution in several years). In addition, the government, with World Bank funding, began to fund selected urban LGAs through very significant urban investment grants containing many of same LDF/Support to Good Local Governance/LGDG features.

The core LGDG has, in recent years, been largely funded by the country government's own revenue, with very substantive deviation between budget and actual releases. The Urban Local Government Strengthening Program (ULGSP) is funded through a World Bank credit. There has been some delay in disbursements, but the overall deviation from budget is

[4] The team leader was Per Tidemand; core design specialists included Jesper Steffensen and Holger Pyndt.

[5] Final Evaluation LGSP 2012.

TABLE 9.1 Core LGDG disbursements by source, 2004/05–2011/12 (actual allocations, million USD)

FY	No. of eligible LGAs	Government-funded allocations	Development partner–funded allocations	IDA-funded allocations	Total
2004/05	47		4.5		4.5
2005/06	113	5.3	18.2	16.0	39.5
2006/07	121	4.7	24.6	16.1	45.4
2007/08	121	2.1	41.6	14.7	58.3
2008/09	132	4.4	41.6	22.2	68.2
2009/10	132	33.5	43.0	15.3	91.7
2010/11	132	16.7	46.7	12.5	75.9
Total		66.5	220.1	96.8	383.5

SOURCES: Cumulative PMO-RALG Annual Assessment Report 2004/05 to 2006/07 (July 2008); World Bank LGSP AM (March 2009); Annual LGDP Reports (2008/09–2010/11).

NOTE: IDA = International Development Association. Project documents were not always consistent with regard to disbursement levels, nor were disbursements to LGAs consistently broken down by funding source. As a result, this table provides an indicative, but not authoritative, breakdown of disbursements by funding source. It does not reflect direct Government of Tanzania contributions to the account, but only direct LGDGs provided by the government to LGAs through its regular budgetary processes. This overview table was presented in the final programme evaluation.

TABLE 9.2 Budgeted grant ceilings for LGDG sectoral windows, 2004/05–2011/12

FY	Core LGDG (billion TZS)	Agriculture (billion TZS)	Water (billion TZS)	Health (billion TZS)	Other sectors (billion TZS)	Total LGDG system (billion TZS)	Total (million USD)[a]
2004/05	6.0	0.0	0.0	0.0	0.0	6.0	5.7
2005/06	67.1	0.0	0.0	0.0	0.0	67.1	57.6
2006/07	76.8	4.7	0.0	0.0	0.0	81.5	64.4
2007/08	71.4	51.4	69.6	0.0	3.6	196.2	170.6
2008/09	78.4	54.4	62.4	0.0	5.0	200.2	152.8
2009/10	118.6	53.3	65.6	29.2	18.0	284.6	212.5
2010/11	175.2	55.6	63.2	20.0	0.0	314.1	215.3
2011/12	208.4	42.1	142.2	10.8	0.0	403.4	255.0
Total	801.9	261.5	403	60	26.6	1,553.1	1,134.0

SOURCES: PMO-RALG Annual Performance Assessment Synthesis Reports (2005–2011).

NOTE: The table reflects budgeted amounts for each year. It is not easy to consistently ascertain the amounts that were actually disbursed from year to year, as there are no official consolidated reports on fiscal transfers for these years. While core LGDG disbursements were disbursed with only minor deviation from budgets up to 2010, the disbursement of certain sectoral grant windows was considerably less than the budgeted amount. Incomplete and delayed disbursement of sectoral grant windows seems to have been particularly common during the first year(s) of a new grant window. The water grant has in particular underperformed. In any case, the figures are not included in the final leverage figures.

a. Using the Bank of Tanzania exchange rate by mid FY.

BOX 9.2 Definition of the LGDG system as per the 2008 memorandum of understanding

All development grant schemes consolidated into the LGDG system will adhere to the following five common principles:

- The allocations for every LGDG system transfer will be based on an objective, equitable, efficient and transparent allocation formula.
- The allocations for every LGDG system transfer will be performance-based and subject to a common performance assessment.
- The rules of the LGDG system will be universally applied. All councils that qualify for LGDG system transfers under the performance assessment should receive their allocation in strict accordance with the allocation formula.
- There will only be a single approval and disbursement process for all windows of the LGDG system, managed by PMO-RALG/DLG [Prime Minister's Office–Regional Administration and Local Governance] under the guidance of a single LGDG System Steering Committee. However, sectoral windows of the system may opt to maintain separate technical committees to handle sector-specific non-LGDG issues, if required.
- The LGDG system transfer resources, in combination with other recurrent and development grants and own source revenues, will be spent by the LGAs based on their own local-level planning and budgeting priorities to promote local governance, autonomy, accountability and ownership.

Although the LGDG system, based on these five rules, will form the main modality for channelling development resources to the local government level, the LGDG system will coexist with a limited and reducing number of other (earmarked or targeted) development grant schemes.

SOURCE: LGDG Memorandum of Understanding (December 2008), p. 28.

not as significant as for the core LGDG[6]. These trends are summarized in Table 9.3.

The total fiscal leverage of the original LDF can be estimated in different ways over different periods:

- The grant that has been most directly leveraged by the UNCDF LDF in Tanzania (and by the UNCDF DDP in Uganda) has been the core LGDG from 2004 to 2011, with total disbursements of USD 383.5 million. Of this amount, USD 66 million was from the Government of Tanzania, with the rest provided by bilateral development partners and the World Bank.
- A number of sector grants were introduced that followed the basic elements of the LGDG design (minimum conditions, performance measures etc.). Most of these grants were developed from various sector programmes and, as such, did not add additional resources to LGAs. The budget figures for these combined grants were significant: approximately TZS 1.2 trillion (about USD 700 million). Actual disbursements were lower. These amounts are not included in the estimates of fiscal leverage, as their impact was more indirect, but they affected the design modalities for these larger amounts of funds.
- Since FY 2012/13, the Government of Tanzania has largely taken over financing of the entire core LGDG, and urban development grants have been introduced for a select number of urban LGAs with similar design principles as the original pilot (albeit with some variations for the upper-level local governments). Actual disbursements from FY 2012/13 to FY 2016/17 total USD 186.6 million; this is included in the leverage estimates (for FY 2016/17, only budget figures are available [USD 73.9 million], which has not been included).
- Together with the World Bank, the Government of Tanzania in recent years has begun funding a discretionary urban development grant along the same principles as the LGDG. The estimated actual disbursements up to FY 2015/16 total approximately

[6] The latest implementation status report published by the World Bank for the ULGSP (archived 21 December 2016) indicates that there have been delays, but do not quantify these. Table 9.3 assumes that roughly 80 per cent of the ULGSP budgets have been disbursed.

TABLE 9.3 LGDG and ULGSP budget and actual estimates, 2012/13–2016/17

FY	LDG			ULGSP		Total LGDG actual (million USD)
	Budget (billion TZS)	Actual (billion TZS)	Actual (million USD)	Budget (million USD)	Estimated actual (million USD)	
2012/13	200.6	138.2	88.5			88.5
2013/14	200	63.4	39.4	35	28	67.4
2014/15	201	55.2	32.1	52	41.6	73.7
2015/16	203.6			52	41.6	41.6
2016/17	160.5	58	26.6	52		26.6
Total actual			186.6		111.2	297.8
Total budget	965.7			191		

SOURCE: Ministry of Finance Summary of Budget and Releases 2016; PO-RALG Council Financial Reports and World Bank Project Appraisal for ULGSP.

USD 111 million. Budget estimates for FY 2016/17 of USD 52 million are not yet included.

- In summary, a very conservative estimate of actual grants leveraged by the smaller UNCDF LDF (consisting of only USD 4 million) amounts to USD 681 million for core LGDG and ULGSP funding from FY 2004/05 to FY 2016/17 (actual disbursements). Alternatively, if the budget figures and sector windows for the LGDG are included, the total amount of funds leveraged would double; however, as noted, there are large differences between the budget and actual release figures in Tanzania (see Table 9.4 and Figure 9.1).
- In terms of coverage a significant countrywide system has evolved from the original 6 districts in the LDF and the area-based programmes to the discretionary development funds now cover all districts and lower-level local governments as well as all of the larger cities and municipalities outside Dar es Salaam.

Figures 9.2 and 9.3 show disbursements of core grants over time using the pilot modalities in the two periods of scale-up.

TABLE 9.4 Summary of UNCDF and Government of Tanzania contributions to LGDG, 2004/05–2016/17

Item	Million USD	% share
Total UNCDF LDF allocations	4	0.6
Estimated actual core LGDG allocations	570	83.3
Estimated actual ULGSP allocations	111	16.1
Total discretionary performance-based grants 2000–2016	684	100.0

FIGURE 9.1 LGDG disbursements

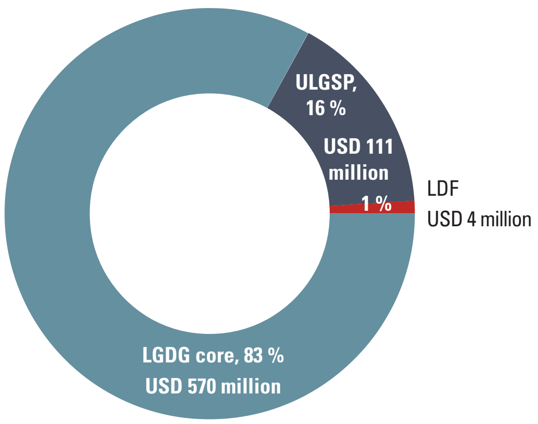


FIGURE 9.2 LGDG disbursements by source

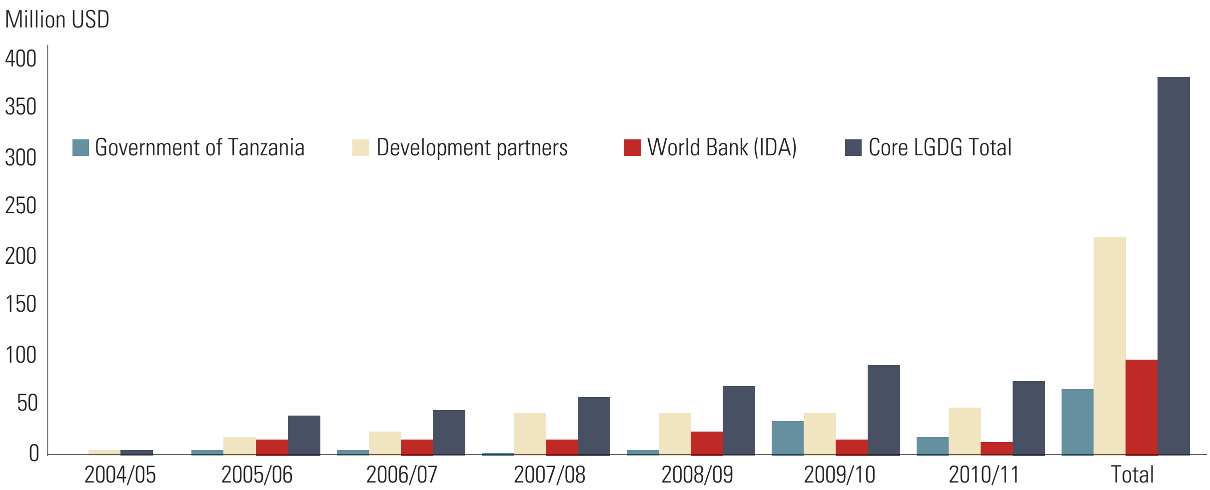
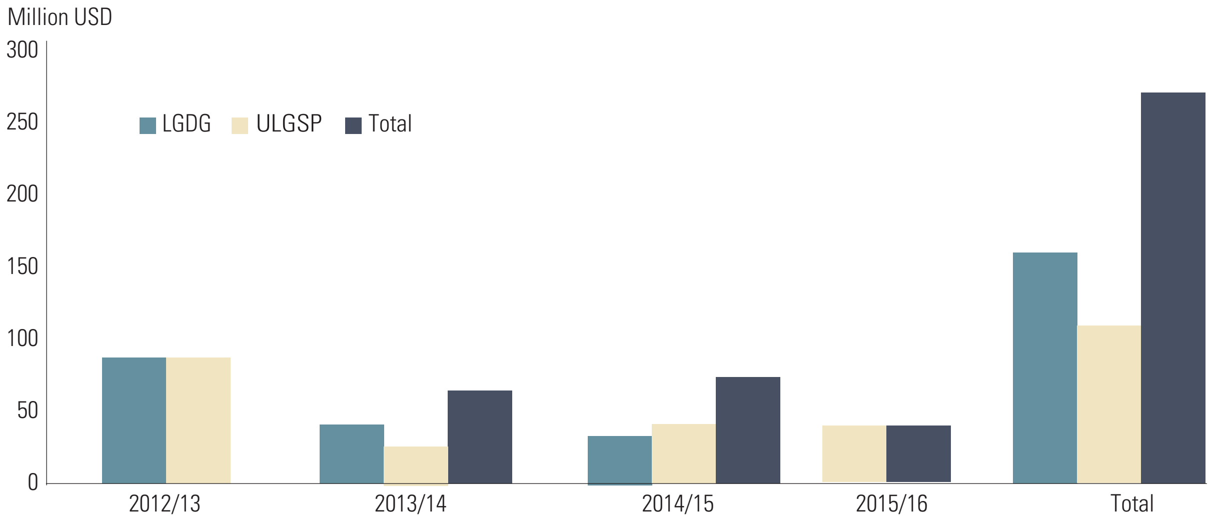


FIGURE 9.3 LGDG and ULGSP actual disbursements



UNCDF influence on LGDG design and impact on intergovernmental transfer modalities

The UNCDF-funded LDF was not originally designed explicitly as a pilot for the LGDG, but as redesigned in 1999 and based on the Uganda DDP, did influence important aspects of the LGDG design over the period 2002–2003. However, subsequent years of UNCDF implementation had no further policy impact[7].

[7] UNCDF Mid-Term Evaluation 2004.

The LDF in Tanzania influenced LGDG design through the following key events.

- Reformulation of the LDF in 1999 explicitly sought to test performance-based grant allocations. Thus, an LDF design was put in place that would demonstrate how a development grant could function. It was intended to document the practical aspects of the grant design as input to national policy development. However, because of funding constraints, the LDF did not manage to fully test full cycles of performance-based grant allocations. The design did demonstrate how critical aspects of the LGDG could be made, particularly with regard to the overall formula; performance indicators, scoring and links with grants; and operationalization of sub-district indicative planning figures.

- Redesign of the overall programme in Mwanza, including financing of the basket-funded LGRP, provided UNCDF with a seat at the national reform programme where decisions on future development grant funding could be made.
- Employment of a UNCDF Regional Technical Adviser (mid-2001 to mid-2003) based in Dar es Salaam[8], who undertook a number of activities related to LGDG design:
    - Through the LGRP, helped develop the terms of reference for LGDG design.
    - Facilitated a high-level study tour of a Tanzanian delegation (led by the minister responsible for local governments) to Uganda to review its decentralization experiences, including its DDP pilot and subsequent Local Government Development Programme.
    - On behalf of the development partners and the LGRP, synthesized experiences of various ongoing area-based programmes as input to the overall LGDG design. This was included in the final LGDG design report by the consultants contracted by PwC, as discussed further below.

Development partner support for decentralization and local financing of development was relatively prevalent in 1999, as the Government of Tanzania had just launched its ambitious decentralization policy. At the time of LGDG design, at least 10 major development partners funded area-based programmes that were designed and implemented with support from various development partners. Thus, the small UNCDF-funded programme operated in a relatively competitive field.

The terms of reference for the design of the LGDG required the consultancy team to review experiences from Uganda's Local Government Development Programme in late 1999[9] and experiences from existing area-based programmes in Tanzania (including analysis of the UNCDF LDF[10]). Key features of the various area-based programmes that were studied for inspiration for the LGDG are summarized in Table 9.5.

The area-based programmes applied different, often non-systematic, rules for grant allocations to LGAs according to:

- The extent to which some formula-based allocations are made for distribution of funds among LGAs
- The extent to which allocations attempt to encourage LGA performance
- The extent to which formalized rules are established for sharing development funding within LGAs (between district, ward and villages)

Table 9.6 describes the grant allocation rules of the various area-based programmes and compares them with the final design of the LGDG. As the table shows, the final LGDG design did in many ways end up being very similar to the initial LDF pilot in Mwanza. However, to a large extent, the UNCDF Uganda pilot influenced thinking about the development of the grant system in Tanzania. That pilot also influenced the World Bank's Local Government Development Programme I in Uganda; which in turn influenced the World Bank and its approach to support of fiscal decentralization in Tanzania. The terms of reference for development of the LGDG in Tanzania made direct reference to the Ugandan Local Government Development Programme. The design of the Tanzania Mwanza LDF was itself significantly influenced by the Uganda DDP[11].

Practical piloting of the LDF in Mwanza had less impact for various reasons. Although the design was robust and the core features were later upscaled, delays and UNCDF budget cuts prevented substantive piloting in time for proper documentation prior to LGDG design. The conclusion of the Senior Regional

[8] The Regional Technical Adviser had responsibilities for some regional work in Ethiopia and Uganda, but with 50 per cent of time allocated to Tanzania.

[9] See Section 9.1 of the LGCDG Design Report (PricewaterHouseCooopers 2003, Volume I).

[10] PwC 2004 op. cit. Volume I, section 9.3.

[11] The UNCDF team responsible for the Mwanza LDF redesign in 1999 was largely the same team that undertook the UNCDF DDP design in Uganda in 1996/97. The terms of reference for the 1999 redesign made explicit reference to Ugandan experiences.

TABLE 9.5 Summary indicators of donor-funded area-based programmes for local governments in Tanzania, 2004

Agency/ project	Start year	No. of LGAs	Pop. (million)	Latest annual budget (million USD)[a]	Per capita allocation (USD)	Features
Sida-DDP	1998	6	1.6	3.60	2.2	Partnership approach to improve management and delivery of services
Sida-LAMP	1995	4	0.9	2.88	2.9	Reduce poverty through improved productivity and utilization of resources
RNE-DRDP	1987	14	4.5	5.0	1.2	Future – to be mainstreamed in LGRP
UNCDF-SDP	1997[b]	6	2.5	2.3	0.9	Performance incentives for grants
DFID-UAPP	1999	3	0.5	1.5	3.2	Pilot new schemes and inform PGRP, e.g. Planning in LAs, monitoring and evaluation systems, training
FINIDA-RIPs	1988	11	2.0	2.1	1.1	Emphasis on civil society, participatory development
Ireland Aid-DDP	1994	4	1.2	2.0	1.6	Focus on design of planning guidelines
GTZ-DNRM	1988	3	0.8	0.49	0.6	Follow-on to 3 agro-forestry projects
GTZ-Health	2003		5.0	3.35	0.7	Health sector
CIDA-HPDF	1998	1	0.2	0.68	3.3	
Austrian Aid	1997	1	0.6	0.72	1.2	
CBPD	2004	7	1.7	4.0	2.3	Good governance and reduce poverty through improved service delivery
BTC-DDP	2004	6	1.5	3.0	2.0	Poverty alleviation focused on 5 areas including food security, rural water, AIDS, vocational training
Total		64	22.9	31.7	1.4	

SOURCE: PwC 2003: Design of Capital Grant Programme and Capacity Building Programme for LGSP: Final Report Volume One: Final Analytical Report, December 2003.

a. Figures were estimated by the PwC team based on project documents and assumed project period. In reality these budget estimates varied substantially from actual allocations; in the case of UNCDF LDF clearly overestimated.

b. LDF from 2000.

Technical Adviser's contract in 2003[12] also limited UNCDF capacities for influencing national policy development beyond 2003[13].

Conclusions

Tanzania's Support to Decentralization Programme, which covered a small pilot in six districts with initial input of only USD 4 million, had a substantial – although sometimes indirect – leverage on the country's future grant system. This impact is most notable in the discretionary development funding system, which since the initial pilot until FY 2016/17 has allocated some USD 684 million to LGAs using rather similar modalities (and more recently also covering urban local governments as well).

In addition, the approach and initial ideas promoted by UNCDF had a tremendous impact on the overall strategy for fiscal development budget decentralization in Tanzania and the move from piecemeal area-based programmes to a genuine intergovernmental transfer system. Some of the areas where modalities from the original design have been rolled out are: (i) clear formula-based allocation using transparent criteria; (ii) annual performance assessment;

[12] The Regional Technical Adviser left for work as freelance consultant and later took over as team leader for the PwC team responsible for the design of the LGDG system.

[13] UNCDF Final Mid-Term Review 2004.

TABLE 9.6 **Area-based programme Grant Allocations Modalities compared to LGDG System**

Development agency	Formula for allocation to districts	Incentives	Allocations below district level
Netherlands	In principle, equal allocation to each district (TZS 500 million)	Districts with better plans and financial reports tended to receive larger allocations, but without a clear formula/assessment	No explicit rules
Finland	Rural districts: 50 million; town councils: 20 million [USD? TZS?]	Subsequent to reallocation of funds, better-performing districts tended to receive more	No explicit rules
UNCDF-UNDP	Formula-based allocation (poverty indicators, population etc.)	LGAs that perform well according to explicit stated criteria given an additional 10–20 % in development funds; criteria include indicators of planning, transparency, audits, tendering procedures and operations and maintenance	Beginning in 2003, it was decided to allocate 50 % of all development funds as indicative planning figures at the ward level
Ireland	Each district has its own agreement with increasing co-funding from the LGA itself	Incentive-based allocations under discussion/ development	No explicit rules
DFID	Allocations tied to revenue collections (only)	Formula encourages increased revenue collection	Beginning in 2003, a scheme for indicative planning figure allocations at the ward level to be piloted
Agreed design of the LGDG 2003	Formula-based allocation (poverty indicators, population etc.)	LGAs that perform well according to explicit stated criteria given an additional 10–20 % in development funds; criteria include indicators of planning, transparency, audits, tendering procedures and operations and maintenance	50 % allocated as indicative planning figures for investments for lower-level local governments (wards and villages)

(iii) performance-based grant allocations; and (iv) support to a participatory planning process with discretion for local governments on the development budget, and a stronger focus on accountability. Most of these features are still operational, but – after the withdrawal of the development partners from contributions to funding of the development budget of local governments in 2012/13 (except for the upper-level local governments, which are still supported by the World Bank through the ULGDP), the Government of Tanzania has been struggling with funding these, and with operation and reform of the performance assessments.

The government intends to bring the annual performance assessments back on track and to ensure reliable funding of LGA development budget areas. This will be supported by the UNCDF climate change resilience grant system under the Local Climate Adaptive Living Facility (LoCAL), which aims to provide support with innovative performance-based funding for climate change–related activities.

CASE STUDY 10

Uganda

Objective of the case study

The objective of the case-study on Uganda is to review and document how the experiences and lessons learned from the UNCDF-supported District Development Project (DDP) pilot – especially the Local Development Fund (LDF) component – affected the size and modalities of intergovernmental fiscal transfers with a focus on discretionary development funding to local governments over time.

Background and overview of the DDP pilot

To support implementation of the Government of Uganda's decentralization policy as enshrined in the Constitution of 1995 and the Local Government Act of 1997, the DDP pilot was designed in 1997, coordinated by UNCDF in collaboration with the Ministry of Local Government and with support for implementation on capacity-building components and programme management by the United Nations Development Programme (UNDP).

UNCDF implemented the DDP pilot in Uganda from FY 1998/99 to FY 2001/02. The project provided technical assistance and financial resources to enable the definition, testing and application of a range of participatory planning, allocation and investment management procedures in ways that (i) empower local governments and communities to identify, deliver and sustain locally determined investment priorities for public goods and services; and (ii) provide practically tested lessons from experience and contribute to national policy and procedures concerned with decentralization[1]. The DDP pilot covered five districts in Uganda: Arua, Jinja, Kabale, Kotido[2] and Mukono. An overview of the project components, funding levels and sources is provided in Table 10.1.

The DDP introduced and tested a completely new modality in Uganda for funding development and capacity-building activities at the local government level. Before the DDP was implemented, government transfers to local governments were in the form of: (i) unconditional grants (block grants) used to meet salary and general operating costs of local governments; (ii) conditional grants including sector wage (e.g. for primary teachers), sector non-wage recurrent (e.g. for school capitation grants) and sector development (e.g. school facility grant); and (iii) equalization grants. Discretionary development budgets and grants were non-existent. Even though Uganda had a decentralization framework in place, fiscal decentralization was a challenge, affecting the capacities of local

[1] DDP Pilot and KDDP Mid-Term Evaluation February 2001.

[2] The Kotido District was added to the pilot as the Kotido District Development Project.

TABLE 10.1 **Overview of DDP pilot**

Component	Eligible activities	Funding sources and levels[a]	Funds flow and management arrangements
Local Development Fund	Social, economic and administrative infrastructure	UNCDF: USD 12.48 million Government of Uganda: 0 Local governments: 10 % co-funding	From UNCDF/UNDP to MoLG DDP – LDF project account; from MoLG LDF project account to district project account Local governments plan, budget, procure, manage funds, contracts and report/account to MoLG; MoLG reports/accounts to UNCDF/UNDP
Capacity-Building Fund	Capacity-building activities for staff and elected leaders, including acquisition of key office equipment and furniture	UNDP: USD 1.38 million Government of Uganda: 0 Local governments: 0	From UNDP to MoLG CBF project account; from MoLG CBF project account to district project account Local governments plan, budget, procure and implement capacity-building activities; they manage funds for capacity building and account to MoLG; MoLG reports/accounts to UNCDF/UNDP
Programme management	Programme management costs including project technical committee meetings, reviews and studies	UNDP: USD 9.6 million Government of Uganda: 0	From UNDP to MoLG project operations account MoLG reports/accounts to UNCDF/UNDP

SOURCE: Mid-term evaluation of the DDP pilot and KDDP (2001); various project documents. DDP costs are from the DDP pilot and KDDP mid-term review (February 2001).

NOTE: MoLG: Ministry of Local Government; CBF: Capacity-Building Fund.

a. Funding levels are for the entire project period. An annual breakdown is provided in Figure 10.2.

government to carry out their development planning mandate because they had no means of implementing those plans. Capital investments were mainly provided by development partners through area-based programmes or non-governmental organizations.

The notable innovations introduced under the DDP included:

- Allocating the LDF across the local governments using an objective allocation formula
- Performance-based allocations, introducing a set of minimum conditions that local governments had to meet before accessing the LDF (as safeguards for proper use of the funds)
- Introducing incentives and sanctions whereby local government performance was retrospectively assessed; local governments that performed well were allocated 20 per cent more than the LDF basic allocation, and those that performed poorly were allocated 20 per cent less
- Introducing a demand-driven Capacity-Building Fund that local governments could use to address capacity-building gaps identified through the performance assessment; local governments that failed to meet the minimum conditions could obtain access to the capacity-building grant so long as that local government had developed a capacity-building schedule/plan
- Operationalizing planning processes and strengthening planning units at the local government level
- Testing and proving the mutually reinforcing relationship between development grants, annual assessments and capacity-building support (a mutually strengthening triangle of support)
- Using the government system particularly at the local level to manage the development grants, although initially funds flowed through the Ministry of Local Government (not the Ministry of Finance)

These new modalities were innovative: they were the first performance-based allocations for discretionary capital grants in the world, and provided flexible (non-sectoral) funding for local governments but with strong incentives to improve performance[3].

Impact and leverage of DDP pilot

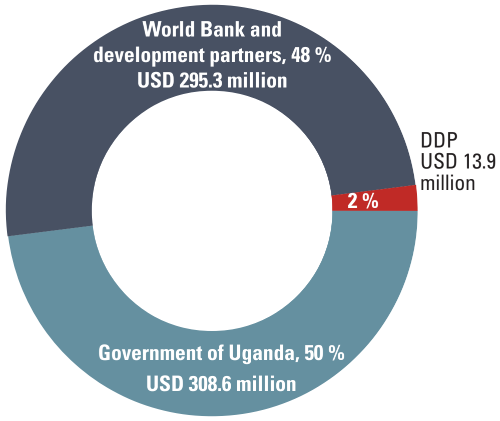
The key DDP pilot design parameters and modalities were refined, replicated and institutionalized countrywide in a quick upscaling in the years immediately after the start of piloting. The DDP pilot had an impact on the leveraging of funds for core capital investments across a range of sectors, enhancing the fiscal space for local governments. It also had an impact on the modalities of the intergovernmental fiscal transfer system (IGFTS) as well as the capacity-building system and procedures introduced in the years following the pilot.

As Figure 10.1 shows, an investment of about USD 13.9 million made by UNCDF/UNDP has led to an investment of more than USD 600 million over the last 18 years.

There are important points worth noting in the way the DDP as piloted by UNCDF/UNDP influenced discretionary development funding and the IGFTS in Uganda:

- The DDP pilot was the first project to channel discretionary development funds to local governments in FY 1998/99.
- In the second year of the pilot (1999/2000) the World Bank designed the Local Government Development Programme (LGDP) based on initial lessons from the DDP pilot. Discretionary development funds from the World Bank started to flow to local governments in 2000/01. Albeit refined, the LGDP largely used the same modalities as the DDP, expanding the scope to urban local governments (municipalities).
- From 2003/04 to 2006/07, LGDP II consolidated the design elements initially tested under the DDP pilot and implemented them countrywide. Unlike LGDP I, which was financed solely by the World Bank, LGDP II was co-funded by a number of development partners. In this process, most of the area-based programmes formerly supported in Uganda were phased out and their support aligned to the LGDP II – which, among other objectives, focused on using and strengthening country systems. The DDP/LGDP approach became the main instrument for channelling funds to local governments for capital investments[4].
- The LGDP I and LGDP II, from 2000 to 2008, directly applied modalities similar to those of the DDP, with some minor refinements strongly supported by the World Bank and other development partners.
- From 2007/08 to 2013/14, the Local Government Management and Service Delivery Programme (LGMSDP) – the LGDP II successor – involved performance-based grants and introduced a window of community-based funding; the LDF grant component was entirely funded by the Government of Uganda using similar modalities. This demonstrates how the modalities tested under the DDP and rolled out through the LGDP had been institutionalized and sustained by the Government of Uganda.
- When the World Bank designed the Uganda Support to Municipal Infrastructure Development

FIGURE 10.1 **Total investment by funder, 1998/99–2016/17**



[3] See J. Steffensen, 'Performance-Based Grants, Concept and International Experiences (UNCDF 2010), for a history of the introduction of these grant systems. Mali was the second country to implement such grants (in 1999); since then, more than 20 countries have adopted approaches similar to the DDP pilot, variants of the LDF.

[4] This was also formalized in agreements between the Government of Uganda and development partners in the decentralization subsector working group.

(USMID) initiative, it again followed the same principles and used the opportunity to rectify, improve and further customize the design and implementation to the development and service delivery needs. The urban window of the Performance-Based Grant System has similar approaches as the DDP with support from the World Bank.

- These design elements have more recently informed the Government of Uganda IGFTS reforms; these include a consolidation of all discretionary development grants and use similar modalities as the DDP, regardless of funding sources.

Funding trends and sources are presented in Figure 10.2. Detailed descriptions are provided in the annex. The table shows annual budget figures; in general, more than 90 per cent of budgeted funds are released.

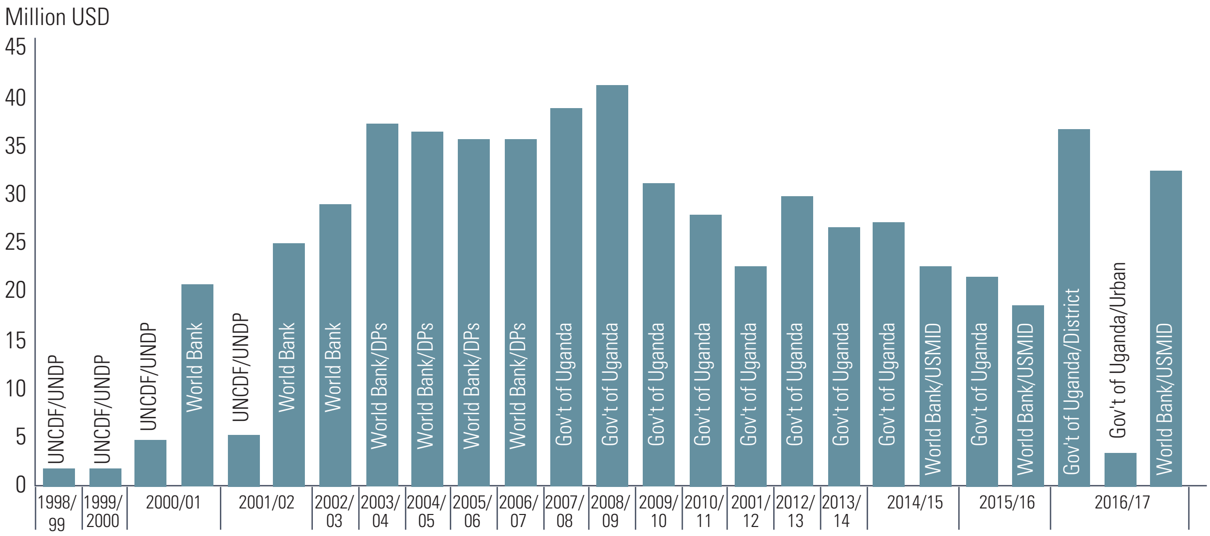
In summary, a small pilot of about USD 13.9 million has, since 2000, generated experiences that have led to the upscaling of grants in terms of coverage, and funding totalling about USD 619.5 million (around 45 times more) – accounted for by World Bank and development partner funding of about USD 295.3 million and Government of Uganda funding of about USD 310.4 million during the period. In addition to its direct leverage on grants and fiscal space, the DDP featured a number of important qualitative aspects that were replicated by other development partners and the Government of Uganda. This roll-out and expansion occurred over six phases, as shown in Figure 10.3.

Other qualitative impacts of the DDP pilot

With the DDP pilot, discretionary development funding has been embedded into Uganda's fiscal decentralization architecture, including the Fiscal Decentralization Strategy of 2001, and moved from a development partner–funded system to a system entirely (except for urban local governments) funded by government.

A very particular element of the DDP grant design was the decision to allocate the majority of funding as sub-county indicative planning figures. This was influenced by the Local Government Act of 1997, with the decision made at that time to have 65 per cent of local revenue allocated at that level. Based on lessons from the DDP pilot, the Government of Uganda is allocating discretionary development grants to both higher- and lower-level local governments. Under the current reform, cross-sectoral discretionary development

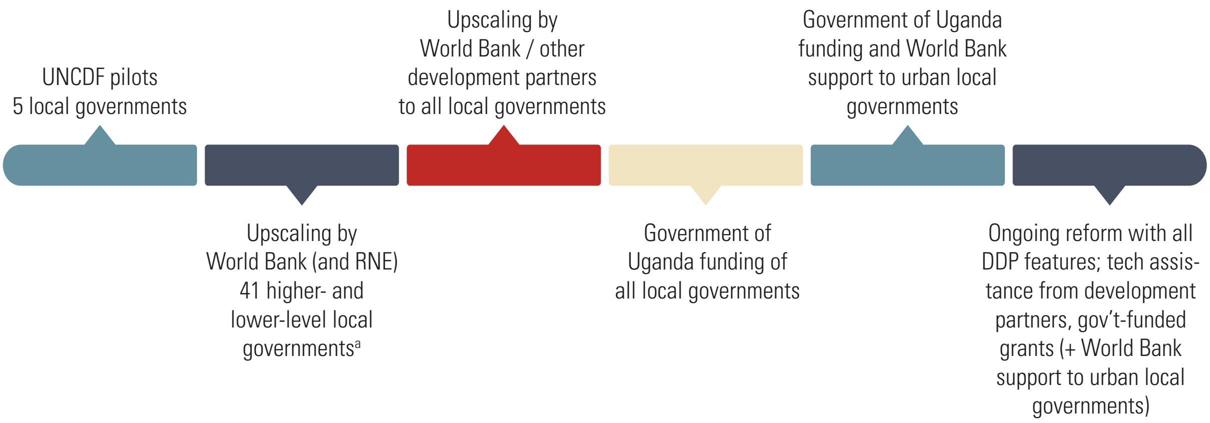
FIGURE 10.2 **Funding levels and sources by FY**



SOURCES: Programme documents, mid-term reviews, and annual Budget publication from Ministry of Finance, Planning and Economic Development.

NOTE: DP = development partner; USMID = Uganda Support to Municipal Infrastructure Development.

FIGURE 10.3 Phases in scale-up of the UNCDF-supported pilot grant scheme



a. A contribution from the Royal Netherlands Embassy (RNE) to some of the districts, known as the Dutch LGDP.

equalization grants continue to be allocated to both higher and lower local governments.

The DDP was the first grant mechanism to use, and helped institutionalize, objective and transparent allocation of development grants; the variables for allocating development grants are now well understood, accepted and applied.

Albeit with progressive improvements, the allocation of grants based on performance that was first tested by the DDP is not only an accepted principle in Uganda but in many other countries that have introduced performance-based grant allocation systems as well. Stemming from the pilot, various models of this system have been applied, and the Government of Uganda is as of this writing working on a new reform of the performance assessment system, based on ideas from the pilot, that will cover all development grants to local governments, including sector grants. The system of allocating funds in line with the capacity of local governments to absorb proper utilization and accountability for funds, as well as incentives to promote good performance, has been continuously refined and adjusted to the local context.

The DDP pilot introduced a novel demand-driven capacity-building approach whereby local governments were allocated capacity-building grants to address capacity-building gaps. Even under the current reforms, local governments are allowed to use a percentage of their respective development grants to fund capacity-building activities – e.g. under the discretionary development equalization grants where a maximum of 10 per cent of the grant can be used for capacity building.

The DDP pilot, after being replicated in the LGDP, helped convince development partners to increasingly use and strengthen government systems (on-budget and on-system approach). By the time LGDP II was implemented, most of Uganda's development partners had phased out their area-based programmes and mainstreamed them into the LGDP modality that built on DDP lessons.

The DDP pilot introduced the principle of local governments co-funding development budgets, which contributed not only to raising local revenue but encouraging local governments to allocate some of their revenues to development expenditures.

As progressively improved and refined, the participatory development planning processes that are currently used by local governments in Uganda were first designed and tested under the DDP pilot.

Evidence of attribution: linkage between pilot and subsequent reforms

Uganda's IGFTS changed fundamentally with the introduction of the DDP. Previously, there had been no discretionary funding for capital investments, and performance-based allocations had never been applied. Subsequent programmes supported by the World Bank, other development partners and the Government of Uganda have clearly made use of this design and the lessons learned. This is evident from a comparison of the models, but also discernible from various programme and official government documents as well as independent studies and reviews, as the following examples show:

- The lessons learned from the DDP were documented and informed the design of the World Bank–supported LGDP I. This is clearly mentioned in the LGDP project documents, e.g. the World Bank's 'Project Appraisal Document for LGDP I', October 28, 1999, page 4, where it is mentioned that 'In addition, lessons of experiences from the District Development Project (DDP) pilot financed by the UNCDF and UNDP which is currently been implemented in five districts were also incorporated in the LGDP project design as the DDP pilot has similar objectives'. This was repeated in the design of the LGDP-II, where it was also mentioned that the LGDP approach had informed the overall IGFTS in Uganda and its core modalities[5].
- The Local Government Fiscal Commission in a 1997 report referred to the DDP project as a study that will inform the overall transfer of development budget to local governments[6]. The DDP and its approach to transferring funds to local governments was subsequently mentioned in a government-commissioned study in 2001 as the future modality for transferring development funding, noting: 'The DDP-LGDP approach is therefore the foundation of the proposed Development Transfer Scheme'[7]. This was then included in the core elements of the Fiscal Decentralization Strategy of the Government of Uganda, 2001 (development transfer scheme), which remains the prevailing strategy and is still referred to as the Government of Uganda Decentralization Strategy in the current National Development Plan and other documents.
- The (Dutch) Policy and Operations Evaluations Department, June 2003, Coordination and Sector Support – an Evaluation of Netherlands' Support to Local government in Uganda, 2003, page 33, states: 'The LGDP is a World Bank initiative that built upon UNCDF's DDP in seven districts. LGDP was designed to provide resources to local governments and to test a range of new administrative procedures and sustainability of decentralizing the development budget to local governments. The first three-year period was a pilot phase, with a credit of USD 81 million, in the long term effort to support Uganda's decentralization policy (World Bank, 1999). LGDP would make use of the project management unit within the Ministry of Local Government of local government that had been created by the DDP funded through UNCDF'.
- The 14 districts that had area-based programmes were excluded from LGDP I, but development partners were explicitly called upon by the Ministry of Local Government to apply DDP/LGDP principles in their own programmes to comply with the ministry's role in coordinating decentralization.
- Other independent studies refer to the demonstration impact, such as reports on the preparation of the LGDP II, where it was mentioned that:

> the DDP was designed in 1997 to pilot deepening of the nascent decentralization process and strengthening of adherence of the legal framework set out in the Local Government Act 1997, and the local government financial and Accounting Regulations, 1998. The DDP and its successor programme, LGDP, provide an innovative approach for providing an incentive framework for local governments to build their capacity whilst concurrently delivering discretionary development grants for investments for the poor[8].

Similarly, Anwar Shah's book on local governance notes:

[5] World Bank: Implementation and Results Report, for the Second Local Government Development Project, June 10, 2008.

[6] Local Government Fiscal Commission, Republic of Uganda, Financial Decentralization in Uganda, Commission Report No. 1, January 1997.

[7] Government of Uganda, /Donor Sub-Group on Decentralization, Fiscal Decentralization in Uganda, The Way Forward, Final report, January 2001, page 7.

[8] Ministry of Local Government: Preparation of the Local Government Development Programme, Phase II, Annexes, Volume II, Final report, September 2002, Kampala, page 2.

> The District Support Project (a district support programme that was supported by UNCDF and piloted in five local governments starting in 1997) and the LGDP-I (which was conducted from 2000 to 2003) provided important lessons for the design of the LGDP-II' (page 134). It was also mentioned that the LGDP (with reference to the pilot in DDP) is a successful piloting of central government transfer of development funds to local governments based on the link between development grants, capacity-building grants and a performance incentive system)[9].

Finally, a major study from March 2000, coordinated by the World Bank with support from Danida and the United States Agency for International Development, concluded that:

> The UNCDF programme (read DDP) has contributed considerably to the first experiences with decentralisation of the development budget. The IDA funded Local Government Development Programme (LGDP) has borrowed quite substantially from the lessons learned from the large UNCDF funded District Development Programme (DDP). Lastly, they include single sectoral development initiatives by different donors like the school classroom construction project funded by the Dutch and the British. However, decentralisation of the development budget was to begin in earnest during FY 1999/2000 under the umbrella of the Local Government Development Programme (LGDP). The LGDP will be a credit supported by the IDA of the World Bank, estimated at USD 65.3 million, and it is expected to run for a period of three years. Under this programme, a Local Government Development Fund will provide resources to subnational governments for development projects as well as building capacities for infrastructure and service provision in a participatory, demand driven and accountable manner. The projects will be co-financed 90 per cent from this fund and 10 per cent from subnational governments[10].

- It is clear from a comparison of the DDP and the core features of current ongoing reform of the IGFTS under the four-step reform process that these reforms are based on experiences dating back to the DDP (and as outlined in the 2001 Fiscal Decentralization Strategy), with performance-based allocations, discretionary funding for capital investments and other core features.

Conclusions

Analysis of the IGFTS and of various studies, official documents and other evidence shows that the original DDP pilot, covering only five districts from 1998/99 to 2000/01 and with a total funding envelope of just USD 13.9 million, had a substantial leverage on the future grant system – most notably of the discretionary development funding system, which, over the period from 2000 to 2016, has allocated USD 619.5 million using rather similar modalities.

The DDP has also had a tremendous impact on the overall intergovernmental fiscal transfer strategy, both with regard to the Fiscal Decentralization Strategy and way forward set out in 2001, as well as on current reforms of the IGFTS. Some of the areas where modalities have been rolled out that directly link to lessons learned include the linkages between grants and capacity-building support, the annual performance assessment and performance-based grant allocations, and support to a participatory planning process with discretion for local governments on the development budget, as well as a stronger focus on accountability.

However, as was noted in various studies, while the DDP, LGDP and development transfers have had a significant impact on the size and modalities of capital investments, and these discretionary grants account for about 62 per cent[11] of total development grants, they account for a smaller share of the total IGFTS in Uganda – about 9 per cent, due to multiple sector recurrent grants and other grant schemes. Numerous challenges remain to be addressed, especially in terms of overall funding gaps and a lack of discretion in multiple sector conditional grants.

[9] Anwar Shah, ed., *Local Governance in Developing Countries*, (World Bank, 2006).

[10] NALAD and EPRC, Obwana, Steffensen, Trollegaard et al: 'Fiscal Decentralisation and Sub-National Government Finance in relation to infrastructure and Service Delivery, page 155, March 2000, World Bank, Danida and USAID.

[11] Indicative planning figures 2016/17, Ministry of Finance, Planning and Economic Development.

Annex: Overview of discretionary development funding sources and trends from DDP pilot 1998/99–2016/17

FY	Project	Funding source	Local govern-ments covered	Name of grant and other remarks	Billion TZS	Million USD	Exchange rate[a]
1998/99	DDP pilot	UNCDF/ UNDP	Districts: 5/45 (means 5 out of the 45) Municipalities: 0/13	The first discretionary development grant transferred to local governments. Cover both for LDF (USD 1.286) and CBF (USD 0.59)	2.298	1.876	1,225
1999/ 2000	DDP pilot	UNCDF/ UNDP	Districts: 5/45 Municipalities: 0/13	LDF (1.522) and CBF (0.405)	2.774	1.927	1,440
2000/01	DDP pilot	UNCDF/ UNDP	Districts: 5/45 Municipalities: 0/13	LDF (4.354) and CBF (0.352)	7.341	4.706	1,560
	LGDP I (started before the end of DDP)	World Bank	Districts: 30/56 Municipalities: 13/13	Used the same but refined design parameters and modalities. First upscale also covered urban councils. DDP and districts with Area Based Programmes not covered. LDG and CBG combined local governments co-fund 10 % of the grant. 26B World Bank +6.6 RNE	32.600	20.897	
2001/02	DDP pilot	UNCDF/ UNDP	Districts: 5/56 Municipalities: 0/13	LDF (5.323) and CBF (0.034)	9.133	5.357	1,705
	LGDP I	World Bank	Districts: 39/56 Municipalities: 13/13	32B World Bank + 10.9 B RNE	42.800	25.102	
2002/03	LGDP I	World Bank	Districts: 39/56 Municipalities: 13/13	41.9 B World Bank + 8.7 B RNE	50.600	29.248	1,730
2003/04	LGDP II	World Bank + other DPs (e.g. Ireland, RNE for LDG and Danida and Austria for CBG)	Districts: 56/56 Municipalities: 13/13	The modality was rolled out countrywide to cover all types and levels of local governments. Area based Programmed rolled into LGDP	65.051	37.602	1,730
2004/05	LGDP II	World Bank + other DPs	Districts: 56/56 Municipalities: 13/13		65.253	36.602	1,783
2005/06	LGDP II	World Bank + other DPs	Districts: 69/69 Municipalities: 13/13		62.312	35.928	1,734

FY	Project	Funding source	Local governments covered	Name of grant and other remarks	Billion TZS	Million USD	Exchange rate[a]
2006/07	LGMSD	Government of Uganda (50 %) World Bank + other DPs (50 %)	Districts: 89/89 Municipalities: 13/13	The Local Development Grant was fully funded by Government of Uganda	64.309	35.927	1,790
2007/08	LGMSD	Government of Uganda	Districts: 89/89 Municipalities: 13/13		64.309	38.975	1,650
2008/09	LGMSD	Government of Uganda	Districts: 89/89 Municipalities: 13/13		64.309	41.490	1,550
2009/10	LGMSD	Government of Uganda	Districts: 89/89 Municipalities: 13/13		64.309	31.294	2,055
2010/11	LGMSD	Government of Uganda	Districts: 112/112 Municipalities: 22/22		63.309	28.212	2,244
2011/12	LGMSD	Government of Uganda	Districts: 112/112 Municipalities: 22/22		58.211	22.852	2,547
2012/13	LGMSD	Government of Uganda	Districts: 112/112 Municipalities: 22/22		72.462	29.927	2,421
2013/14	LGMSD	Government of Uganda	Districts: 111/111 Municipalities: 22/22	Combined LGMSDP normal (56.5) and PRDP (12.5)	69.066	26.666	2,590
2014/15	LGMSD	Government of Uganda	Districts: 111/111 Municipalities: 22/22	Combined LGMSDP normal (57.4) and PRDP (12.5)	70.008	27.308	2,564
	USMID	World Bank	Municipalities: 14/22	Allocation to municipal development (51.6) and capacity building (6.6)	58.184	22.696	
2015/16	District Discretionary Development Grant	Government of Uganda	Districts: 112/112 Municipalities: 22/22	Combined LGMSDP normal (57.4) and PRDP (12.5) and LRDP (6.1)	70.008	21.636	3,236
	USMID	World Bank	Municipalities: 14/22	Allocation to municipal development (60.7) and capacity building (7.8)	60.662	18.747	

FY	Project	Funding source	Local governments covered	Name of grant and other remarks	Billion TZS	Million USD	Exchange rate[a]
2016/17	District discretionary development equalization grants	Government of Uganda	Districts: 115/115	Combined former PRDP, LRDP, EG and LGMSDP as part of new reforms to IGFT	123.869	36.888	3,358
	Non-USMID		Municipalities: 27/41	Combined former PRDP, LRDP, EG and LGMSDP	17.239	5.133	
	USMID	World Bank	Municipalities: 14/41	World Bank funded	109.264	32.538	
Total leverage (all sources)					1,369.690	619.543	
O/W total DDP (LDF + CBF) excluding management					21.548	13.866	
O/W Total leverage from World Bank and other DPs					611.038	295.291	
O/W total leverage by Government of Uganda					737.104	310.385	

SOURCES: DDP figures are extracted from the DDP pilot and the Kotido DDP Mid-Term Evaluation – January – February 2001. They combine both DDP and KDDP. All other figures are derived from the Approved Revenue and Expenditure (Recurrent and Development): Volume II Local Government Votes for the respective years.

NOTE: DP = Government and development partner; LGMSDP = Local Government Management and Service Delivery Programme; RNE = Royal Netherlands Embassy; USMID = Uganda Support to Municipal Infrastructure Development.

a. Exchange rate trends from Onalda.

The United Nations Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world's 47 least developed countries. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF's financing models work through three channels: inclusive digital economies, connecting individuals, households, and small businesses with financial eco-systems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; local development finance, that capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic expansion and sustainable development; and investment finance, that provides catalytic financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to Sustainable Development Goal-SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a broad diversity of SDGs.

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