

# SOUTH-SOUTH KNOWLEDGE EXCHANGE WORKSHOP

NEW DELHI - KOLKATA

MAY 9-11, 2017









Summary Report

## **The South-South Knowledge Exchange Workshop**

New Delhi & Kolkata • May 9-11, 2017

# Leveraging Performance-Based Financing and Accountability for Local Governments



Ministry of Home Affairs  
Republic of Indonesia



National Development  
Planning Agency



Ministry of Finance  
Republic of Indonesia



Indonesian National  
Government Internal Auditor



Ministry of Public Works & Housing  
Republic of Indonesia



# Preamble

A South-South Knowledge Exchange (SSKE) Workshop on Leveraging Performance-Based Financing and Accountability for Local Governments was held in New Delhi on 9 May 2017 and in Kolkata on 10-11 May 2017. The Workshop brought together over fifty leaders, senior government functionaries, and international and national

experts and policy analysts to consider and deliberate on selected performance-based financing and accountability improvement initiatives in five Asian countries, namely: Bangladesh, India, Indonesia, Nepal, and Sri Lanka in the larger context of global and regional decentralization. This report sums up the deliberations of the Workshop.

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# The Macro Context of Performance-Based Financing

Decentralization as a principle for organizing the distribution of public goods and services between different governmental tiers has, in recent decades, gained worldwide acceptance. Decentralization of responsibility for financing and providing services is believed to improve local-level revenue generation, spending and service delivery. These expected benefits in theory derive from the physical nearness of local governments to their constituents. Wallace Oates in 1972 raised the then known as decentralization theorem that “each public service should be provided by the jurisdiction that has control over a minimum geographical area and which can internalize benefits and costs of such provision”.

Worldwide experience of countries that are decentralizing their public sectors suggests, however, that these theoretical benefits are not so easily achieved. Practice shows that proximity in and of itself is insufficient to engender anticipated advances in local government fiscal performance, accountability and service delivery (Lewis and Smoke, 2015). It needs adequate system to be present in the Local Government, as well as its capacity and incentives to behave in a responsible manner and can be held accountable to their constituents. Capacity and accountability are not built rapidly or easily, and yet local elections still inadequate to be a strong instrument to stimulate local accountability.

Many, perhaps most countries, adopt various service delivery norms and standards, but these

only works if there is a way of monitoring performance and if there are incentives and enforceable sanctions to encourage compliance. There is growing interest in the use of national incentives to promote Local Government reform and improved performance in many developing countries across the world in different regions. Much contemporary literature on decentralization sees incentives as embedded features of a good governance system – if the structure of the system and procedures are well designed, actors in the system will benefit from adopting appropriate behavior and/or will be penalized for not doing so.

Performance-based financing, also known in many labels such as Performance-Based Grant (PBG), Performance Based Payment (PBP), Pay for Performance (P4P), as well as Results-Based Financing (RBF), is an innovative, results-oriented approach that incentivizes to providers based on their achievement of agreed-upon, measurable performance targets. The use of these mechanisms has been increasing and become popular to be exercised, particularly in developing countries. The mechanism also constitutes the need to have adequate design of performance verification measurement, which trigger the distribution of rewards (monetary and/or other). Wide range of countries have pursued the reforms introduced by the functional performance-based grant systems, including Rwanda, Ghana,

Tanzania, Kenya, Sierra Leone, and Mali in Africa, as well as Indonesia, India, Laos, Nepal, Bangladesh, Philippines, East Timor, and Solomon Islands in Asia.

The World Bank has worked with many governments in various countries to experiment the performance linked to financing as part of a broader support to improve service delivery quality as well as accountability in the decentralization context, including Indonesia. The country, which has a ‘big-bang’ decentralization began in 2001, experienced a significant responsibility shifting of financing and service provision from the central to local governments (LGs). In 2010, LGs managed 38 percent of total public expenditure and carried out more than half of all public investment. Nevertheless, it still lacked local government management, technical, planning, and fiduciary capacities which also contributed to the challenges in local public service delivery, as well as inefficiency of LG expenditures. The Local Government and Decentralization Project (LGDP), was initiated in 2010 as part of a broader Bank strategy on intergovernmental transfers and the strengthening of sub-national fiscal performance. The Project aimed to improve the reporting and accountability of the Government of Indonesia’s Specific Purpose Grants (Dana Alokasi Khusus - DAK), focused on infrastructure sector. It was started as a pilot and successfully expanded to 22 provinces in 2016, covering four infrastructure sectors and operated in 267 LGs.



# Workshop Objectives

After five years of implementation, LGDP has successfully implemented the results-based financing approach as a laboratory and provided the empirical evidence to the Government of Indonesia that such approach is feasible to support the accountability of transfer funds in the country. The Project employ the Government's own internal auditor agency (Badan Pengawasan Keuangan dan Pembangunan – BPKP) as the Independent Verification Agent (IVA), which promotes sustainability of the Project and strengthen the agency's role and capacity to verify technical outputs.

Depart from this success, through the support from the Global Partnership for Output Based Aid (GPOBA), a South-South Knowledge Exchange (SSKE) Workshop from 9-11 May 2017 organized to showcase and capture lessons learned from LGDP to countries in South Asia Region and, in parallel, facilitate learning exchange from decentralization and/or public service delivery projects in South Asia region, including from the Local Governance Support Program (LGSP) in Bangladesh, the Institutional Strengthening of Gram Panchayats (ISGP) in West Bengal, India, the Local Government and Decentralization Project (LGDP) in Indonesia, and the North East Local Services Improvement Project (NELSIP) in Sri Lanka.

The South-South Knowledge Exchange (SSKE) was driven by several objectives:

1. to initiate a process of dialogue and knowledge exchange among select Asian countries on

decentralization initiatives undertaken to improve local service delivery and enhance accountability of local governments;

2. to enable country delegates and other experts and functionaries to draw upon international experiences and practices in respect of the different facets of decentralization, especially the recent innovative practices for improving service delivery, performance-grant systems, and reporting mechanisms;
3. to deliberate on critical issues confronting developing countries in advancing the decentralization agenda; and
4. to explore the potential of such knowledge platforms for Asian countries to continually exchange information, experiences, and practices for reinforcing the agenda of decentralization.

The SSKE was visualized as the first step in dynamic knowledge sharing and partnership program among the relevant countries in which "India served as a hub and was both a provider and recipient of such exchanges". The target audience thus included delegates from countries that were involved in decentralization and local government initiatives and which had the technical and financial support of the World Bank and of the GPOBA (which had played a key role in designing and implementing the LGDP in Indonesia). For the benefit of a larger target audience, the deliberations of the event were captured via photos and videos and reinforced with monographs, documents, and manuals.





# Workshop Agenda



The principal theme of the workshop – Leveraging Performance-based Financing and Accountability for Local Governments – was divided into three substantive sessions:

**Improving local government's performance in service delivery under decentralized frameworks.**

This sub-theme was designed to discuss the institutional arrangements for the delivery of local services and their effectiveness, together with the issue of institutional capacity and systems development.

**Fiscal decentralization and intergovernmental fiscal frameworks for local government performance.** The purpose of this sub-theme was to enable the workshop delegates to appreciate the emerging role of performance-linked transfers for sustained improvements in service delivery in the overall context of intergovernmental transfers.

**Establishing and enabling local government accountability systems.**

Enhancing accountability of local governments is an essential component of decentralization agendas of most developing countries. This sub-theme was designed to discuss the new systems of reporting and monitoring that contribute to making local governments accountable to both the higher governmental tiers and to citizens.



**Field Visit.** An important component of the Agenda was a field visit to the Daluibazar - II Gram Panchayat (a rural local government) in West Bengal, India for a detailed presentation on the institutional system for local governance and service delivery as laid down under the ISGP, combined with a presentation on two of the principal instruments that were used by the Gram Panchayat for monitoring the progress i.e., the Annual Performance Assessment (APA) and the Third Party Quality Assurance (QA) mechanism.



**Focus Discussion.** Besides a discussion on the three sub-themes and a field visit to the Daluibazar – II Gram Panchayat, the Agenda provided for: firstly, an Opening Session for setting a larger context of decentralization and local governments, and specific context within which India and Indonesia initiated their decentralization programmes, and secondly, a closing session for workshop delegates and experts to deliberate on some of the emerging issues confronting the participating countries in advancing the decentralization agenda. In addition, several delegates were interviewed to assess the changes that have come about in their countries as a result of decentralization.



# Workshop Delegates

The workshop was attended by delegates from Bangladesh, India, Indonesia, Nepal and Sri Lanka, besides from the sponsoring organizations i.e. the World Bank and GPOBA; and from the Knowledge Partner institution, the Institute of Social Sciences, New Delhi. The Workshop was addressed by Dr. Junaid Ahmad, Country Director, India Country Management Unit, the World Bank; Mr. Rajiv Gauba, Secretary to the Government of India (Ministry of Urban Development); and H.E. Mr. Mohamed Faiszer Musthapa, Minister for Provincial Councils and Local Governments, Government of Sri Lanka. A list of delegates is annexed.





# Workshop Reports



Laid out in four sections, this report gives the highlights of the deliberations of the SSKE Workshop. Section 2 gives the salient features of the key note addresses that set out the context of the workshop. Given that the purpose of the workshop was to gain an understanding of the operational details of the performance-linked grant system and the accountability procedures as practiced under the four initiatives, viz., LGSP (Bangladesh), ISGP (West Bengal, India), LGDP (Indonesia), and NELSIP (Sri Lanka), Section 3 outlines the main features of these initiatives and their distinctive attributes together with a brief account of the implementation strategy of the grant and accountability systems. Important changes have come about in the institutional, financial, and reporting procedures in the project areas. What are the typologies of changes? What do these indicate? These have been put together and presented in Section 4 representing the directions of change. The concluding section presents the key messages emerging from the deliberations as also the perceptions of the participants on the key issues and challenges.



# Setting the Context

Dr. Junaid Ahmad (Country Director, India Country Management Unit, The World Bank), Mr. Rajiv Gauba (Secretary, Ministry of Urban Development, Government of India), Dr. Mariana Savitri, (Deputy Director, Ministry of Finance, Government of Indonesia), Dr. Paul Smoke, (Professor, New York University), Mr. S.M. Vijayanand, (former Chief Secretary, Government of Kerala), Dr. Catherine C. O'Farrell, (Head of GPOBA), and Dr. Indira Rajaraman, (Member, 13th Finance Commission) addressed the Workshop, and set the context with several important observations.

1. Decentralization as a global phenomenon was transforming the nature and quality of relationship between the different governmental tiers, with national governments setting new rules of engagement for local governments to make decisive and sustainable improvements in local service delivery and become accountable to both the national governments as well as the local populations.
2. Decentralization has opened up vast opportunities for national and local governments to experiment with institutional and financial innovations such as the setting up of Special Purpose Vehicles (SPVs) for strengthening and complementing the capacities of local governments; the application of technologies to communicate with people for widening their participation in the development of cities; the use of output-linked grant systems for financing service delivery, and employing technologies like the GIS system for improved local-level planning and development.
3. Decentralization was a demanding and complex undertaking that required national governments to recognize that local governments were an important tier in nation-building, entrusting them with appropriate powers, responsibilities and resources and enabling them to exercise these powers consistent with the locally determined priorities, was a pre-condition for local governments to compete with each other in a "race to the top".
4. Decentralization in much of the world was lagging behind its potential. The lag in potential showed itself in inadequate service delivery, poor accountability of local governments to citizens, persisting gaps between local government revenues and expenditures, lack of institutional capacities in implementing their functional mandates, lack of stability in public policies and a general reluctance in transferring powers and resources to local governments. These challenges, as emphasized by Dr. Mariana Savitri, needed to be noted and appropriately addressed.
5. Dr. Junaid Ahmad and Mr. Rajiv Gauba emphasized the close link between local capacities and local-level responsibilities, arguing that capacities grow with responsibilities, and capacity development was a continuing process and capacity lags cannot be used as an argument for the slow pace of decentralization. Dr. Indira Rajaraman underlined the need for stability in public policy in spheres such as the grants system which play an important part in moving the decentralization agenda forward. Referring to the role of output-based aid in improving service delivery, Dr. Catherine O'Farrell laid out the OBA principles for addressing issues of the service gaps and of the accountability for results



# Complementary Components

## KEY NOTE ADDRESSES

- Professor Paul Smoke on International Perspectives on Decentralization and Intergovernmental System for Local Governments;
- Mr. S.M. Vijayanand on Local Government System for Public Service Delivery in a Decentralized Context
- Dr. Indira Rajaraman on Performance-based Grant-in-Aid and Central Assistance to Local Governments in India

## COUNTRY PRESENTATIONS

- A description and analysis of the Local Government Support Programme (LGSP) in Bangladesh; Institutional Strengthening of Gram Panchayats (ISGP) in West Bengal, India; Local Government and Decentralization Project (LGDP) in Indonesia; and North-East Local Services Improvement Project (NELSIP) in Sri Lanka
- Indonesian experiences with its Financial and Development Supervisory Agency (BPKP) and with the "output verification" protocols
- The emerging role of local governments in Nepal's new Constitution. A list of country presentations together with the site where these can be accessed is in Annex 3

## GPOBA PRESENTATION ON GOVERNMENT OF INDONESIA AND GPOBA

- A Partnership for LG Performance Improvement and Accountability
- A monograph on Infrastructure Verification Handbook circulated by the Government of Indonesia.

## BACKGROUND PAPERS

- Decentralization in Selected Asian Economies: Bangladesh, India, Indonesia, Nepal, and Sri Lanka
- Transfers in Local Government Finance: A Survey. Papers were prepared by the Centre for Urban Studies at the Institute of Social Sciences, New Delhi
- A set of questions to trigger discussions in the various sessions (Annex 5)
- A set of questions for (a) group discussions (Annex 6), and (b) interview of selected workshop delegate (Annex 7)
- Feedback chart



# DECENTRALIZATION SYSTEM IN PRACTICE

Decentralization is now commonplace among developing and developed countries. Most countries have either amended their Constitutions (India, Nepal, and Sri Lanka) or brought in local government statutes and codes (Bangladesh and Indonesia) to give effect to decentralization

## CONSTITUTIONAL AND STATUTORY PROVISIONS ON DECENTRALIZATION

Bangladesh	The Local Government (Pourashava) Ordinance 2008, revised in 2009
	The Local Government (Union Parishad) Ordinance 2008, revised in 2009
India	Constitution (seventy-third) Amendment Act, 1992 on Panchayats
	Constitutional (seventy-fourth) Amendment Act, 1992 on Municipalities
Indonesia	Law No 22/1999, since amended as Law 32/2004 on Regional Governance
	Law No 25/1999, since amended as Law 33/2004 on Regional Fiscal Balance between Central and Local government
Nepal	The Federal Constitution 2015, Parts 5-20 provide for separate list of powers for the Central, Provincial and Local bodies
Sri Lanka	List 1 and List IV of the 13th Amendment to the Constitution, 1987, and the Amendment Acts –
	(i) Municipal Council (Amendment) Act, (No 34 of 2014)
	(ii) Urban Council (Amendment) Act, (No 35 of 2014)
	(iii) Pradeshiya Sabha (Amendment) Act, (No 36 of 2014)







Irrespective of the underlying motivations, decentralization in countries participating in this SSKE Workshop was, inter-alia, aimed at and focused on improving service delivery and enhancing accountability of local governments. The SSKE country delegates made extensive presentations focused on how these overall end-goals were translated into specific projects and what institutional and financial frameworks were developed and put in place for implementing them. Notable in the presentations was the relevance of the country context: thus, while Indonesia opted to make use of the Internal Audit (BPKP) as its verification agency, the State Government of West Bengal in India used an independent mechanism (APA) to assess the performance of rural local governments (gram panchayats), and the Government of Sri Lanka provided for Social Audit Committees as a tool for assessing progress on project activities. A key message that emerged from the presentation, as would be evident from this section, was that there was no one way to improving local service delivery or enhancing accountability of local governments – there were multiple ways and the countries choice falls on those systems and mechanisms that were appropriate to the country's contexts. This section gives a resume of the "projects" and their key features and attributes. The Projects, as earlier noted, are Local Governance Support Program (LGSP) in Bangladesh, the Institutional Strengthening of Gram Panchayats (ISGP) in West Bengal, the Local Government and Decentralization Project (LGDP) in Indonesia, and North East Local Services Improvement Project (NELSIP) in Sri Lanka. In addition, this section also outlines the initiatives taken by the Government of Kerala to empower and strengthen local governments in the state. Also contained is a brief on the Constitutional provisions in respect of the role that local governments are expected to play in Nepal's development and national-building.



## Local Government and Decentralization Project (LGDP)

Dr. Mariana Dyah Savitri  
Mr. Riono Suprpto  
Mr. Bambang Utoyo  
Mr. Arief Tri Hardiyanto



The objective of the Local Government and Decentralization Project (LGDP) which started as a pilot project using Results-based framework (RBF) is to improve accountability and reporting of the Special Allocation Fund (DAK) to selected local governments. The LGDP makes use of the Government of Indonesia's Internal Audit (BPKP) as an Independent Verification Agency.

Decentralization in Indonesia is focused on the improvement of public services to local communities. Key to achieving this goal rests in the country's fiscal decentralization policy as embodied under LGDP which consists of a "Balance Fund", categorized into General Allocation Fund, Specific Allocation Fund, and Revenue Sharing Fund. Specific Allocation fund (DAK) is one of the principal funding sources for regional and local infrastructure development to assist sub-national governments improve their fiscal capacity. In addition, decentralization in Indonesia is financed via a Local Incentive Fund which is a Fund for local governments that display high performance. Indicators for assessing performance have been specified with performance indicators such as financial management, public service delivery, and economic and social conditions. In addition, the Special Autonomy Fund is meant for disadvantaged sub-national areas such as Aceh, Papua and West Papua.

As a part of the LGDP, Specific Allocation Fund has been strengthened in several respects.

It is now designed, as Dr. Mariana Savitri pointed out, as an Output-based transfer, using a Web-based reporting system. Further, the BPKP, the Government's internal auditor has been tasked to conduct output verification, recommend amounts based on eligible outputs, and provide information on project indicators, both on results and

outcomes. The BPKP has laid down the steps for output verification which helps in (i) policy decisions on the allocation of DAK infrastructure and implementation analysis, (ii) a review of the performance of local governments on the implementation of DAK infrastructure, and (iii) evaluation of outline reporting effectiveness.

### OUTPUT VERIFICATION IN LGDP IN INDONESIA

As the Government of Indonesia's internal auditor, the role of BPKP (Badan Pengawasan Keuangan dan Pembangunan) in LGDP is to conduct the verification of outputs for DAK activities. BPKP is responsible for conducting verification using the verification checklist, which consists of criteria such as technical aspects of the implementation of DAK; procurement for DAK infrastructure sub-sectors; financial management related to DAK transfers to the infrastructure sector, reporting of DAK results from the field, and social and environmental safeguards criteria.

Following procedure is adopted for conducting the verification of outputs for DAK infrastructure:

- Verification of advance payment
- Prepare for output verification
- 1st Screening-Identify Verifiable Contracts
- Verifiable contracts-Potential Reimbursements and Sample Size
- 2nd Screening-Physical verification of sample
- Eligible outputs for reimbursement
- Value of reimbursement of incentive for each LG
- Final report and reimbursement

**“** Other countries can learn from our experience that data is very important. We can't change something that we don't understand. **”**

— Fajar Eko Antono. Head of Sub-Division Analysis on Sub-National Financing System, MPWH, Indonesia



## Results and Impacts of LGDP



### Improved LG Capital Spending.

Local governments participating in LGDP spent 25 percent more on capital expenditure compared to other local governments.

### Improved Reporting and Accountability for DAK.

By the end of 2015, around 65% of participating local governments had submitted their financial and technical reports using the Web-Based Reporting System.



### Promoted the use of Performance-Based Incentives.

LGDP provided incentives for good performance by local governments.

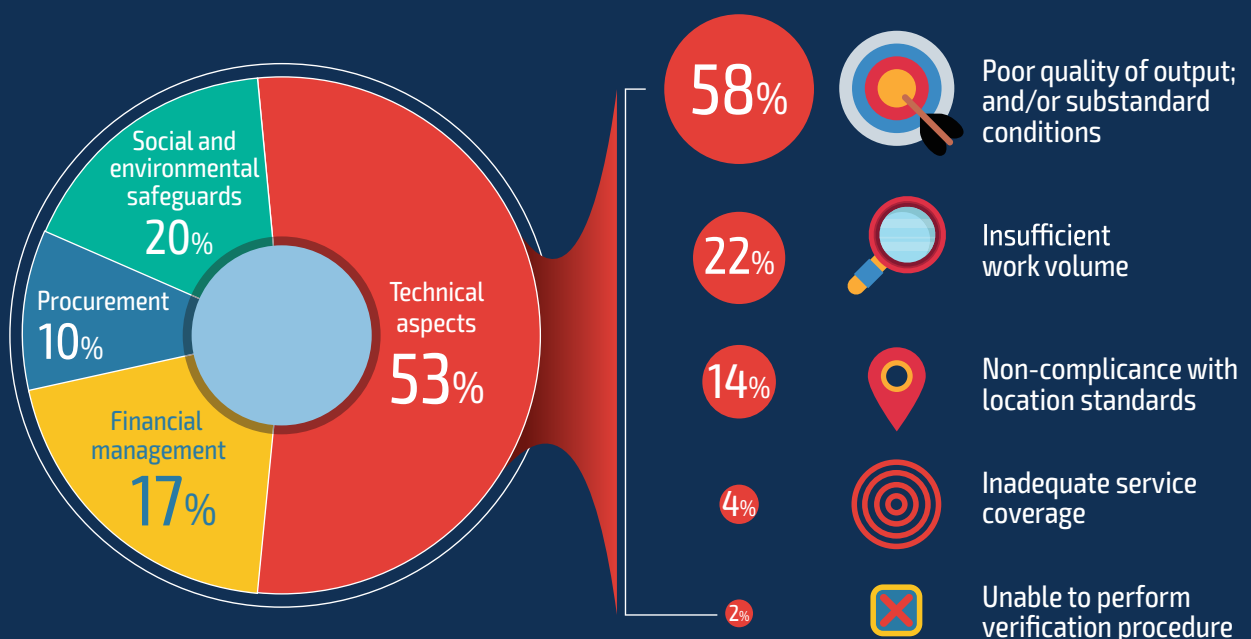
### Strengthened BPKP Capacity.

LGDP provided technical training to 22 BPKP Regional Offices, involving 350 BPKP staff, on output verification in infrastructure sectors (roads, water supply, irrigation, and sanitation).



## Breakdown of Reasons for Output Ineligibility

FY 2012 - 2015







WEST BENGAL, INDIA

## Institutional Strengthening of Gram Panchayats (ISGP)

Mr. Soumya Purkait



The purpose of the ISGP is to strengthen the capacities of Gram Panchayats in order to enable them effectively deliver services and reduce capacity gaps in the execution of their mandated responsibilities. The ISGP Project aims to contribute towards establishing a performance-based grant transfer system linked with an independent Annual Performance Assessment (APA) and to put in place a Development Support System.

Gram Panchayats (GPs) in West Bengal have a pivotal role in state's socio-economic development. They are committed to provide citizen-centric services to the rural population. The ISGPs primary mandate is to enable Gram Panchayats (GPs) access untied and discretionary grants and set up capacities and systems that will contribute to their efficient use.

The ISGP is being implemented through four components:

1. Support an annual, performance-based block grant to 1,000 Gram Panchayats for providing local goods and services<sup>1</sup> ; spatial coverage has since been expanded to all Gram Panchayats;
2. Support strengthening of the institutional capacities of GPs enabling them to deliver basic services;
3. Set up internal monitoring, information and reporting systems, including streamlining of procedures for timely audit certification of GPs; and
4. Provide support for programme management and implementation.

<sup>1</sup> There is a negative list of goods and services whose expenditures cannot be met out of this grant

Central to the ISGP is performance grant allocation which is linked to the Annual Performance Assessment (APA), Quality Assurance Audits (QAAs), and Web-based Monitoring and Planning System that enable citizens to access images of infrastructure projects during the various stages of implementation. The real time update of images of infrastructure projects and the development of Grievance Redress Management System have significantly contributed to the transparency and accountability of GPs in service delivery. The roll-out of the Environment and Social Management Framework (ESMF), according to Mr. Purkait, shows commitment of the state government to sustainable development.

The ISGP(P) is now anchored on the 14th Finance Commission grant and its disbursements are linked to results in spheres that comprise establishment of a state-wide performance based grant allocation system for all "discretionary" funds available for GPs; improving local government financial management systems in GPs; improving local governance and human resource capacities for increased transparency and accountability in local government functioning; and improving decentralization and participatory planning and budgeting mechanisms at local levels. For reasons of the 14th Finance Commission grants, ISGP is focused on the best practices and learnings from the first phase that, inter-alia, include APA based on pre-defined indicators, Environmental Screening Protocol, Vulnerable Group Development Index, and revamped Internal Audit system.





Location:  
Gram Panchayat Office,  
Dulai Bazaar-II, West Bengal

### **ANNUAL PERFORMANCE ASSESSMENT, DALUIBAZAR – II GRAM PANCHAYAT**

Annual Performance Assessment (APA) is an independent mechanism to assess the performance of Gram Panchayats. The Performance Assessment Framework for the project was developed based on Basic Minimum Conditions (BMCs), Expanded Minimum Conditions (EMCs), and Performance Assessment themes comprising:

- (i) planning and budgeting;
- (ii) project execution and service delivery;
- (iii) accounting, financial reporting and audit; and
- (iv) participation, transparency and accountability.

APA is also a tool to generate score sheets for Gram Panchayats on the basis of a pre-defined questionnaire. The score card is embedded into GIS for ranking their preferences and visualisation of the same in thematic maps.

The GIS protocol is integrated with the database of existing web based MIS to produce a monitoring system for the Panchayati Raj Institutions. The GIS based system functions as real-time satellite for tracking of project execution based on approved annual plans of the Gram Panchayats. In addition, this system is also capable of capturing key decision making processes of Gram Panchayat.





BANGLADESH

## Local Government Support Project (LGSP)

Mr. Mohammad Khaled-ur-Rahman



The Local Governance Support Project (LGSP) is a national decentralization project that aims to strengthen Union Parishads with a view to enhancing their responsiveness and accountability. It has established a nation-wide performance grant system, with clear performance criteria, supported by rigorous financial audits. The third phase of LGSP, scheduled to commence in 2017, is designed to institutionalize the Union Parishad fiscal transfer system, and introduce a fiscal transfer system for Pourashavas on a pilot basis.

Union Parishads (UPs) are the lowest tier of rural governments in Bangladesh, with limited own source revenues and a high degree of dependence on central governments grants for service delivery. The Government of Bangladesh has in recent years made significant efforts to reform the local governance system, devolve powers to local levels through more autonomy and increased allocation of resources. In 2009, the Government amended the local government ordinances providing for an expansion in the expenditure responsibilities and fiscal powers of the Union Parishads. The Local Governance Support Project (LGSP), now towards the close of its second phase, is designed to support UPs through grants, capacity development, and establishment of financial audit systems.

Mr. Mohammad Khaled-ur-Rahman, the country delegate underlined the following features of the support to the Union Parishads under LGSP-II:

1. Equitable allocation formula based on population and area;
2. Regularity in annual grant allocation;
3. Annual audit of UPs accounts as a condition for accessing grants;

4. Incentivize good performance via performance-based grants, and outlined the key features of the LGSP in its third phase.

Under the third phase, transfers will be disbursed directly into the UPs bank accounts provided they have a "clean audit" and a Management Information System.

### INTERGOVERNMENTAL TRANSFERS TO UNION PARISHADS IN BANGLADESH

Before LGSP	After LGSP
Transfers were made via intermediate administrative levels;	Provide all Union Parishads with robust, predictable, and equitable fiscal transfers as a means to help Union Parishads plan, budget and undertake investments prioritized by local communities;
Pool of grant funding was determined by the central government in an ad-hoc and undefined manner	Enhance Union Parishads accountability through financial audits which is a pre-condition for accessing larger block grants and information disclosure.
Rules and conditions that governed the allocation of funds to Union Parishads were not equitable and not designed to incentivize improved governance and accountability performance	
Degree of discretion for utilization of funds are conditional and funds were mostly earmarked.	





INDIA

## Kerala Vision of Local Government

Mr. S.M. Vijayanand

Kerala is one of the most decentralized states in India. It has undertaken a series of measures to decentralize development budget to local governments and strengthened the local governments with functionaries needed to implement the expanding agenda of decentralization. Mr. S.M. Vijayanand's presentation of the state's vision of decentralization is contained in the following two boxes.



### KERALA'S MODEL FOR IMPROVING LOCAL SERVICE DELIVERY

- Clarity in assignment of functions
- Predictability in the transfer of untied funds
- Introduction of administrative operating systems for local governments
- Participatory planning and budgeting
- Establishment of a Coordination Committee for resolving issues that arise in operationalizing decentralization
- Performance audits, Ombudsman, Appellate Tribunal, Citizen Charter and Right to Information instituted as a part of making local governments accountable
- Partnership with self-help groups
- Building capacities with self-help groups, accredited NGOs, and support Missions.

### NEW VISION FOR LOCAL GOVERNMENTS IN KERALA, INDIA

- Preparation of Manuals on the State of the Art techniques for budgeting, accounting, auditing and procurement.
- Accountability laws comprising elements of service delivery, social accountability including mandatory disclosures, grievance redressal processes, and social audit under preparation.
- Establishment of an Audit Commission for local governments.
- Linking Local Governments with the Sustainable Development Goals (SDGs).
- Promoting new generation service delivery through mechanisms having criteria that include child-friendly local governments, aged-friendly local governments, disabled friendly and gender-friendly local governments.





SRI LANKA

## North East Local Service Improvement Project (NELSIP)

Mr. Seenithambhi Manoharan  
Mr. H.T. Kamal Pathmasiri

North East Local Services Improvement Project (NELSIP) in Sri Lanka is aimed at the delivery of infrastructure services by local authorities in the Northern and Eastern Provinces in an accountable and responsive manner. It is a multi-sector intervention and is being taken forward with strong participatory, demand-driven investment planning and budgeting.

Sri Lanka's local service delivery system which owes itself to the 13th amendment to the Constitution and the report of the Commission of Inquiry on Local Government in 1999 on local government reforms. extends to 335 sub-national units of governance, comprising 9 Provincial Councils, sub-categorized into 23 Municipal Councils, 41 Urban Councils, and 271 Pradashiya Sabhas. The NELSIP, initiated in the year 2010, covers the Northern and Eastern Provinces of the country where the expected outcomes are rehabilitation and reconstruction of the damaged and destroyed infrastructure with the participation of and to the satisfaction of citizens.

The NELSIP has five components, namely (i) capital grants to local authorities for local infrastructure development in the post-conflict areas; (ii) putting accountabilities in place which include participatory planning and budgeting, social accountability, grievance redressal systems, and regular and timely financial audits; (iii) building capacities of local authorities and provincial councils in the spheres of financial management; (iv) assessment and evaluation, and (v) project management. According to the country delegates, the NELSIP has kept pace with its goals and objectives on account of political commitment, a favourable policy environment, and strategic oversight, notwithstanding capacity constraints and weak local government institutions.



### INNOVATIONS IN NELSIP, SRI LANKA

- Local Authority Participatory Development Plans (LAPDP)
- Project Appraisal Team (PAT)
- Social Audit Committees
- Grievance Redressal Mechanism (GRM)
- Good Governance Resource Centres
- Local Government Fiscal Division (LGD)
- Fiscal Analysis Cells
- Citizen Score Cards





NEPAL

## **Transition from a unitary and centralized structure to a three-tier federation.**

Dr. Shyam Krishna Bhurtel

The Nepal's 2015 Constitution provides for a three-tiered federal structure that assigns a Constitutional structure to local governments which, according to Dr. Bhurtel, will have exclusive and concurrent functions and responsibilities for local governments. Under the 2015 Constitution, local governments will have legislative powers combined with the responsibility for a range of functions linked to delivery and management of services. Local governments will exist in perpetuity. The Constitution also provides for discrete sources of revenues for local governments, with a revenue sharing arrangement and a system of grants from the upper tiers of government, enabling local governments carry out their Constitutionally-mandated functions. The Constitution also provides for the setting up of a National Natural Resources and Fiscal Commission.



“What we have to be mindful in Nepal's case, particularly, is that we are transitioning from a unitary centralized state to a federal one. It is almost like a big bang approach.”



# Alternative Frameworks of Planning, Financing, Monitoring and Reporting Local Services Delivery

## **DIRECTION OF CHANGE**



A central objective of the SSKE Workshop was to gain some understanding of the framework and systems of planning, financing, and reporting that characterized the four initiatives, viz., LGSP, ISGP, LGDP, and NELSIP. While it was amply evidence that decentralization as represented by these four initiatives had brought about significant changes in the way local governments planned, delivered, financed, and monitored services; and that these changes emanated from the higher tiers of government which played a direct role in setting new rules of engagement with the local governments, the issue was – what do these changes, when seen collectively, indicate? What are the typologies and directions of change and what conclusions could be drawn from them? This section attempts to collate the country initiatives, and groups them under four heads, namely, institutional innovations; incentive-based, performance-linked grants system; monitoring and reporting; and use of technology for better accountability.

Thus, when the country initiatives are aggregated and put together, there are a range of institutional innovations in the form of Good Governance Resource Centres, Local Authority for Participatory Development Plans, and National Natural Resources and Fiscal Commission (and others) that have been

set up to contribute to the planning and management of local development; an array of funds designed to bring efficiency in resource use, examples being the performance-based grant allocation system, Special Allocation Fund, Local Incentive Fund, and Special Autonomy Fund to cite a few; and a panoply of initiatives for improving reporting and monitoring with a view to enhance accountability of local governments. These, inter-alia, include the Annual Performance Assessment (APA), BPKP, Output Verification, Citizens Score Card and Social Audits. The emergence of such project-specific institutional and financial arrangements is a major development that has contributed to better reporting on the use of funds and conditionality for accessing the funds.

An interesting adjunct to the changes is the use of technology in planning, reporting, and monitoring of activities associated with the delivery of services. Countries such as India and Indonesia have established web-based reporting systems, GIS Integrated Planning, Monitoring, Computerized Accounting and Service Delivery, use of software packages in accounting system, Citizens e-score cards, and online redressal systems and the like. Following summary gives an inventory of the changes that the countries have made for the implementation of the projects.

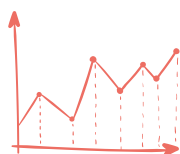


# Directions and Typologies of Change



## INSTITUTIONAL INNOVATIONS

- Local Authority Participatory Development
- Good Governance Resource Centre
- National Natural Resources and Fiscal Commission
- Environment and Social Management Framework
- Sri Lanka Institute of Local Governance
- Fiscal Local Government Division
- Vulnerable Group Development Index



## INCENTIVE-BASED, PERFORMANCE-LINKED GRANTS SYSTEM

- Performance-based grant Allocation system
- Special Allocation Fund
- Special Autonomy Fund
- Local Incentive Fund
- Special Budget for Balanced Development and Flexible Allocation
- Province-Specific Development Grant
- Rewards for Incremental Effort
- Criteria-based Grants
- Predictable Resource Envelope



## MONITORING AND REPORTING

- Annual Performance Assessment (APA)
- Output Verification
- BPKP – Supervisory and Financial development Agency
- Financial Audits
- Social Audit Committees
- Citizens Charter
- Citizens Score Card
- Grievance Redressal Mechanism
- Internal Audit System



## USE OF TECHNOLOGY FOR BETTER ACCOUNTABILITY

- Web-based Reporting System
- System Development Support
- GIS Integrated Planning, Monitoring, Computerized Accounting and Service Delivery
- Local Authority Accounting System with Software Packages
- Citizen E-Score Cards
- Outline Redressal Management System

Implementation of LGSP (Bangladesh), ISGPP (India), LGDP (Indonesia), and NELSIP (Sri Lanka) with the nature of innovations noted above, is expected to lead to important outcomes. LGSP is expected to see efficient use and mobilization of resources together with greater financial autonomy for local governments; West Bengal (India) project on ISGP will result in transparency and accountability in local government functioning; the LGDP (Indonesia) will see improved public services such as water supply, roads, sanitation, and irrigation works in local communities; and Sri Lanka's NELSIP is expected to rehabilitate the destroyed infrastructure in the North and Eastern parts of the country. When put into effect, local governments in Nepal's emerging federation will have a discrete list of functions and responsibilities. These are significant outcomes.

## Remaining Challenges

Country delegates pointed out to a number of challenges in the design and structure of the projects and as also challenges during the implementation of the projects. Special mention is made here of the following:

- Absence of strategic thinking in the development of projects
- Excessive dispersal of grants that run the risk of dilution of the effect of grants.
- Capacity constraints.
- Benefits restricted to project areas without any attempt (thus far) to either internalize the changes or scale them to larger spatial levels.
- The innovative features of the project into government functioning (output verification is a component of the project but not a part of the formal government process).



# PERFORMANCE BASED GRANT - A work-in-progress

Source:  
Infrastructure  
Verification  
Handbook, "Good  
and Bad Illustration of  
Infrastructure", LGDP  
Project, 2015.







The South-South Knowledge Exchange (SSKE) Workshop was among the first of the regional initiatives to bring together delegates from Bangladesh, India, Indonesia, Nepal and Sri Lanka to exchange experiences on leveraging performance-based financing and improving accountability for local governments. Its primary purpose was to gain understanding of the systems that were in place in the Project areas and the steps that the countries had taken to make use of the results-based, performance-based transfers for sustainable improvement in local services. The GPOBA's work on the Indonesian project (LGDP) which had used a wide range of Funds and utilized the Internal Auditor, the BPKP, as a key agency for output verification and related matters was especially noted by the workshop participants. The preceding sections have summarized the systems in place and the changes that have come about in the institutional and financial frameworks and in the reporting systems. The Workshop deliberations have also thrown up several messages that have wider relevance. These are noted below together with the ideas that emanated from the various sessions for reinforcing the design of similar initiatives.

“

We have to actually be seen as an enabling broker of exchanges between nations and that perhaps, nations learn best not when, supposed international technocrats summarise those lessons but more when we, as the World Bank, facilitate exchanges between nations.

”

— Junaid Kamal Ahmad  
Country Director, The World Bank, India



# Messages

Decentralization is a complex and demanding process. It is not a short-run phenomenon. It is a work-in-progress; moreover, there are many routes to advancing the decentralization goals and objectives as was demonstrated in the country presentations.

National governments have a vital role in making decentralization efficient and effective. The rules of engagement that the national governments set for different governmental tiers in implementing the decentralization agenda via the projects, and the flexibility provided for local governments are key determinants in the process of decentralization.

Intergovernmental transfers to local governments are an important source of local government revenues and an equally important instrument for implementing the decentralization agenda. This development, observed universally, poses several challenges for developing countries. It is imperative to design the transfer system with 'incentives' that are significant enough to induce changes and that are able to ensure: (i) efficient use of resources; (ii) a reporting and monitoring system that would make local governments accountable; and (iii) scaling of such activities to regional and national levels.

Technology, as the India and Indonesian projects demonstrated, has emerged as an important tool for improved planning and reporting and monitoring developmental activities at local levels. Harnessing technology for decentralized development will place new demands on skill and capacity development.

“

Just as you start decentralization, you have to start the capacity building. Our system are all designed for centralized governance: procurement, reporting, everything. So, you can't suddenly create system for local governance. You have to carefully thought out which protect the interests of the citizen, the government, the audit, the legal part.

”

— Mr. S. M. Vijayanand. I.A.S  
Former Chief Secretary for Government of Kerala



“

The Indonesia experience, how they have a separate office which is accountable only to the President's Office. Today, if you look at most jurisdictions (local bodies), you set a thief to catch a thief. So, there is correlation between the monitoring body and the thief. So, as a result, with regards to transparency and corruption, there is no proper monitoring process and the use of technology and the reduction of the human face to eradicate corruption. (Indonesia experience) is something which was very insightful.

”

— H.E. Mohamed Faiszer Musthapa  
The Minister of Provincial Councils and Local Government of Sri Lanka

“

The first element is on the transfer system to Local Government. Next is the accountability, how do we know transfer from the central government will be used for the specific proposal. The third is knowing if local government are already performing well and they are held accountable. Then, what's in it for local government?. So, incentivizing the local government is a very important key aspect.

”

— Thalyta E. Yuwono. Senior Urban Economist, The World Bank



# Issues and Perceptions

Several, seemingly important, issues emanating from the Workshop were deliberated upon in an OPEN SESSION. These included such issues as: should decentralization be an incremental process or be brought in as a Big Bang as indeed was the case in many countries? Are incentive-driven transfers a necessary condition for ensuring an optional use of resources? Similar issues were being raised in this session (see Annex 7 for complete list of discussion). Responses came in multiple ways, a summary of which is presented below



**SSKE discussed two approaches to decentralization namely 'big-bang' approach and an 'incremental approach'. What in your view, are the merits of each of the two approaches, and which approach would you like to recommend for pushing decentralization?**

1. **Nepal.** Though risky, big-bang approach is preferable if political environment exists.
2. **Bangladesh.** Better to use an incremental approach as it is more likely to protect the interests of the poor.
3. **Indonesia.** Incremental approach is preferred under "stable" macroeconomic conditions. Indonesia adopted a big-bang approach as it faced a financial crisis.
4. **Paul Smoke.** Decentralization cannot be a random exercise; it is contextual and depends on the country's political system and situation.
5. **George Mathew.** Either big-bang or incremental, a proper ethos is necessary for decentralization to yield the benefits.

**Performance-based grant is essentially a fiscal incentive for the local governments to undertake reforms that they would ordinarily not take. Do you think that there should be a Local Incentive Fund enabling local governments to access it as and when they are ready to undertake structural and systematic reform?**

1. **Indonesia.** Incentive-based system has delivered in Indonesia; it has helped to improve service delivery, accountability and local resource mobilization.
2. **Bangladesh.** Unsure; incentive-based system is equally prone to corruption unless local institutions can be adequately equipped to use "incentives".
3. **Nepal.** Local Incentive Fund should be an integral part of the country's fiscal system.
4. **India.** Funds created outside of the system means that the existing systems are obsolete.





**The Kolkata project and the associated institutions that have been set up in the Panchayats are the outcome of the volume of grants that have been recommended by the 14th Finance Commission. What mechanism should be put in place so that the States/Countries internalize these systems even in the absence of such grants?**

1. **Nepal.** Grants should be a part of the intergovernmental finance system.
2. **Bangladesh.** A legislation should be brought in for such grants.
3. **Indonesia.** Internalization of such innovations requires a political will.

**The reporting and monitoring system shown to us during the field visit is relevant for any project. Given its relevance, do you think that governments should adopt or adapt them for better oversight of projects.**

1. **Indonesia.** Yes. Indonesian experience with results-based approach and outcome-based evaluations has produced worthwhile results.
2. **Bangladesh.** Monitoring should be a living document
3. **India (Uri Raich).** Monitoring and evaluation systems are in place in West Bengal (India) and Indonesia, and are working satisfactorily.
4. **Nepal.** Such systems are necessary but the role of the different actors needs to be delivered.
5. **Catherine C.O'Farrell.** It is about governments moving from inputs towards outputs. It needs data to be collected in the overly large, complex system. It is expensive and time-consuming.

**The role of independent and external professional agencies in ensuring that "minimum conditions" are met for claiming performance-linked grants was brought up during the field visit. Could there be "citizen oversight" to either substitute the role of independent agencies or supplement their roles in order to enhance citizen participation?**

1. **Nepal.** Yes.
2. **Indonesia.** Citizens oversight is important as they are the ultimate beneficiaries. Citizen oversight can supplement the role of independent and external auditors.
3. **Bangladesh.** Citizen oversight is no substitute for the existing institutional structures.
4. **India (Uri Raich).** A 'third party' oversight can provide a comprehensive view of the projects and therefore, is useful.
5. **George Mathew.** Civil society is not a panacea but is an essential ingredient in the entire process of decentralization

**"Capacity" deficit has often been cited as a major impediment to the implementation of the decentralization agenda. Do you agree? What would be your suggestions on addressing the capacity deficit issue?**

1. **Bangladesh.** The definition of "capacity" is contestable and depends on who is defining it.
2. **Indonesia.** Yes. There should be proper methods for assessing "capacity deficits" using proper data.
3. **Nepal.** "Capacity" is multi-dimensional; it is necessary to understand why institutions are created and what is the purpose underlying capacity creation.
4. **Sri Lanka.** "Technology" can play an important role in capacity building; ICTs can minimize capacity deficits





# Capturing Issues and Perceptions

An Example from the Flip Charts.

As captured by Ms.Catherine C.O'Farrell, GPOBA, Washington D.C.

## Importance of Local incentive fund

1. Indonesia → Yes, it's important. Because it leads to behavioral change by local Gov'ts  
Improved quality of local mgmt.
2. Bangladesh → not sure. But the biggest? is how to manage the implementation of incentive provision & ensure it lead to improvement? It could create another issue.
3. Nepal → Yes
4. India → Yes. Although it was still very small, but it has helped LG to understand that good performance lead to improved service.



## 1. BIG BANG vs. INCREMENTAL

- POLITICAL DECISION
- INCREMENTALLY DEAL WITH BIG BANG
- INCREMENTAL MAY BE PREFERABLE BUT NOT FREQUENT

## 2. PBG AS INCENTIVE FOR LG, IS LG FUND NEEDED? (DEMAND DRIVEN)

- INDONESIA - YES
- BANGLADESH - ? CAN CREATE CORRUPTION OPPORTUNITY
- NEPAL - YES
- INDIA - YES TO START, THEN OWN FINANCE

## 3. MECHANISM TO INTERNALIZE

- BANGL : LEGISLATION
- INDON : <sup>INTEGRATED</sup> REGULATION, <sup>ALIGN</sup> SYSTEMS, LEGISLATION
- INDIA : & POLITICAL WILL
- INDIA : TOO EARLY TO SAY
- NEPAL : MAKE THIS INTEGRAL PART OF FINANCIAL TRANSFER SYSTEM

## 4. PLANNING & VERIFICATION: ROLES?

- CITIZEN PARTICIPATION TYPE OF COMPLIANCE
- NEPAL : 3rd party accountability vs. SUBSTITUTION SUPPLEMENTAL
  - BANGL : PARTICIPATION, NOT SUBSTITUTION
  - INDONS : YES CITIZEN OVERSIGHT & FEEDBACK
  - INDIA : BUT DOES NOT REPLACE 3RD PARTY
  - INDIA : 3RD PARTY NEEDED

## 5. M&E/R RELEVANCE FOR ALL ADAPT FOR BETTER OVERSIGHT (?)

- INDONS : YES HOW ?
- INDIA : WHAT DATA IS NEEDED ? HOW USED ?
- NEPAL : YES HOW ?
- BANGLA : LIVING SYSTEM YES

## 6. CAPACITY DEFICIT? (CONTENT) TAILORED\* AS OUTPUT OF M&E/R

- INDONS : YES MEASURE !
- INDIA : TAILOR TO NEEDS \*
- NEPAL : YES TARGETED
- BANGLA : WHO DEFINES CAPACITY ?
- SRI LANKA : YES WHAT - TECH/ICT



# What Now?

The SSKE Workshop administered a Feedback Questionnaire seeking views of the participants on the usefulness of the knowledge exchange, the potential of such exchanges, and the role of the World Bank in facilitating such exchanges and knowledge sharing across countries. Participants uniformly noted that the Workshop helped them to better appreciate the hiatus between the theory of decentralization and practice of decentralization; it enabled them to recognize that the performance-grant system was as relevant for the smaller gram panchayats as it was for the larger local governments; and that incentive-based transfers were central to improving local governments performance. They observed that quality assurance of projects as practiced in Indonesia could serve as a benchmark for other countries.

What now – workshop participants underlined the need to create a larger network of countries who could periodically meet under identical Exchange Workshops. They envisioned an important role for the World Bank, especially in developing and disseminating information on developing countries experiences in decentralization, and in serving as a catalyst for such Knowledge Exchange Programmes.



# **Annexes**



# Agenda for the South-South Knowledge Exchange Workshop

**TUESDAY, MAY 9<sup>th</sup>, NEW DELHI**

TIME	TOPIC	CHAIR(s)	PRESENTERS
09:30 - 10:00	Registration for delegates		
<b>SESSION 1      SETTING THE CONTEXT – Decentralization and Local Governance Frameworks</b>			
10:00 -10:15	Welcome address		Mr. Junaid Kamal Ahmad Country Director, World Bank India
10:15-10:30	Local governance and decentralization in India	Mr. Rajiv Gauba, Secretary, Government of India, Ministry of Urban Development	Mr. Rajiv Gauba Secretary, Government of India, Ministry of Urban Development
10:30-10:45	Local governance and decentralization in Indonesia		Ms. Mariana Dyah Savitri Deputy Director, Information and Management of Regional Finance, Ministry of Finance
10:45-11:15	Key note address: International perspective on decentralization and inter-governmental systems for local governments		Dr. Paul Smoke Professor, New York University
11:15 - 11:30	Tea Break		
<b>SESSION 2      IMPROVING LOCAL GOVERNMENT PERFORMANCE IN SERVICE DELIVERY UNDER DECENTRALIZED FRAMEWORK</b>			
11:30-11:40	Session trigger presentation		Dr. George Mathew, President, Institute of Social Sciences
11:40-12:00	Key note address: Local government systems for public service delivery in a decentralized context		Dr. S.M.Vijayanand, Former Chief Secretary, Govt. of Kerala
12:00-12:50	Country experiences on 'Improving local government performance in service delivery through capacity building and systems development'	Dr George Mathew President, Institute of Social Sciences	Presentation on Indonesia's experience - Mr. RionoSuprpto, Deputy Director, Ministry of Public Works and Housing (20 mins) Presentation on Sri Lanka's experience - Mr. Seenithambhi Manoharan, Senior Rural Dev Spec, World Bank (15 mins) Presentation on Kerala's experience - Dr. S. M. Vijayanand (15 mins)
12:50-13:05	GPOBA support towards improving local government accountability and performance		Ms. Catherine Commander O'Farrell, Head - GPOBA, World Bank
13:05-13:30	Open discussion/Q&A	Moderated by Dr. George Mathew	
13:30-14:30	Lunch break		



TIME	TOPIC	CHAIR(s)	PRESENTERS
SESSION 3	FISCAL DECENTRALIZATION AND INTER-GOVERNMENTAL FISCAL FRAMEWORKS FOR LOCAL GOVERNMENT PERFORMANCE		
14:30-14:40	Session trigger presentation		Prof. O P Mathur, Head - Urban Studies, ISS
14:40-15:00	Key note address: Performance based grant-in aid and central assistance to local governments in India		Dr. Indira Rajaraman, Member, 13th Central Finance Commission, Government of India
15:00-15:45	Country experiences on 'Fiscal decentralization, inter-governmental fiscal transfers and performance-based incentives to local governments'	Dr. Paul Smoke, Professor, New York University	<p>Presentation on Bangladesh's experience – Mohammed Khaled Ur Rahman, Government of Bangladesh (15 mins)</p> <p>Presentation on West Bengal's experience - Mr.Somya Purkait, Special Secretary, Govt. of West Bengal (15 mins)</p> <p>Presentation on Nepal's experience – Dr.ShyamBhurtel, Member of Local government Restructuring Commission, Govt. of Nepal (15 mins)</p>
15:45-16:30	Open discussion/Q&A	Moderated by Mr. Uri Raich	
16:30-16:40	Logistics announcement for day 2 and 3 in Kolkata		
16:40-17:00	Tea/coffee break and departure		
20:00	Travel to Kolkata		



## WEDNESDAY, MAY 10<sup>th</sup>, KOLKATA

TIME	TOPIC	CHAIR(s)	PRESENTERS
SESSION 4 FIELD TRIP TO DULAI BAZAAR-II GRAM PANCHAYAT, WEST BENGAL			
09:00	Departure from hotel		
11:00	Arrival at the Gram Panchayat office		
11:00-11:15	Reception at the Gram Panchayat		
11:15-12:15	Presentation and demonstration on 'Annual Performance Assessment (APA) tool and process'	Mr. Soumya Purkait Program Director, ISGPP-II	Mr. Soumya Purkait, Program Director, ISGPP-II and APA team
12:15-13:15	Presentation and demonstration on 'third party Quality Assurance (QA) mechanism'		Mr. Soumya Purkait, Program Director, ISGPP-II and QA team
13:15-14:30	Lunch break		
14:30-15:30	Live demonstration of Gram Panchayat's institutional systems for local governance and service delivery	Mr. Soumya Purkait Program Director, ISGPP-II	Gram Panchayat officials with ISGPP Cell and district based mentors
15:30-16:00	Interaction with district officials and GP functionaries on decentralized planning		Gram Panchayat officials with ISGPP Cell and district based mentors
16:00-16:15	Concluding remarks		
16:30	Departure from the Gram panchayat		
18:30	Arrival at the hotel		
20:00-22:00	Dinner		



## THURSDAY, MAY 11<sup>th</sup>, KOLKATA

TIME	TOPIC	CHAIR(s)	PRESENTERS
SESSION 5 ESTABLISHING AND ENHANCING LOCAL GOVERNMENT ACCOUNTABILITY SYSTEMS			
10:00-10:10	Session trigger presentation		Prof. O P Mathur Head - Urban Studies, ISS
10:10-10:40	Presentation on Sri Lanka's experience under NELSIP project	Mr. Mohamed FaiszerMusthapha, Minister, MoPCLG, Sri Lanka	Mr. H.T. Kamal Pathmasiri Secretary, MoPCLG, Sri Lanka
10:40-11:10	Presentation and demonstration of output based verification by the Indonesia Internal Auditor (BPKP)		Mr. BambangUtoyo, Director of Monitoring for Regional Financial Management, BPKP Mr. Arief Tri Hardiyanto, Head of BPKP Representative Office for Banten, BPKP
11:10-11:45	Open discussion/Q&A	Moderated by Mr. Harsh Goyal	
SESSION 6 GROUP ACTIVITY AND KEY TAKE-AWAYS			
11:45-12:45	Learnings from the SSKE	Dr. George Mathew, Chairperson, ISS	Open discussion
12:45-13:45	Lunch break		
SESSION 7 INTERNAL ROUNDTABLE			
14:30	Free time for delegates		
14:30-16:00	Internal round-table	World Bank, Indonesia and GPOBA	



# List of Participants

## WORLD BANK

1. Anand Mathew
2. Anil Das
3. Balakrishna Menon Parameswaran
4. Bhavna Bhatia
5. Catherine C. O'Farrell
6. Eduardi Prahara
7. Fandi Nasution
8. Griya Rufianne
9. Harsh Goyal
10. Indira Dharmapatni
11. Juliet Pumpuni
12. Junaid Kamal Ahmad
13. Jyoti Sriram
14. Marleyne Danuwidjojo
15. Mooly
16. Novira Kusdarti
17. Pronita Chakrabarty Agarwal
18. Raghu Kesavan
19. Rajib Upadhyaya
20. Seenithamby Manoharan
21. Thalyta Ernandya Yuwono
22. Uri Raich
23. Yarissa Lyngdoh Sommer

## USA

1. Paul Smoke. New York University, USA

## INDONESIA

1. Arief Tri Hardiyanto. Badan Pengawasan Keuangan dan Pembangunan, Indonesia
2. Armansyah Sinaga. Ministry of Finance, Indonesia
3. Asri Murtini. Badan Pengawasan Keuangan dan Pembangunan, Indonesia
4. Bambang Utoyo. Badan Pengawasan Keuangan dan Pembangunan, Indonesia
5. Cecep Sanwani. Badan Pengawasan Keuangan dan Pembangunan, Indonesia
6. Denny Kurniawan. Ministry of Finance, Indonesia
7. Devi Elvino. Badan Pengawasan Keuangan dan Pembangunan, Indonesia
8. Diantha Arafia Nasrullah. Ministry of National Development Planning, Indonesia
9. Fajar Eko Antono. Ministry of Public Works, Indonesia
10. Imam Mukhlis Affandi. Ministry of Finance, Indonesia
11. Jamiat Aries Calfat. Ministry of Finance, Indonesia
12. Mariana Dyah Savitri. Ministry of Finance, Indonesia
13. Priyanta Eka Nugraha. Badan Pengawasan Keuangan dan Pembangunan, Indonesia

14. Riono Suprpto. Ministry of Public Works, Indonesia
15. Rizqi Yuwanita Habibah. Ministry of National Development Planning, Indonesia

## BANGLADESH

1. Mohammad Khaled-Ur-Rahman. Government of Bangladesh

## INDIA

1. Gautam Kumar. Ernst & Young
2. Indira Rajaraman. Government of India
3. Koustun Basu. Institutional Strengthening of Gram Panchayats Project, Government of West Bengal
4. Manoj Pratim Mitra. Government of West Bengal
5. Nandita Roy. Government of West Bengal
6. Narsing Pawar. Government of Assam
7. Rajib Gauba. Government of India
8. Roli Mahajan. Government of West Bengal
9. Sanjoy K. Gupta. Ernst & Young
10. Saurav Dey. Institutional Strengthening of Gram Panchayats Project, Government of West Bengal
11. Sekhar Kumar Dutta. Institutional Strengthening of Gram Panchayats Project, Government of West Bengal
12. Soumya Purkait. Government of West Bengal
13. Sundaramuthil Murukaiah Vijayanand. Government of Kerala Swapnamil Dey Institutional Strengthening of Gram Panchayats Project, Government of West Bengal

## NEPAL

1. Shyam Krishna Bhurtel. Civic Alliance for Local Democracy, Nepal

## SRI LANKA

1. Kamal Hewa Thondilage Pathmasiri. Government of Sri Lanka
2. Mohamed Faiszer Musthapha. Government of Sri Lanka

## INSTITUTE OF SOCIAL SCIENCES

1. Darshy Sinha
2. George Mathew
3. Joshy Jose
4. Om Prakash Mathur
5. Priya Selvakumar
6. Rajib Kumar Majumdar
7. Rakesh Kumar Singh
8. Rochita Talukder
9. Sapna Sharma
10. Vidya Krishnakumar



# List of Power Point Presentations

1. International Perspective on Decentralization, Intergovernmental Frameworks and the Role of Performance Incentives. Author: Paul Smoke. New York University
2. Performance-Based Grant Aid and Central Assistance to Local Governments in India Author: Indira Rajaraman
3. Government of Indonesia & GPOBA: A Partnership for LG Performance Improvement & Accountability Author: Catherine C. O'Farrell. Head of GPOBA
4. Leveraging Performance Based Financing and Improving Accountability for Local Governments Author: Government of Bangladesh
5. West Bengal's Experience on Fiscal Decentralization Scaling up Performance Based Grants Author: Soumya Purkait. Program Director, Institutional strengthening of Gram Panchayats Program-11, Government of West Bengal
6. Annual Performance Assessment of ISGP(P) Gram Panchayats for 2016: Salient Features and Assessment Process Author: Sutra Consulting Pvt. Ltd.
7. GIS Based Integrated Planning and Monitoring System for the PRIs in West Bengal Author: Government of West Bengal
8. Local Governance and Decentralization in Indonesia Author: Mariana Dyah Savitri. Ministry of Finance, Indonesia
9. Indonesia Experience in Improving Transparency and Reporting Author: Bambang Utoyo, Director for Monitoring of Regional Finance, and Arief Tri Hardiyanto, Head of BPKP. BPKP, Indonesia
10. Improving Reporting and Accountability of Transfers Author: Riono Suprpto, Director for Facilitation of Regional Infrastructure Finance, and Fajar Eko Antono, Head of Subdivision on Regional Infrastructure, Ministry of Public Works, Indonesia
11. Profile of BPKP. The Financial and Development Supervisory Agency Author: Government of Indonesia
12. Fiscal Decentralization in Nepal: Current Status and New Context Author: Shyam Krishna Bhurtel, Chairperson, Civic Alliance for Local Democracy in Nepal
13. Leveraging Performance Based Financing and Improving Accountability for Local Governments. Author: Government of Sri Lanka
14. North East Local Services Improvement Project (NELSIP) Author: Government of Sri Lanka



# Trigger Questions

## SESSION 2

### IMPROVING LOCAL GOVERNMENTS PERFORMANCE IN PUBLIC SERVICE DELIVERY UNDER A DECENTRALIZED GOVERNANCE FRAMEWORK

DR. GEORGE MATHEW

PRESIDENT, INSTITUTE OF SOCIAL SCIENCES

1. Whichever way “decentralization” may be looked at, empowering local governments is its centerpiece. Decentralization rests on the premise that local governments – compared with other governmental tiers – are in a better position to reflect priorities in local development.

*Why then is the progress on decentralization slow? What inhibits countries from taking a bolder initiative in redrawing the relationships between the different governmental tiers enabling local governments to take on larger responsibilities in service delivery?*

2. The responsibility for delivery of local services is often shared between several institutions, and in the absence of effective coordination between institutions, local services are sub-optimally delivered

*Why do countries persist with arrangements that are, prime facie, sub-optimal and consequently costly?*

3. New forms of accountability as embodied in participatory budgeting and performance-linked grants generate a demand for a different cadre of trained personnel.

*Is “capacity” a central issue in taking the decentralization agenda forward? Is the absence of personnel adequately trained in addressing such issues dampening progress in moving the decentralization agenda forward? What models of capacity building and systems development have worked in addressed the capacity issues?*

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2

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*Why do countries persist with service delivery arrangements that are, prime facie, sub-optimal and consequently costly?*


3

3. New forms of accountability as embodied in participatory budgeting and performance-linked grants generate a demand for a different cadre of trained personnel.

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4



- 
1. The role of transfers in implementing the decentralization agenda has risen in much of the developing world. Approximately 60 percent of the local development expenditure is met out by transfers globally (See Position note 2). At the same time, transfers are criticized on the ground that they act as a disincentive for local governments to make effective use of their resource raising powers. Several countries are now experimenting with incentive-driven, result-based and performance-linked grant systems.


*How extensive is the use of such grants? What kinds of improvements are being brought about from such grants? What is the potential of such grants? Do such grants impinge on the autonomy of local governments?*

2

- 
2. Performance-based grants are, in most cases, a part of the central government initiative, a "project". It is observed that the life of such grants is co-terminus with that of the project.

*What safeguards are available so as to ensure that the gains from such grants are not affected with the completion of the project tenure?*

3

- 
3. Experience has shown that timeliness and predictability of Inter-governmental transfers from the central/state governments are critical to ensure that the local governments are able to plan and implement the service delivery projects in a timely manner.

*What are the challenges and implications related to lack of predictable and timely flow of inter-governmental transfers? How can these be streamlined, in the context of performance based grants?*

4

## SESSION 3 FISCAL DECENTRALIZATION AND INTERGOVERNMENTAL FISCAL FRAMEWORK FOR LOCAL GOVERNMENTS

PROF. O P MATHUR  
HEAD - URBAN STUDIES, ISS

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## SESSION 5

### ENSURING ACCOUNTABILITY IN LOCAL GOVERNMENT FUNCTIONING: MONITORING, REPORTING AND VERIFICATION SYSTEMS

PROF. O P MATHUR  
HEAD - URBAN STUDIES, ISS

1. Autonomy of local governments is vitally dependent on the accountability norms, systems, and practices that local governments follow. Local governments that have higher levels of autonomy are generally those that are more accountable to their citizens. They are able to better reflect local priorities to the higher tiers of governments with regard to efficiency, with which they are able to use the financial resources.

*Accountability being so important to autonomy and local governance, the question is how best to design the accountability norms and systems? What kind of a reporting and monitoring system should be put in place? What should be its key attributes?*

2. Recent years have seen a growing demand for accountability originating from the civil society and non-state actors. Often this demand is being met by initiatives such as participatory budgeting, citizen report cards, and social audits.

*Is this development a reaction to the rather indifferent manner in which the supply side of accountability (public accountability) has been dealt with? Or is it a supplement to public accountability measures such as public audits, ombudsman, and various types of regulators?*

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2

2. Recent years have seen a growing demand for accountability originating from the civil society and non-state actors. Often this demand is being met by initiatives such as participatory budgeting, citizen report cards, and social audits.

*Is this development a reaction to the rather indifferent manner in which the supply side of accountability (public accountability) has been dealt with? Or is it a supplement to public accountability measures such as public audits, ombudsman, and various types of regulators?*

3



- Q1** SSKE discussed two approaches to decentralization namely 'big-bang' approach and an 'incremental approach'. What in your view, are the merits of each of the two approaches and which approach would you like to recommend for pushing decentralization?
- Q2** Performance-grant is essentially a fiscal incentive for the local governments to undertake reforms that they would ordinarily not take. Do you think that there should be a Local Incentive Fund enabling local governments to access it as and when they are ready to take structural and systematic reform?
- Q3** The Kolkata project and the associated systems that have been set up in the Panchayats are the outcome of the volume of grants that have been recommended by the 14th Finance Commission. What mechanism should be put in place so that the States/Countries internalize these systems even in the absence of such grants?
- Q4** The role of independent and external professional agencies in ensuring that "minimum conditions" are met for claiming performance-linked grants was brought up during the field visit. Could there be "citizen oversight" to either substitute the role of independent agencies or supplement their roles in order to enhance citizen participation?
- Q5** The reporting and monitoring system shown to us during the field visit is relevant for any project. Given its relevance, do you think that governments should adopt or adapt them for better oversight of projects.
- Q6** "Capacity" deficit has often been cited as a major impediment to the implementation of the decentralization agenda. Do you agree? What would be your suggestions on addressing the capacity deficit issue?



# QUESTIONS FOR INTERVIEWING SELECTED COUNTRY DELEGATES

1. Decentralization, as you know, is a commonly observed phenomenon in both the developed and developing countries – your country is no exception. What, in your opinion, is the most important feature of the decentralization initiative in your country? What led to the enactment of such laws in your country? Any idea of the underlying forces?
2. It has been several years since these constitutional and statutory changes have been implemented. What has changed on the ground – a de-facto change?
3. What, in your view, are the key strengths of the decentralization initiatives that have made an impact and which need to be taken forward and strengthened?
4. What, in your view, are the weaknesses in the current decentralization programmes? What measures would you suggest be taken to eliminate these weaknesses?
5. Autonomy of local governments is said to be the key to empowering local governments. In most countries, however, local governments have limited autonomy because they have weak accountability procedures. What do you think needs to be done to make local governments more accountable to citizens on the one hand and the higher governmental tiers on the other?
6. Do you think SSKE should become a permanent platform where Asian countries and countries of other regions can meet periodically, exchange information, practices, knowledge, and experiences in order to strengthen local government systems?



# FEEDBACK CHART

- Q1** What was most useful about the knowledge exchange workshop and study tour?
- Helped to better appreciate the hiatus between the theory of decentralization and practice of decentralization.
  - Field visit to Daluibazar – II Gram Panchayat
- Q2** What new information/knowledge did you receive and what is its relevance to your work?
- That the Performance Grant System is as relevant for a Small Gram Panchayat as it is for larger local governments.
  - Incentive-based fiscal transfers are central to improving local governments performance
  - Quality assurance of projects – as implemented in Indonesia – can serve as a benchmark for other countries.
- Q3** What are the related areas/topics in decentralization and local governance strengthening programmes for which you would be interested to learn from other countries/states?
- Mechanism for enforcing internal controls over intergovernmental transfers
  - Planning, budgeting, monitoring, evaluation, and auditing mechanisms
  - Use of GIS/MIS technology in assessing the level and quality of services
  - Indicators for assessing upward and downward accountability of local governments
  - Best practices in implementing Incentive-based Performance-based grants.
- Q4** What would be the useful follow-up to this experience exchange?
- World Bank to serve as a catalyst for such Knowledge Exchange programme
  - Create a network of countries who would share experiences in addressing decentralization challenges.
  - Explore the potential of virtual learning
  - Develop and disseminate information on developing countries experiences in decentralization
- Q5** What role could the World Bank play to facilitate experience and knowledge sharing across countries/states in India?
- Organize additional SSKEs
  - Develop communication forums for countries



KEY NOTE ADDRESS:  
INTERNATIONAL PERSPECTIVE ON DECENTRALIZATION AND  
INTER-GOVERNMENTAL SYSTEMS FOR LOCAL GOVERNMENTS

DR. PAUL SMOKE  
PROFESSOR, NEW YORK UNIVERSITY

South-South Knowledge Exchange:  
Leveraging Performance-Based Financing and  
Accountability for Local Governments

**Session 1**  
**Setting the Context: DLG Framework**

**International Perspective on  
Decentralization, Intergovernmental  
Frameworks and the Role of Performance  
Incentives**

Paul Smoke  
New York University  
Wagner Graduate School of Public Service

9-11 May 2017, Delhi and Kolkata

## OUTLINE

- I. Decentralization & Intergovernmental Frameworks: A Quick Tour of the Local Government Landscape
- II. National Incentives for Local Government Performance in Decentralized Systems?
- III. Overview of the Objectives and Design of Local Government Incentives
- IV. Selected International Experiences
- V. Concluding Comments

### **I. Decentralization & Intergovernmental Frameworks: A Quick Tour**

- **Official Goals** (policies and laws):
  - Improved **governance** and accountability
  - More **efficient/equitable** service delivery
  - **Economic development/poverty reduction**
  - Promoting **stability**
- **Underlying Incentives:** political/institutional interests, which may coincide or conflict with more developmental considerations
- **Multiple types but devolution often held as the normative ideal**—strong local administrative, fiscal, political role (**empowerment, resources, accountability**); complex/challenging to develop

### **Normative System Design Elements**

- **Enabling National Framework**
  - Constitutional/legal/administrative (**balancing central oversight with SN power/autonomy**)
- **Structural Features**
  - Number of **levels** (administration or government)
  - Degree of **hierarchy/independence**
- **Fiscal Dimensions**
  - **Clear assignment** of functions/revenues
  - Appropriate/stable **vertical share of resources**
  - Appropriately structured **shared taxes/transfers**
  - **Fiscal responsibility/borrowing framework**

4

### **System Design Elements (continued)**

- **Political Dimensions**
  - Elections/other **accountability mechanisms**
  - **Transparent** local processes and decisions
  - **Autonomy** to allow responsiveness to citizens
- **Administrative/Managerial Dimensions**
  - **Institutional relations** appropriately defined
  - **Planning, budgeting & public financial management (PFM)** systems and procedures
  - **Civil service system** (degree of local control)
  - **Contractual framework for partnering** with private sector/NGOs

5

### **Evidence: Does Decentralization Improve Development Outcomes?**

#### **DEVELOPMENT OUTCOMES**

**Service Delivery:** Effectiveness, Efficiency, Equity  
**Human Conditions and Livelihood:** Average Improvements, Distribution of Improvements  
**Governance:** Participation/Inclusion, Transparency/Accountability, Resource Allocation, Conflict Mitigation

#### **UNDERLYING FACTORS**

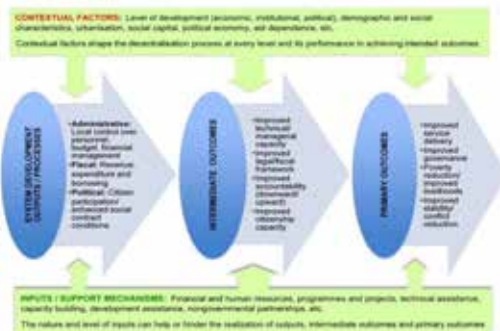
**Context:** Social, Political, Economic, Institutional  
**Institutional Design:** General, Finance, Mechanisms for Transparency and Accountability  
**Political Economy:** Central, Central-Local, Local  
**Capacity:** Local/Central Governments & Citizens



## The General Challenge

- There are well-defined and widely used **theories and principles** regarding why and how to approach decentralization
- Yet despite a significant period of reform momentum and framework development, decentralization has **too often failed to meet needs or expectations**
- Why is behind the **observed gap between the theory and practice of decentralization and effective local governments?**
- Does this result from **weaknesses in the theory** or how it is being applied?

## The Landscape of Decentralisation



## Where Does This Leave Us?

- Empirical work validates many expected decentralization relationships, **but to varying degrees and dependent on conditions that vary across countries and over time**
- **Countries have different initial objectives and conditions**; reform measures and outcomes must be **assessed in relative terms**
- **Behavior** in decentralizing or weakly performing decentralized systems **does not change quickly and there are many obstacles**
- Need to think about **what is feasible and how to create incentives for improving local government performance in a given case**

## II. National Incentives for Local Performance in Decentralized Systems?

- Some experts are **wary of centrally managed LG incentives** because:
  - They infringe on **LG autonomy**
  - **Role of center** under decentralization should be primarily to **develop** intergovernmental systems and procedures and provide **legality oversight**)
  - **Incentives for improved LG behavior in a devolved system** should be provided significantly through **local elections and other downward accountability measures**

## Potential Role of Performance Incentives (continued)

- Other experts see a **clear need for an active/supportive center and LG incentives**:
  - **Downward accountability** is limited in newly decentralizing or less developed systems/local elections are a blunt accountability mechanism
  - Center has a legitimate role in promoting local behavior **to support national priorities**
  - Central incentives can **encourage behavior that improves LG resource use and downward accountability** and can also help build capacity

## III. Objectives and Design of LG Performance Incentives Possible Broad Purposes

- **Adoption of system reforms**: range from technical systems and operating procedures to participatory governance approaches
- **Fiscal/economic/social performance**: include budget aggregates, service delivery/revenue generation targets, other priority goals (from broad targets like poverty reduction to more limited targets like pollution control)
- **Innovation**: include technology adoption, use of public-private partnerships, cooperation with other local governments, etc.

## Specific Focal Objectives

- **Simple reform compliance certification**: formal adoption of budgeting, legal, governance or other LG reforms
- **Reform adoption performance**: extent, quality, or ongoing use of adopted reforms
- **Aggregate or specific fiscal performance**: surplus, deficit or debt reduction goals; altering expenditure composition or increasing revenue
- **Inputs, outputs, outcomes**: e.g. in education, student-teacher ratios, enrollment rates, literacy rates (progressively more difficult), test scores

## Major Design Decisions

- **Degree of flexibility in targets**: fixed reforms, menu, individually negotiated with LGs
- **Absolute or relative standards**: former desirable but unfair if LGs have different capacity/experience
- **Positive or negative incentives**: rewards, penalties or both, fixed levels or scales
- **Financial or non-financial**: offer resources, recognition/publicity, or some combination
- **Existing mechanisms or creation of new ones**
- **Performance period**: some performance can be improved quickly, others cannot



### Measurement/Institutional Responsibility

- **Subjective or objective:** measures can be one or both; latter desirable but some aspects difficult to measure objectively
- **Choosing appropriate/accurate measures for the targeted aspect of performance:** can be a challenge—do revenue increases measure better performance or growth in the base?; do higher expenditures reflect better services or waste?
- **Sources of data:** can existing sources be used or do new data have to be collected?
- **Institutional responsibility:** Which agencies will be in charge? Do they have capacity? Can they sustain the initiative?

### IV. Selected International PBG Experiences

- **Main approaches:**
  - **Sectoral performance based grants:** involve a conditional transfer (sometimes matching) and can involve other incentives
  - **General performance based grants:** can be multi-sectoral and flexible, but subject to *minimum conditions* for access and *performance incentives* after that; typically based more on compliance with system requirements in newly developing systems

### Sectoral Performance Based Grants

- Usually involve conditional transfers that require **certain norms and standards to be met**—often quantity, but sometimes quality
- **Had not been very common in developing countries but rising interest and experimentation** given pressures from MDGs/SDGs, the donor “value for money” push, and citizen demands for better services
- Increasingly common in health and education, but also used in other sectors

### Sectoral PBGs: Africa Examples

- **Uganda education grants** under Poverty Action Fund (targets increased, quality less clear):
  - School Facilities Grant: for desks, latrines and classroom upgrade (with specific targets for each)
  - Universal Primary Education capitations grants: rewards schools for increasing enrollment
- **Rwanda health grants** (local facility not LG)
  - Cases admitted, staff bonuses, facility improvement
  - Quality assessed with process indicators: timeliness of reports and frequency of supervisory visits
  - Success of pilots led to scaling up, better measures of quantity, expansion to other sectors

### Sectoral PBGs: Argentina Plan Nacer

- Introduced financial incentives between federal government and states and between states and public/private providers, **linking financing with results** (output/intermediary) in providing a **package of maternal/infant health services**
- Created **capitation-based grant transfer based on cost of established package:**
  - 60% of capitation payment released upon monthly certification of enrolment of eligible population, and
  - 40% of capitation payment released for each of the 10 Tracers goals achieved (as certified by an independent auditor)

### Argentina Plan Nacer Tracers

- Timely inclusion of eligible pregnant women (prenatal care)
- Effectiveness of neonatal and delivery care
- Effectiveness of pre-natal care and prevention of premature birth (weight above 2.5 kilos)
- Quality of pre-natal and delivery care (number of mothers immunized and tested for STDs)
- Medical Auditing of Maternal and Infant deaths
- Immunization Coverage (measles vaccine)
- Sexual and Reproductive Healthcare
- Well child care (1 year or younger)
- Well child care (1-6 years old)
- Inclusion of Indigenous Populations

### Indonesia: Performance Based DAK Reimbursement Based on Criteria

Physical Realization of Outputs	Compliance with National Procurement	Compliance with Environmental & Social Safeguards:
<ul style="list-style-type: none"> <li>• Construction Completion Certificates.</li> <li>• Compliance with Technical Specifications (as per Technical Guidelines)</li> </ul>	<ul style="list-style-type: none"> <li>• National Procurement Law and Regulations (Perpres 54/2010) through competitive procedures in hiring of contractors</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance with Indicators listed in the Project Operations Manual.</li> <li>• MPW Minister Issue Supplement to Technical Guidelines.</li> </ul>

### Other Examples

- Increases in various types of performance based grants in **India** under the 13<sup>th</sup> (2010-2015) and 14<sup>th</sup> Finance Commissions (2015-20)
- Various **Latin American countries** have adopted a diverse set of sectoral performance grants: Argentina (health), Brazil (health), Chile (education), Colombia (education, health, water and sanitation) and Peru (several local functions plus contribution to national priorities, such as education)



## General PBGs

- Most focus on **process-oriented LG reforms**, e.g. PFM, planning, transparency and human resource management
- LGs are allowed to **participate only after meeting minimum conditions**.
- **Beyond minimum conditions, LGs may be offered bonuses (or subject to penalties)** based on performance (compliance) targets
- **Results are made public**, providing information to citizens about LG performance
- Some countries have **attached sector-specific grants** to the larger PBG system

## Performance Based Grants Basic Taxonomy

Table 2: Grant – Taxonomy	Sector – Specific*	Non-Sector Specific
Recurrent (operational and maintenance costs)	A.1. E.g. grants for salaries to finance school teachers.	A.2. Non-sectoral grants with earmarking for recurrent expenditures, but LG discretion to use the funds across the sectors according to local priorities.
Capital	B.1. E.g. grants for the construction of class rooms.	B.2. E.g. capital-investment grants for discretionary spending on various sectors (typically various forms of local development funds).
No limits on the type of expenditure to be funded in terms of capital or recurrent costs	C.1. Grants to finance all kinds of expenditure within a specific sector (sector specific conditional grants).	C.2. Unconditional grants with no limitations on utilisation (or a very short "negative list").

Source: Steffenhagen, UNCDF 2010

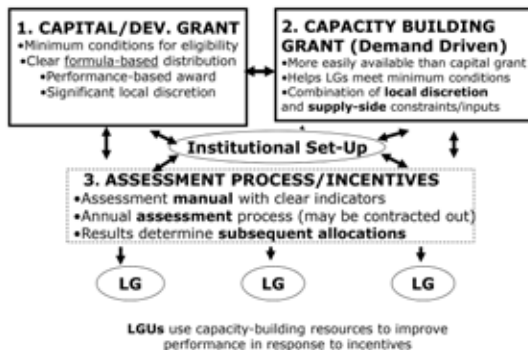
## Performance Type/Uses of PBG Funds

I. TYPE OF PERFORMANCE THAT IS TARGETED IN THE INDICATOR SYSTEM	II. USE OF FUNDS – MULTI-SECTOR VERSUS SPECIFIC (EARMARKED)	
	MULTI-SECTOR USAGE	SECTOR-SPECIFIC USAGE
SERVICE DELIVERY	A. Multi-Sector Usage Service Delivery Focus (e.g. pilot testing in Nepal of grants to urban authorities).	B. Sector-Specific Usage Service Delivery Focus (e.g. Uganda – School Facility Grant, Philippines: Health Grants). Numerous grants within the education area, such as grants linked with enrolment rates (Capitation grants in Kenya and Ghana) and/or specific outputs (Seed of students passing exams with certain quality, etc.)
INSTITUTIONAL	C. Multi-Sector Usage Institutional Focus (e.g. Uganda, Tanzania, Kenya, Mali, Sierra Leone, Nepal, Bangladesh, Ghana, Indonesia, Solomon Islands, Bhutan and emerging systems in the Philippines and India).	D. Sector-Specific Usage Institutional Focus (e.g. Philippines (Health), new sector-development grants in Tanzania (Agriculture, Health, Water).

## General PBG Experience

- **Uganda** was one of the first and most widely publicized countries to adopt a systematic general PBG system (it evolved from a series of UNCDF-World Bank activities), which served as a general model for many other less developed countries
- **A range of other countries have used or are developing PBG in some form**, including Bangladesh, Bhutan, East Timor, Ghana, Kenya, Laos, Nepal, Pakistan, the Philippines, Sierra Leone, and Tanzania

## A Performance-Based Grant System



## PBG Experience (continued)

The Philippines has recently used two different forms of PBG:

- **Performance Challenge Fund (PCF)** offers small capital grants to LGUs attaining a "Seal of Good Local Governance" (a set of operating standards determined by DILG to be associated with good governance)
- **Bottom-Up Budgeting (BUB) Program** provides LGUs with funding for both hard and soft sub-projects if LGU uses participatory budgeting to identify projects in conjunction with local civil society organizations.

## V. Concluding Comments

- PBGs have **potential** to be useful, but to date impact has **mostly been demonstrated for improving compliance** in developing systems
- There is **less documentation of improvements in service delivery** (other than first step measures such as school enrollment)
- **Developing PBG indicators can be challenging**—defining appropriate indicators, deal with data limitations, may need some element of more subjective assessment of process requirements (requiring care to ensure consistency), etc.

## Concluding Comments (continued)

- **PBGs are not a solution on their own:**
  - Consider **influence of/links to** impact on other actors/reforms
  - Look **beyond observable problems** to the forces and factors that underlie them
- **Need to develop a strategy for PBG use:**
  - Determine **entry points** (potentially asymmetric);
  - Identify **possible trajectories** for further progress
  - Creating **incentives** to stimulate performance
  - **Monitoring** for intended and unintended effects
  - **Making adjustments** based on evidence



# LOCAL GOVERNANCE AND DECENTRALIZATION IN INDONESIA

MS. MARIANA DYAH SAVITRI

DEPUTY DIRECTOR, INFORMATION AND MANAGEMENT OF  
REGIONAL FINANCE, MINISTRY OF FINANCE

## Local Governance and Decentralization in Indonesia

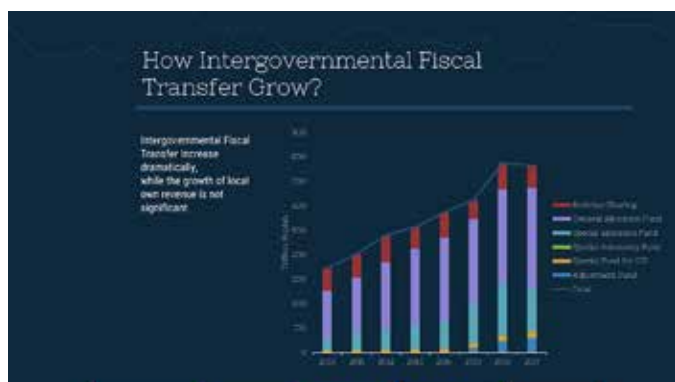
Mariana Dyah Savitri  
Deputy Director for Monitoring of Regional Finance  
Directorate General of Fiscal Decentralization  
Ministry of Finance, Government of Indonesia

## Indonesia at a Glance

- Highly Populated**  
250 million people  
4th in the world
- Archipelago country with more than**  
17,000 islands
- Annual National Budget size**  
USD 124 billion  
average in the last 5 years
- GDP / year**  
USD 894.4 billion  
average in the last 5 years

### GOVERNMENT SYSTEM

- 1945-1958  
Old Order  
(highly centralized authority)
- 1958-1998  
New Order  
(centralized and para-legal system)
- 1998-present  
Decentralized system  
(12 provinces)  
34 provinces  
512 districts/cities  
75,000 villages





## Improving Specific Allocation Fund Accountability with Performance-Based Program

### Past Condition



## Results

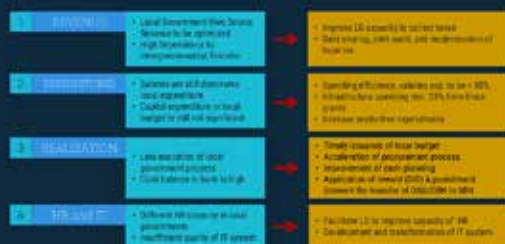
Improvement on Specific Allocation Fund in several aspects



## Rewarding Local Government with High Performance



## Challenges & Strategies



Thank You



# PRESENTATION ON IMPROVING LOCAL GOVERNMENT PERFORMANCE IN SERVICE DELIVERY THROUGH CAPACITY BUILDING AND SYSTEMS DEVELOPMENT - INDONESIA'S EXPERIENCE

MR. RIONOSUPRAPTO  
DEPUTY DIRECTOR, MINISTRY OF PUBLIC WORKS AND HOUSING

## Improving Reporting and Accountability of Transfer

Riono Suprpto  
Deputy Director for Facilitation of Regional Infrastructure Finance

Peter Rio Antonio  
Head of Subdivision on Regional Infrastructure

Ministry of Public Works and Housing  
Government of Indonesia

## Introduction

**Why LG Performance matter?**

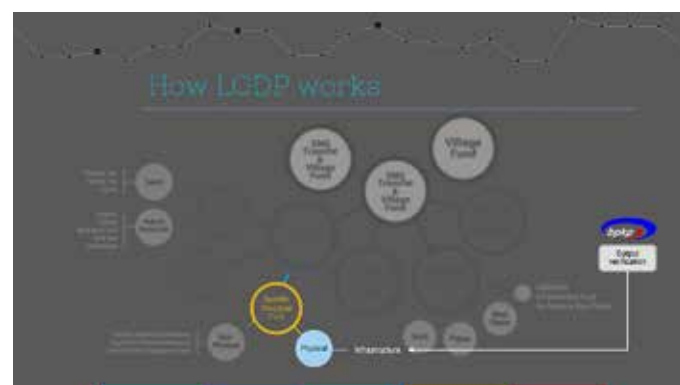
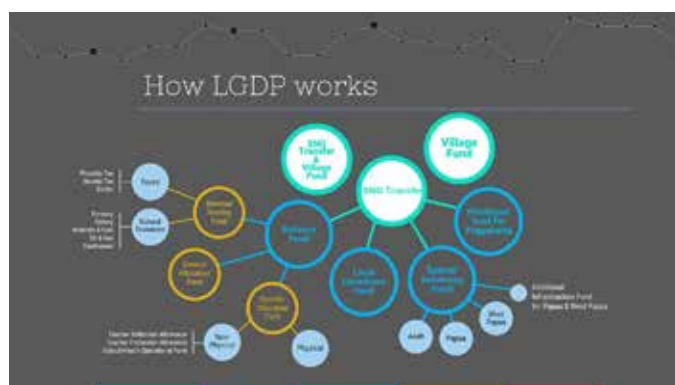
- Most of infrastructure stock managed by provincial/city/district governments, therefore
- Achievement of national infrastructure development objectives is highly dependent on the management and development of regional/local infrastructure

**Why DAK?**

Special allocation fund (DAK) is one of the main funding sources for regional/local infrastructure development, to help provincial/city/district governments improve their fiscal capacity

**How the project (LGDP) helped?**

- Providing feedback for process improvement through output verification
- Improving DAK process delivery through a systematic capacity building program, and
- Improving accountability through better reporting



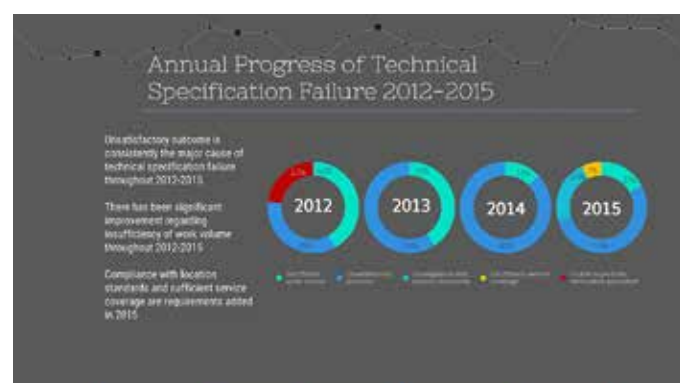
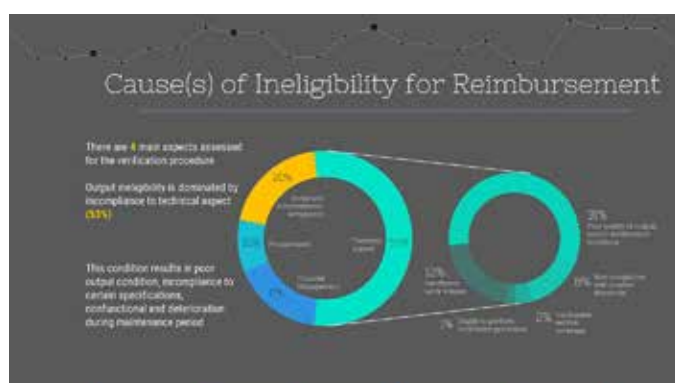
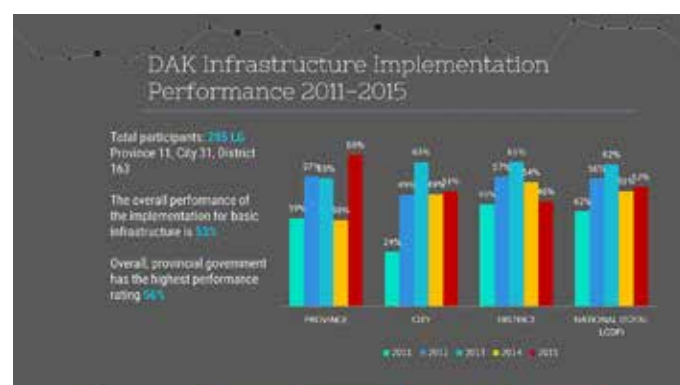
## Specific Allocation Fund (DAK) Infrastructure Performance Measurement

**Implementation Performance**  
is the ratio between LG incentives and maximum LG incentives, which reflects the capability of a region:

- (i) to deliver project outputs as targeted; and
- (ii) to comply to all standards and regulations during project implementation (output delivery process).

**Definition:**  
**Maximum LG Incentives**  
is 10% of DAK allocation for basic infrastructure (road, irrigation, water supply and sanitation) which is normally used for reimbursement to local governments upon project BMR verification.

**LG Incentives**  
is the actual fund that is transferred to local governments as reward for successfully passing BMR verification perfectly.







## Conclusion

**Overall Performance:**

- The implementation performance of DAK for 2011-2015 reaches 53% of value
- Provincial government has the highest performance compared to city and district government

**Concluded analyses:**

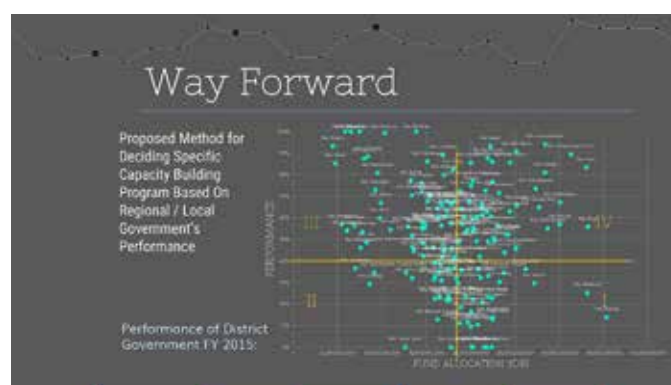
- The most influential factor of failure in verification is incompatibility of technical specifications (exclude 2011)

**Overall benefit from LGDP:**

- A tool to measure implementation performance
- A base for capacity building development plans
- A base for evaluating reimbursement eligibility
- Designation of special institution for conducting verification

## Way Forward

- Preserve the role of EPWP as verification agent for all DAK sectors**
- Design a customized capacity building program based on performance and capacity profile**
- Continue efforts for improving DAK performance in all DAK sectors regions, using the result of verification**
- Intensify capacity building program by central government (supported by provincial government) for all DAK sectors**
- Integrate DAK implementation performance into better system of allocation and incentive fund calculation**



## Way Forward

**Proposed Method for Deciding Specific Capacity Building Program Based On Regional / Local Government's Performance**

<p><b>Proposed Treatment:</b> Maintain good performance, set as example/mode for other districts</p> <p><b>Cluster IV</b> High Allocation High Performance</p>	<p><b>Proposed Treatment:</b> Provide constant attention and guidance. Low performance if needed. Put as priority target if there is DAK budget cutting</p> <p><b>Cluster I</b> High Allocation Low Performance</p>
<p><b>Proposed Treatment:</b> Maintain good performance, set as example/mode for other districts. Should be put as priority if there is an increase in allocation</p> <p><b>Cluster III</b> Low Allocation High Performance</p>	<p><b>Proposed Treatment:</b> Provide guidance to boost performance. Should not be put as priority if there is an increase in allocation</p> <p><b>Cluster II</b> Low Allocation Low Performance</p>

# Thanks!

## Any questions?



# PRESENTATION ON IMPROVING LOCAL GOVERNMENT PERFORMANCE IN SERVICE DELIVERY THROUGH CAPACITY BUILDING AND SYSTEMS DEVELOPMENT - SRI LANKA'S EXPERIENCE

MR. SEENITHAMBHI MANOHARAN  
SENIOR RURAL DEVELOPMENT SPECIALIST, WORLD BANK



## CONTENTS

- Introduction
- Macro and Sector Context
- Project – Objectives and Expected Outcomes
- Strengths and Limitations
- The Next Steps

## IMPROVING LOCAL GOVERNANCE SERVICE DELIVERY IN SRI LANKA

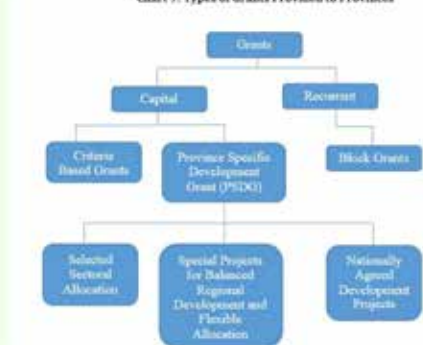
- Sri Lankan Independence and Constitution in 1948
- Constitution changed in 1972, 1979 and then 17 amendments
- 13<sup>th</sup> amendment brought Local Government under Provincial Councils
- Commission of Inquiry on Local Government in 1999 on Local Government reforms
- There are 335 Local Authorities

Local Authority Typology				
Province	MC	UC	PS	Total
Western	7	14	27	48
Central	4	6	33	43
Southern	3	4	42	49
Northern	1	5	28	34
North Western	1	3	29	33
North Central	1	0	25	26
Uva	2	1	25	28
Sabaragamuwa	1	3	25	29
Eastern	3	5	37	45
<b>TOTAL</b>	<b>23</b>	<b>41</b>	<b>271</b>	<b>335</b>

## Constraints for Local Empowerment

- Support System
  - Weaker support systems at PCs and National level
  - Lack of exclusive non-government LG support systems
- Institutional
  - Knowledge and capacity issues
    - Financial management is based on predecessors acts
  - Untapped potential of LAs
  - Political Leadership Vs Administrative Superiority
- Legal and Policy
  - Lack of visionary policies
  - Out dated legal mechanisms

Chart 7: Types of Grants Provided to Provinces





## Fundamentals of Sri Lankan LG

- LAs are unique entities than other Government institutions
  - Governed by set of Acts and Ordinances
  - Different administrative and financial procedures
- LG Finance is governed by totally different set of legislations
- Inadequate fiscal transfers to Local Authorities for their development
- Low service delivery and accountability in linking communities to the State
- Three decades of armed conflict stunted local area development in Northern and Eastern Provinces

### Project: North East Local Services Improvement

#### Components

- Infrastructure Service Delivery (Fiscal transfers)
- Institutionalizing Accountabilities
- Building Capacities
- Assessment & Evaluation
- Project Management

#### Expected Outcomes

- Rehabilitation of destroyed infrastructure
- Citizen satisfaction
- LAs meeting agreed norms

### NORTH EAST LOCAL SERVICES IMPROVEMENT PROJECT (NELSIP)



PDO: To Support Local Authorities to deliver services and local infrastructure in a responsive and accountable manner

#### BASIC PROJECT DATA

Bank Approval Date	May 13, 2010	
Credit Effectiveness Date	December 15, 2010	
Credit Closing Date	August 31, 2017	
	Planned	Disbursed to-date
IDA Credit Amount (Original)	US\$ 50 Million	US\$ 50 Million
IDA Credit Amount (Additional Financing)	US\$ 20 Million	US\$ 20 Million
DFAT Grant	US\$ 20.3 Million	US\$ 20.3 Million
GOSL Contribution	US\$ 14 Million	US\$ 14 Million
Community Contribution	US\$ 2 Million	US\$ 3 Million
TOTAL	US\$ 106.3 Million	US\$ 107.3 Million

## PARTICIPATORY PLANNING



### Social Audit Committee (SAC) – Progress Reviews



## CITIZENS IN ACTION



## A CHILDREN PARK





## STRENGTHS AND WEAKNESSES

- **Strengths of the project** – predictable fiscal transfer has worked; the capacity of LAs built to manage their mandated activities; project design, implementation arrangements, and oversight contributed to achieve project objectives.
- **Innovative features of the project** - in next slides.
- **Limitation of the project** - change in the executing agency mid way; capacity constraints of regional small contractors contributed to slow progress for which actions were taken; weak local government institutions (LLDF and SLILG).
- **Role of the government** - political commitment, policy environment, and strategic oversight had been excellent.

## Innovations in the Project (as designed)

- Preparation of **Local Authority Participatory Development Plans (LAPDP)**
- Establishment of **Project Appraisal Team (PAT)**
- Establishment and Strengthening of **Community Organization (Praja Mandala)**
- Establishment of **Social Audit Committees**
- Establishment of **Grievance Redressing Mechanism (GRM)**
- Establishment of **Good Governance Resource Centers (GGRC)** at District level
- Establishment of **Fiscal Local Government Division (LGD)** at Provincial Level
- Establishment of **Fiscal Analysis Cells (FAC)** at Provincial Level
- Introduction of **Citizen Score Cards (eCSC)**

## Innovations in the Project (as designed)

- Preparation of **Sub Project Completion Reports**
- Preparation of **Maintenance and Sustainability Reports**
- Preparation of **Business Plans** for Commercial Projects
- Enhance the **Procurement and Financial Capacity** of Local Government Sector
- Adoption of **Citizen Charter** initiated by the Government

## (Additional) Innovation Activities Introduced

- Establishment of **Front Offices** at Local Authorities
- Establishment of **Automated Libraries**
- Reviewing and designing the existing **Local Authority Accounting System** with accounting software package
- Strengthening of **Local Loan and Development Fund**
- Enhance the **Technical Capacity** of Local Government Sector
- Strengthening of **Sri Lanka Institute of Local Governance**
- Training Local Authorities on **RTI Act**

## Lessons Learned

- Local governments are better positioned to deliver local development, but political economy hampers bolder reform initiatives
- Local services are sub-optimally delivered and rather costly due to ineffective coordination between institutions
- Participatory planning & budgeting and performance-based grants worked in addressing capacity issues
- Predictability and timely transfers facilitate local governments deliver services as planned
- Performance-based grants promote resource mobilization in local governments
- Social audits and citizen report cards supplement public and local government accountability

## FUTURE ASSISTANCE NEEDED

BASED ON THE NELSIP EXPERIENCE GAINED:

=> PREPARE A FOLLOW ON PROJECT TO STRENGTHEN THE FISCAL AND INSTITUTIONAL SYSTEM OF THE LOCAL GOVERNMENT SERVICE DELIVERY IN THE COUNTRY, THAT WILL HELP TO DEVELOP POTENTIAL ECONOMIC GROWTH CENTRES!

MINISTRY OF PROVINCIAL COUNCILS AND LOCAL GOVERNMENT



THANK YOU



# GPOBA SUPPORT TOWARDS IMPROVING LOCAL GOVERNMENT ACCOUNTABILITY AND PERFORMANCE

MS. CATHERINE COMMANDER O'FARRELL  
HEAD - GPOBA, WORLD BANK

## Government of Indonesia & GPOBA: A Partnership for LG Performance Improvement & Accountability

Catherine C. O'Farrell  
Head of GPOBA



## GPOBA's GLOBAL REACH

DELIVERING: ENERGY, WATER, SANITATION, HEALTH, EDUCATION, TELECOM, SOLID WASTE MANAGEMENT, PILOT STUDIES FOR TRANSPORT, URBAN SERVICES & HOUSING

**KEY ACHIEVEMENTS** (as of 12/31/14):  
 Total Funds: \$338m  
 Subsidy pilots: 47 (\$236m)  
 Planned Direct Beneficiaries: > 10m  
 TA/dissemination activities: 177 (\$95m)

**DONORS**  
 United Kingdom: DFID  
 Sweden: Sida  
 Australia: DFAT  
 Netherlands: DGIS  
 International Finance Corp

**Other Development Partners**  
 European Union: MCC  
 KfW: USAID  
 ADB

**SUBSIDY PORTFOLIO** (active/closed)  
 TECHNICAL ASSISTANCE  
 PILOT SUPPORT



## Key Output Based Aid Principles to Address Development Challenges

**OBA Principles**

- Targeting of Payments
- Accountability
- Innovation and Efficiency
- Using Incentives to Serve the Poor
- Output Verification and Monitoring
- Sustainability

**To Address...**

- Poor people in urban, peri-urban, and rural areas lack access to basic service
- Public and private service providers lack incentives to serve the poor
- "Gap" between the cost of service and user's ability to pay
- No accountability for results



## LGDP Uses 4 Key OBA Principles

**LGDP SUCCESSFULLY DEMONSTRATES:**

- Improved Accountability of intergovernmental transfer system
- Sustainability using independent auditor (BPKP) for Verification
- Innovation: Institutionalizes reforms through M&E system



## Selected OBA Projects in Asia

**7 Sectors**

- Energy
- Water
- Sanitation
- SW Mgmt.
- Health
- Education
- Telecom

**Countries**

Country	Energy	Water	Sanitation	SW Mgmt.	Health	Education	Telecom
Bangladesh	3	1					
India	1	1					
Indonesia			2				
Nepal	1						
Sri Lanka						1	

## BPKP Technical Training

- 2 series of training
- 350 trainees
- 1 package of face-to-face training and e-learning modules



## Verification Handbook

Guidance for good and bad infrastructure quality

- For BPKP
- For LG



## Key Activities & Results

**M&E Activities Support**

- 3 series of training: Basic M&E, Impact Evaluation, Results-Based M&E
- 130 trainees from 5 Indonesian ministries
- Formulation of M&E handbook for LG



**South-South Knowledge Exchange**

- 75 participants from 5 countries
- Cross-learning event on leveraging performance-based grant
- Ongoing Exchange through OBA/RBF Community of Practice

To Continue the Collaboration.....

**Join the OBA/RBF Community of Practice:**  
[gpoba.org/community](http://gpoba.org/community)

**for further information visit our website:**  
[www.gpoba.org](http://www.gpoba.org)  
[cofarrell@worldbank.org](mailto:cofarrell@worldbank.org)





KEY NOTE ADDRESS:  
PERFORMANCE BASED GRANT-IN AID AND  
CENTRAL ASSISTANCE TO LOCAL GOVERNMENTS IN INDIA

Dr. Indira Rajaraman  
Member, 13th Central Finance Commission, Government of India

## Performance based grant aid and central assistance to local governments in India

Indira Rajaraman  
South-South Knowledge Exchange: Leveraging  
Performance-Based Financing and Accountability for  
Local Governments  
9 May, Delhi

## Outline

- [Introduction: The institutional setting](#)
- [Performance based grant aid: 2010-15](#)
- [Performance based grant aid: 2015-20](#)
- [Conclusions](#)

## The setting: Statutory flows

- Finance Commissions are serially appointed, each for a 5-year horizon, to prescribe statutory fiscal assistance from the Centre to state governments.
- Starting with the 10th FC (1995–2000), statutory grants have also been prescribed for local governments.
- But these local grants have to be routed through states.

## Incentivising design features in local grant: 1995-2010

- The Tenth, Eleventh and Twelfth Commissions tried to shape local governments in two directions.
- The first was through *granular usage conditions* on the statutory grant.
- These became a burden for state governments to certify and imposed severe procedural delays in fund flow.

## Second incentive: 1995 - 2010

- *Local own revenue generation* was worked into the formula for determining state shares in the grant for local bodies, as a reward for the past and incentive for the future.
- This merely incentivised biased reporting of local own revenue by states (Rajaraman, in Das ed. 2017).

## [Two-track basic and performance grants 2010-15](#)

- The 13th Commission therefore split the local grant into two components:
  - a *basic* grant (67%) component *shorn of all usage conditionalities*, to get rid of certification delays.
- The reward for own local revenue collection at state level was removed from the formula that determined state shares in the total local grant.



## The performance grant 2010-15

- But a performance grant (33 % of the total) was designed *to secure local own revenue collection* conditional on the state:
  - Enacting irreversible rights of levy of property tax
  - Instituting a Property Tax Board in each state to render technical assistance to all municipalities and municipal corporations.
- There were 7 other such 'platform' conditionalities
  - one-time changes in the institutional parameters governing local government functioning within each state, self-certified by the state on an 'honour' system.

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## Did the 13<sup>th</sup> FC performance succeed?

- An independent evaluation (Rajaraman and Gupta, 2016) found:
  - Number of states not qualifying for the performance grant in any year:
    - 6 states (rural); 11 states (urban).
  - No centrally collated information on which conditionalities were failed in these states.
  - No verification of implementation in qualifying states.

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## The 14<sup>th</sup> FC: 2015-20

- The two-track configuration has been retained by the 14<sup>th</sup> Commission, with the share of the basic grant ramped up to 90 %(rural) and 80 per cent for urban municipal bodies.
- However, *even the basic grant carries a usage conditionality* – expenditure permissible only towards services legislatively assigned.
- This brings back certification-based delays in fund flow.

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## The 14<sup>th</sup> performance grant 2015-20

- *Carries conditions specific to the local body*— requiring evidence of an increase in own revenue.
- Will thereby accrue disproportionately to the few local bodies in each state equipped to meet these conditions.
- Is too small to incentivise local bodies which lack the capacity to assess and levy property taxation

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## Conclusions...*lack of policy stability*

- There has been no policy stability with respect to usage conditionalities.
- Although there is widespread agreement on the need to incentivise local revenue generation, the approach to it has also lacked stability.
- Lack of endorsement, let alone funding, of Property Tax Boards by the 14<sup>th</sup> Commission will lead to withering away of the institutional support structure for smaller local governments attempted by the 13<sup>th</sup> Commission.

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## Conclusions...*capacity building*

- Local grants have increased substantially without any systematic provision for training and capacity-building of local functionaries.
- The 13<sup>th</sup> Commission shifted to a demand-driven buy-in by local bodies enabled by the unconditional basic statutory grant.
- This is no longer possible with the usage conditionalities on the basic grant in the 14<sup>th</sup> Commission provision.

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## References

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- Rajaraman, Indira and Manish Gupta, 2016 "Preserving the Incentive Properties of Statutory Grants" *Economic and Political Weekly*, 51:9; 79-84.

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# COUNTRY EXPERIENCES ON FISCAL DECENTRALIZATION, INTER-GOVERNMENTAL FISCAL TRANSFERS AND PERFORMANCE-BASED INCENTIVES TO LOCAL GOVERNMENTS - BENGAL'S EXPERIENCE

Mr.Somya Purkait  
Special Secretary, Govt. of West Bengal

## West Bengal's experience on Fiscal Decentralisation Scaling up Performance Based Grants!!



Presented by:  
Somya Purkait, Program Director  
Institutional Strengthening of Gram Panchayats Program-II and  
Special Secretary  
Panchayats and Rural Development Department  
Government of West Bengal, India

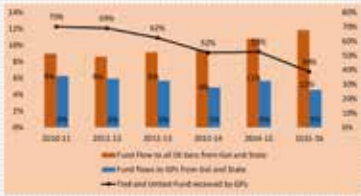
## Trends of PRIs and GP funding in West Bengal

- Total Funding (including all inter-governmental transfer from state & central grants )to PRIs has increased by 185% in 2015-16 compared to 2010-11
- Total funding to GPs has increased only by 57% during the same period

YEAR	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	% Increase
Tied and untied Fund Receipt (MN USD)	9897.68	12897.08	14670.31	16694.31	18929.54	21390.46	116%
Fund flow to all GPs from Govt and State (MN USD)	887.36	1111.08	1343.54	1565.23	2041.38	2531.38	185%
Fund flow to GPs from Govt and State (MN USD)	623.15	766.15	835.85	812.92	1072.31	981.23	57%

## Trends of PRIs and GP funding in West Bengal


- Percentage share of the GPs to total PRI funding has substantially decreased from 69% in 2011-12 to 39% in 2015-16
- To meet the service delivery needs of the GPs, the FFC has recommended quantum jump in allocation to the GPs



## Trends of PRIs and GP funding in West Bengal


- During the period 2011-12 to 2015-2016, the discretionary funding to GPs however has increased by 73% as compared to 20% increase in tied funding

Year	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	% Increase
TIED GRANTS (MN USD)	615.54	646.80	671.5	678.70	814.85	775.06	20%
UNTIED GRANTS (MN USD)	90.87	135.28	144.34	154.17	217.65	296.12	73%



## Future of GP funding in West Bengal

- Going forward, it is estimated that untied funds to GPs will increase by almost 3 folds in 2020-21 compared to 2015-16 due to significant increase in FFC and performance grants through IBRD
- Per capita fiscal transfer will increase from USD 3 to USD 10.7 between 2016-20



## Partnership of GoWB and World Bank: ISGPP-I

- GoWB launched the World Bank supported ISGPP-I in Sept. 2010 with the objective of "Institutional Strengthening of Gram Panchayats Project". Major successful areas of interventions were :
  - Introduction of Performance Based Grant system in selected 1000 Project GPs
  - Performance Grant allocation was linked with independent Annual Performance Assessment (APA) of every Project GP. The quality of APA process and results was further validated by independent QAA
  - Introduction of on-site handholding (Mentoring) support followed by Formal Training to address the APA inputs and results and to improve institutional functioning
  - Introduction of **System Development support** (viz. WBMS, GIS integrated Planning & monitoring, computerized accounting and service delivery(GPM5), study on Internal audit system, study on Own Resource Generation by GPs and then influencing appropriate policy framing
  - The development of online Grievance Redress Management System ensured accountability and transparency of the GPs in service delivery
  - The roll out of ESMF Protocol along with Vulnerable Group Development Index(VGDI) showed commitment of the state govt.in sustainable development by nurturing environment and society



## Fourth SFC Recommendations (2017-2022)

- Fourth SFC has formally reviewed the performance of Gram Panchayats covered by ISGPP-I and recommended a state wide scale up of the following interventions covering all 3,342 GPs in the State:
- Uniform and Single Annual Performance Assessment (APA)
- Performance Based Grant Allocation system
- Mentoring support through subject matter specialists
- Formal training and systems development support
- Acceptance of ESMF protocol in planning and project execution

## ISGPP-II: PDO and Key Results Areas

### PDO- To strengthen institutional and financial capacities of Gram Panchayats (GPs) across the state

- ✓ ISGP Program Phase-II is a PforR (Programme for Result) anchored on the recommendations of the Fourth SFC, so disbursement is linked to results

Key Result Areas	
1. Establishing a state wide unified performance based grant allocation system for all discretionary funds available for GPs	
2. Improving local government financial management systems in GPs	
3. Improving local governance and Human Resource (HR) capacities for increased transparency and accountability in local government functioning	
4. Improving the decentralized and participatory planning and budgeting mechanisms at the local level	

## Replicable Institutional Measures

Program design for ISGPP-II has been largely focused on scaling up the best practices and learnings from ISGPP-I.

- ✓ Performance Linked Grants Transfer System to all Gram Panchayats (GPs) across CFC, SFC and Program grant
- ✓ Uniform third party conducted APA (Annual Performance Assessment, based on predefined indicators) system for all GPs
- ✓ Scaling up of onsite mentoring support followed by formal training for effective and comprehensive CB support
- ✓ Comprehensive and Robust G2C approach replicated through Web Based Monitoring System and GIS based planning and monitoring system
- ✓ Uniform Environmental screening protocol and Vulnerable Group Development Index for all GPs
- ✓ Introduction of Online Grievance Redress Management System across the state
- ✓ Revamped and rational Internal Audit System for all GPs

## More focus on Performance Based Grant

Performance Grant through APA tested in phase-I has been scaled up by the State

- ✓ GoWB has scaled up the PBG from just IDA in phase I to IBRD + SFC + CFC in Phase-II as state's commitment to decentralisation and local governance
- ✓ Performance linked allocation will go up from only 5% in ISGPP-I to 25% in ISGPP-II

Year	2010-11	2015-16	2017-18	2020-21
PBG (MN USD)	7.38	36.46	107.89	166.04
Per GP (USD)	7384.62	36461.54	4966.45	7643.41
Per Capita (USD)	0.5	1.25	1.50	10.70
Min. per GP (USD)	7076.9	18461.5	6938.5	9846.2
Max. per GP (USD)	41538.5	86153.8	104230.8	149000.0

## Evolution of Performance based Grant (PBG)

Conditions to access performance grant have progressed with expanded performance indicators



## WB experience on performance grants

Performance Grant System has incentivized institutional performance

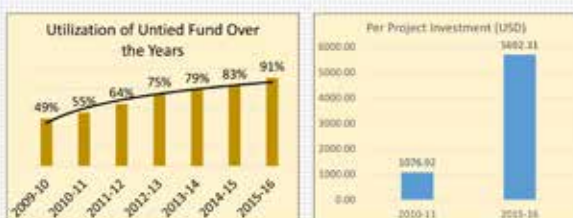
Performance Trend



## WB experience on performance grants

Sequential Improvement in Fund utilisation & Reduced Fund Fragmentation

Performance Trend



Thank You



# COUNTRY EXPERIENCES ON FISCAL DECENTRALIZATION, INTER-GOVERNMENTAL FISCAL TRANSFERS AND PERFORMANCE-BASED INCENTIVES TO LOCAL GOVERNMENTS - NEPAL'S EXPERIENCE

Dr. Shyam Bhurtel

Member of Local government Restructuring Commission, Govt. of Nepal

## Fiscal Decentralization in Nepal: Current Status and New Context

Paper presented at Leveraging Performance based Financing  
and Improving Accountability for Local Governments  
May 9, 2017  
New Delhi

Shyam Krishna Bhurtel, PhD  
Chairperson: Civic Alliance for Local Democracy in Nepal  
Former Member: Local Level Restructuring Commission, Nepal  
shyamkbbhurtel@gmail.com

### 1.1 Evolution of Local Governance in Nepal:

- Local and community governance are part of Nepalese culture historically;
- Formal structures of elected local governments (LG) began in 1940s in selected urban areas, and, continuing with improvements throughout the country;
- Three distinct phases of LG evolution: 1962-90 (Panchayats) 1992-2002 (elected LG based on pluralist democratic practices) 2003-2017 (civil servants managed LGs with political party representation, no elected officials)
- Currently, new LG election process ongoing as per the provisions of the federal structure.

### 1.2 Purposes and Nature of LGs:

- Purposes ranged from revenue collection, political networking, community mobilization in state led development process to community justice system
- Nature varies: full agent of the state (1962-1991: no autonomy), local development and service delivery facilitator (1992-98), local self-governance bodies (1998-2003 with limited authority as per the Local Self Governance Act, LSGA) and the latest is civil servants managed.
- *Yet, the strength is the progressive changes in the system in each phase, entrenchment of LG practices and continuity of LG system despite over a decade long conflict in the country (a unique case globally)*

### 1.3 Fiscal Decentralization in Nepal:

- ❖ *Expenditure assignment:* Most of the functions relating to services not obligatory, in essence, delivered by deconcentrated units of the center, hence LG's scope limited to resources at its disposal (grant and OSR), to follow govt. regulations and financial managed by seconded civil servants,
- ❖ *Revenue Assignment:* local taxes, service fees, penalties etc.,
- ❖ *Revenue Sharing:* Land revenue, house and land tax, forest, mines, rocks/sand etc., electricity and hydropower and tourism (% of the share between the govt and LGs-districts/municipality and village set by the govt.)
- ❖ *Intergovernmental Transfers:* Recurrent grant (administrative), minimum grant to all by types of LGs (unconditional), performance based grant as incentive (MCPM) and capital grants/conditional. Unconditional direct to LGs from MoF and conditional through MoFALD.
- ❖ *Sub-national Borrowings:* Borrowing provisions for LGs provisioned, however, it is mostly practiced at the municipalities through Town Development Fund supported by WB, ADB and KIF.
- ❖ *Institutional Development:* Some initiatives ongoing but mostly not factored in

### 1.4 Particulars:

- **LG share of national revenue:** The volume of grant to LGs has increased substantially over the last 20 years (but not in real money value terms), but the total share is less than 5%.
- **LG Grant Criteria:** (i) minimum grant common to all (ii) criteria based/formula: population, geography, cost index, poverty, tax effort (separate indicators for VDC, municipality and DDC and also among the same types).
- **Limitations of the unconditional grant:** In essence, LGs enjoy only limited discretionary authority because over 60% as per govt. guidelines goes for matching grants for program: children, agriculture, health, poor etc.
- **Incentives and Penalty Provisions:** Guiding basis MCPM, it has produced encouraging results. Incentives range 10-20% increase in the budget support, penalty not effective because minimum grant perpetuates even recurrent failures of the LGs to meet the requirements.

### 1.5 Observations:

- LG's share to national revenue remains very low, however potential of revenue sharing to add value is high.
- Willingness and capacity of LGs to enhance revenue low as most of them are dependent on govt. grants and subsidies, majority lacking revenue potential areas as well,
- Clear and specific functional assignment are catalytic to compel LGs to generate revenue,
- Without elected representatives, expecting innovative and financially sound/accountable LGs is a myth.



## Part II: Paradigm Shift in Local Governance

### 2.1 Transformation of the State Structure:

- ❖ Unitary/ centralized to three-tiered federal structure with exclusive and concurrent functions = constitutional status of LG.
- ❖ Extensive powers and functions to LGs - from legislative authority to management and delivery of services (entire domain of local level service planning and their delivery to LGs as front line level of governance)
- ❖ Perpetual continuity of LGs: no suspension, no dissolution and succession by elected representatives only.
- ❖ LGs together with the provincial legislature form the electorate of Upper House of the federal parliament.
- ❖ After local level restructuring number of LGs reduced 744 from 3200 reflecting the assignment of powers and functions to them. Election to be held shortly.

### 2.2 Financial Powers:

- LGs with full authority: legislative to execution (except those areas that fall under the concurrent powers).

### 2.3 Sources of Income:

- **Own Source of Revenue:** Source of revenue for each tier constitutionally provisioned (local tax, investment, fees, borrowing and penalty etc. – same for municipal and rural LGs),
- **Revenue Sharing:** LGs to receive % of revenue from the federal and provincial governments: natural resources, mines, tourism etc.
- **Grants:** Four types of grants from the upper tiers of government: equalization, conditional, block, complementary (matching?).

### 2.4 Changing Scenario:

- If fund follow function and functionaries follow functions principle prevails: LGs should receive over 40% of the national revenue at their disposal for development and delivery of services,
- Need for local resource mobilization to become critical for sustainability and autonomy of LGs,
- Revenue from natural resources likely to take central place in inter governmental conflict among tiers and within the same tiers.

### 2.5: Constitutional Body for Inter-Government Financial Relationship:

- National Natural Resources and Fiscal Commission (NNRFC) provisioned,
- Responsible for detailed base and modalities for revenue sharing among and between tiers of governance,
- To be lead professionally by a team of experts.
- How it functions is a matter of concern

### 2.6 Political will and common consensus

- ❖ Clear policies, strategies, legislations on rolling out federalism and local governance,
- ❖ Smart and time bound programs and flexible processes,
- ❖ Capacity: all levels,
- ❖ Inter governmental coordination, dialogue and negotiation for conflict resolution
- ❖ Resources and partnerships,
- ❖ Managing resistance to change: political and bureaucratic, and,
- ❖ Managing expectations of people.

### 2.7 Way Forward for the World Bank

- ⬇ Gauge the impending changes and challenges in designing new approach and strategy for support,
- ⬇ Make political economy as entry for leveraging to fiscal federalism,
- ⬇ At LGs level focus on capital grants/subsidy/loans together with system and capacity development,
- ⬇ Stress on model building for knowledge and replications, and,
- ⬇ Think long term, be positive and enjoy as the change is going to be tough as well as full of opportunities for learning.

**Thank you**



# PRESENTATION AND DEMONSTRATION OF OUTPUT BASED VERIFICATION BY THE INDONESIA INTERNAL AUDITOR (BPKP)

Mr. Bambang Utuyo  
Director of Monitoring for Regional Financial Management, BPKP

Mr. Arief Tri Hardiyanto  
Head of BPKP Representative Office for Banten, BPKP

## Indonesia Experience in Improving Transparency and Reporting

Bambang Utuyo  
Director for Monitoring of Regional Finance  
Arief Tri Hardiyanto  
Head of BPKP Representative Office of Banten

BPKP  
Government of Indonesia



## Role of BPKP and Arrangements for DAK output verification

**Role**  
As the GO's internal auditor, the use of BPKP in LSGF promotes sustainability.

Create baseline for output verification of the GO's transfer funds for infrastructure sectors and possibility for replication to other sectors and other types of transfers.

**Scope of Assignment:**  
- Task 1: Conduct output verification and the report.  
- Task 2: Recommend the verification model based on eligible outputs.  
- Task 3: Provide information to Project Indicators (Results and Outcome).

**Instrumental**  
Commitment Letter sent by the participating LG to Ministry of Finance.  
Verification Checklist: List the 4 (four) aspects of verification.  
Reference Unit Cost (RUC): List the eligible work items and its unit price.

2,658  
in thousands of DAK  
infrastructure

720  
in thousands of DAK  
infrastructure

267  
in thousands of DAK  
infrastructure

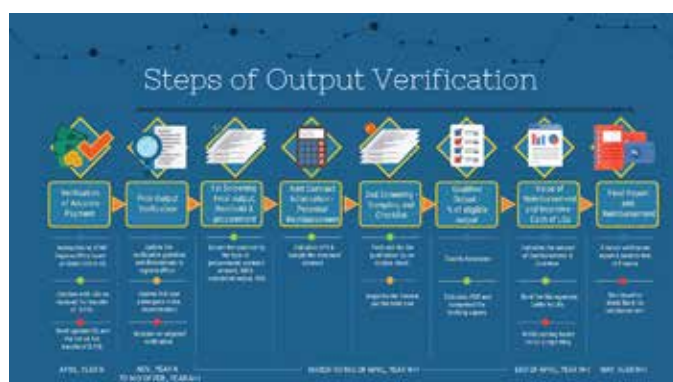
## Involvement of substantial resources

# of representative offices: 22 of 34 representative offices

# of auditors: 783 of 3,704 auditors

Auditor qualification: Accountant (in general) with technical support from MPWH

# of trained verifiers: 150 verifiers



## Retaining Output Verification Quality

**Capacity Building**

Institutionalization of the verification mechanism within BPKP and capacity building for all BPKP representatives at the Provincial level.

Possible replication of BPKP verification of outputs to other institutions within the GOL e.g. the Supreme Audit, and Local Treasury Unit.

Involve line ministry (MPWH), Inspectorate General (IG) of MPWH, and/or consultants for technical and safeguards specialists for quality assurance.

## Retaining Output Verification Quality

**Organization and Resources**

BPKP developed a Verification Manual as a guidance for auditors of BPKP Province Representative Offices (LG level) in verifying the project outputs.

The Verification Manual is disseminated to the audit team at the beginning of the year.

Establish a national level task force to oversee and validate the Verification Output functions.

## Benefits of Having BPKP Output Verification Report

**BPKP Central Office:**  
Analyse internal control status of Local Governments.

**Ministry of Finance:**  
Policy decision on the allocation of DAK infrastructure and implementation analysis.

**Ministry of Public Works and Housing:**  
Review performance of local governments on the implementation of DAK infrastructure.

**Ministry of Home Affairs:**  
Evaluation on online reporting effectiveness (using WORS information) in Specific Purpose Grant.

**BPKP Regional Office:**  
Provide Management Report and recommendations for Local Govts.



## BPKP Competitive Advantage



Capacity building program for BPKP verifiers have internalized in the BPKP Training Curricula including e-learning and face to face training methodology



BPKP role has transformed from project auditor to support project implementation



Adaptation of output verification mechanism in other projects, both financed by the World Bank and other donors

## Remaining Challenges



The output verification is a component of LGDP project, not a formal government processes



How to scale up the Output Verification become continuous audit and monitoring?



Limited IT support and the facilities to record, process, and analyze the Output Verification information



Expansion strategy for output verification to other sector/ministries

# Thanks!

## Any questions?



# COUNTRY EXPERIENCES ON FISCAL DECENTRALIZATION, INTER-GOVERNMENTAL FISCAL TRANSFERS AND PERFORMANCE-BASED INCENTIVES TO LOCAL GOVERNMENTS - BANGLADESH'S EXPERIENCE


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SOUTH-SOUTH KNOWLEDGE EXCHANGE

## LEVERAGING PERFORMANCE BASED FINANCING AND IMPROVING ACCOUNTABILITY FOR LOCAL GOVERNMENTS

9-11 May 2017  
Delhi - Kolkata, India

LEVERAGING PERFORMANCE BASED FINANCING AND IMPROVING ACCOUNTABILITY FOR LOCAL GOVERNMENTS

- Introduction
- Macro and Sector Context
- Project - Objectives and Expected Outcomes
- Strengths and Limitations
- The Next Steps

### INTRODUCTION

#### Bangladesh: Empowering Local Governments

Since 1996, GoB has taken series of steps towards political decentralization. Public sector is highly fragmented and considerably dependent on the Central Government.

Union Parishads are the lowest tier of rural local governments in Bangladesh. There are about 4500 UPs having an average population of 25000. Ups have limited own source revenues mainly from holding tax and tax shares and depends mainly on government grants for providing service delivery.

- Local Governments in Bangladesh are a key element of the overall governance landscape and have the statutory responsibility for the provision of services to local communities.
- Government of Bangladesh (GoB) has made significant efforts to reform the local governance system, devolving powers to lower levels through more autonomy and increased allocation of resources.
- In 2009 Government revised local government ordinances to facilitate the transfer of additional expenditure responsibilities & enhanced fiscal resources to Union Parishads (UP) that enabled a transparent and predictable fiscal transfer system for UPs.
- The Seventh Five Year Plan envisages strengthening the system of local governments through greater decentralization in the delivery of basic public services, adequate financial autonomy and accountability, more efficient resource mobilization and utilization.

## Macro & Sectoral Context

Since 2006, The World Bank has financed two successive phase of Local Government Support Projects and recently approved a third phase. All phases have provided significant support to UPs, largely through block grants, annual financial audit and capacity development.

**Prior to interventions, the intergovernmental fiscal transfers to UPs had been made in a conventional way that lacked transparency, predictability and efficiency:**

- transfers were made through intermediate administrative levels
- the grant funding pool was determined by the central government in an ad hoc and undefined manner
- rules/conditions that govern the allocation of funds among the eligible UPs were not equitable, and were not used as an instrument to incentivize improved governance and accountability performance
- degree of discretion for utilization of funds often was conditional or funds were earmarked.

## Programmatic Support to Local Government

Year	Project Details
2006-2011	<ul style="list-style-type: none"> <li>• <b>Local Governance Support Project 1</b> (IDA-US\$111.50m; GoB-US\$78.40m) PDO: To develop accountable local governments providing services that meet community priorities, supported by a predictable and transparent fiscal transfer system.</li> <li>• <b>Local Governance Support Project 2</b> (IDA-US\$290.00m; GoB-US\$255.39m) PDO: To strengthen Union Parishads to become accountable and responsive, supported by an efficient and transparent intergovernmental fiscal system.</li> </ul>
2012-2017	<ul style="list-style-type: none"> <li>• <b>Local Governance Support Project 3</b> (IDA-US\$300m; GoB-US\$396.13m) PDO: To institutionalise the Union Parishad fiscal transfer system, and introduce a fiscal transfer system for Pourashavas on a pilot basis.</li> </ul>
2017-2021	

## LGSP Series Objective

**All LGSPs aimed to:**

- Provide all UPs with robust, predictable, equitable and larger **fiscal transfers**. This predictable resource envelope is a means to help UPs plan, budget and undertake priority investments prioritized by communities.
- Enhance **UP accountability** through regular **financial audits** (as a pre-condition for accessing larger block grants) and information disclosure.



## Local Governance: Then and Now....

Local Governance Issue	2009pre-LGSP situation	2010s end of LGSP-2 situation	2022 projected end of LGSP-3 situation
UP block grants as fiscal transfers	Very small per capita allocation (\$0.14) Inequitable allocations (scheme equal shares allocation formula) (same flat amount for each UP) Fully funded by Govt	Larger per capita allocation (\$1.03) More equitable allocation formula: population and poverty-based allocation (larger UPs get more than smaller UPs) 80% funded by Govt that 80% more is added	Timely and inflation-adjusted per capita allocation (3.30), fully institutionalized in LGSP budget system More equitable allocation formula: population and poverty-based allocation fully institutionalized in LGSP budget system (larger UPs get more than smaller UPs) 100% funded by Govt
	Transfers disbursed through Upazila Investment Offices Irregular and unpredictable	Transfers disbursed directly to UP bank accounts Automated, regular annual allocation, part of MBF, and generally meet an regular source of revenue for UPs	Transfers disbursed directly to UP bank accounts and part of Govt budget Automated, regular annual allocation, part of MBF, and generally meet an regular source of revenue for UPs
	Subgovernmental digital of UPs is unclear to access block grants	Some level of performance needed: UPs must have a clean audit by order to access block grants	Some level of performance needed: UPs must have a clean audit by order to access block grants (part of LGSP budget rules)
UP accountability reporting and performance	How UPs audited by CAG with minimal disclosure of audit results No UPs reporting	All UPs are audited annually by CAG from results disclosed, and its fully funded by Govt with limited UPs proceeds are monthly reported (part of MBF)	All UPs are audited annually by CAG from results disclosed, audits fully funded by Govt and UP contributions and fully performed in Govt regulations UPs report regularly through line MBF
	No incentives for better UP performance	Performance-based grants introduced	Performance-based grants improved, and more aligned to incentive good performance

## Innovations through LGSP Series

### Innovation LGSP 1

**The first nationwide effort to strengthen the local government system in Bangladesh:** LGSP-1 provided direct formula-based expanded block grants to UPs that have clean audit, with full discretion to decide their spending priorities. Through a participatory process involving an open planning and budget sessions, member can debate spending needs and question spending efficiency.

LGSP 1 has successfully achieved its development objectives, gradually enabled all UPs, starting in year 1 with 1,000 UPs and expanding to cover all UPs by year 5- created the space for deeper decentralisation reforms.

### Innovation LGSP 2

**An unprecedented initiative in the local governments of Bangladesh:** LGSP 2 has successfully established a nationwide performance grant system with clear performance criteria and transparent assessment, supported by rigorous annual financial audits mainstreamed in all 4,500+UPs nationwide, carried out by private audit firms.

LGSP 2 has enhanced the financial sustainability of the fiscal transfers through increasing Govt's budgetary contribution to BBGs from 50% to 60% at project completion.

### Innovation LGSP 3

**The key policy objective underlying LGSP-3 is the institutionalization and mainstreaming of BBGs and its principal feature, building upon the successful UP grant reforms introduced through LGSP 1 and LGSP 2**

## Key Lessons Learned Reflected in LGSP 3

- Proven success of the inter-governmental fiscal transfer system to UPs under LGSP 1 and LGSP 2 makes it imperative that the system is sustained through institutionalization of BBGs.
- Improvement in the performance assessment under LGSP 3 in the following aspects:
  - use of scalable and weighted indicators to reward incremental effort and generate stringer incentives
  - inclusion of indicators on local infrastructure/scheme outputs to encourage investment efficiency and sustainability
  - application of the graded scale at the district level to ensure a more equitable basis for competition
  - rewarding the top 65 percent performers instead of the 75 percent, to foster competition
- UPs tend to use their block grants to finance dispersed, small-scale infrastructure investments, obeying a political economy imperative that is largely shaped by "everybody getting an (immediate) slice of the cake". Despite larger and more predictable grants, UP continue to spread their spending across as many wards as possible; planning remains short-term and rarely strategic. It is hoped that the refined PBG system (which provides greater incentives for UPs to spend more rationally) will help to influence the way that UPs spend their block grant.











