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## Real innovation or second-best solution? First experiences from results-based aid for fiscal decentralisation in Ghana and Tanzania

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# Real Innovation or Second-Best Solution?

First experiences from results-based aid for  
fiscal decentralisation in Ghana and Tanzania

*Heiner Janus*



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## Abbreviations

AFD	Agence Française de Développement
CBG	Capacity-building Grant
CCM	Chama Cha Mapinduzi
CIDA	Canadian International Development Agency
DAC	Development Assistance Committee
DACF	District Assembly Common Fund
DANIDA	Danish International Development Agency
DDF	District Development Facility
DFID	Department for International Development
DIE	Deutsches Institut für Entwicklungspolitik / German Development Institute
DLI	Disbursement-linked Indicator
ESMAP	Energy Sector Management Assistance Program
FOAT	Functional and Organisational Assessment Tool
GoG	Government of Ghana
GoT	Government of Tanzania
IGF	Internally Generated Fund
ILGS	Institute of Local Government Studies
IMF	International Monetary Fund
KfW	German Development Bank
LGA	Local Government Authority
LGDG	Local Government Development Grant
LGRP	Local Government Reform Programme
LGSS	Local Government Service Secretariat
MAC	Minimum Access Condition
MC	Minimum Condition
MDG	Millennium Development Goal
MLGRD	Ministry of Local Government and Rural Development
MMDA	Metropolitan, Municipal and District Assembly
NGO	Non-governmental Organisation
OBG	Oxford Business Group
OECD	Organisation for Economic Co-operation and Development
PforR	Program for Results
PM	Performance Measure
PMO-RALG	Prime Minister's Office – Regional Administration and Local Government
RBA	Results-based Aid
RBF	Results-based Finance
RCT	Randomised Control Trial
UDG	Urban Development Grant
ULGA	Urban Local Government Authority
ULGSP	Urban Local Government Strengthening Program
UNDP	United Nations Development Programme
UPG	Urban Performance Grant





## Executive summary

This paper systematically records first experiences with results-based aid for fiscal decentralisation in Ghana and Tanzania. Results-based aid is an innovative aid modality that links funding to the achievement of pre-agreed results, based on a contract between the donor and the recipient country. Observations from Ghana and Tanzania show that the modality holds great potential in incentivising better performance in fiscal decentralisation compared to traditional aid approaches. Yet, a number of challenges emerge during implementation, including trade-offs between country ownership and results-orientation or increased transaction costs, for instance. Therefore, results-based aid is a promising aid modality for fiscal decentralisation, but it should be implemented in alignment with partner-country systems and harmonised with other aid modalities. Results-based aid can be one important element of the aid modality-mix in fiscal decentralisation.

The paper is organised in three parts. The first part presents an overview of results-based aid as an aid modality. Although some research on the potential benefits of results-based aid exists already, there is less knowledge available on potential challenges of adopting results-based aid. Therefore, the first part focuses on challenges during three phases of the modality's lifecycle: design, implementation and completion. In addition, part one of the paper briefly introduces the terminology and conceptual background of results-based aid and highlights how results-based aid is being implemented in fiscal decentralisation.

The second part of the paper presents experiences from the District Development Facility in Ghana and the Urban Local Government Strengthening Program in Tanzania – two pilot programmes in linking funding to performance of local governments. The experiences from Ghana and Tanzania show how results-based aid can work for fiscal decentralisation against the background of two different country settings. The analysis is structured along the five guiding principles of relevance, effectiveness, efficiency, impact and sustainability.

The third part of the paper compares the two cases of Ghana and Tanzania and formulates tentative lessons and recommendations. Both results-based aid programmes are highly relevant to the fiscal decentralisation process in both countries and provide strongly needed financial resources. Yet, both programmes have a mixed record regarding their adherence to principles of aid effectiveness. Although there are signs for greater harmonisation and use of country systems, both programmes also require additional administrative structures to be created and reinforcement of traditional donor-recipient accountability relationships.

Nevertheless, first observable effects indicate positive results in terms of effective incentives for improved financial governance at the local level and better dialogue between local governments and citizens. Going forward, results-based aid programmes should set ambitious and realistic goals in order for performance incentives to remain relevant. The success of results-based aid programmes depends on the relevance of incentives for continuous performance improvements. The biggest challenge regarding the sustainability of results-based aid will be to establish a results-oriented culture, which was also identified as the ultimate goal in Ghana and Tanzania.

## 1 Results-based aid – introduction

Development cooperation has always been about achieving results, yet different aid approaches have evolved over the last years. Increasingly, development organisations are implementing so-called results-based approaches. The innovative character of these approaches lies in linking the level of funding *ex post* to the achievement of pre-agreed measurable results. This marks a transition from approaches that finance upfront expenditures for inputs such as road-building materials, school buildings, teacher recruitment or hospitals built, for instance. Here the relationships between funding and results is only indirect (O’Brien / Kanbur 2013). Results-based approaches, in contrast, link funding closely to the desired development results on the output, outcome or impact level,<sup>1</sup> such as the quality of infrastructure built, improved literacy and learning, or reduced infant and maternal mortality.

The larger results-agenda in development cooperation is driven by three main dynamics. First, aid providers want more information on how to improve the impact of aid, how to manage aid operations and how to build up knowledge systematically. This includes experimenting with aid modalities that link funding more directly to development outcomes. Second, aid budgets in advanced economies – including the Organisation for Economic Co-operation and Development (OECD)/Development Assistance Committee (DAC) donors – are decreasing due to fiscal constraints. In addition, there is pressure to justify aid expenditures to the public in donor countries. Third, the international political dialogue on aid effectiveness has underscored the importance of results. The Paris Declaration on Aid Effectiveness, for instance, includes “managing for development results” as one of the five main principles of effective aid (OECD/DAC 2005).

A diverse landscape of different pilot programmes that fall under the label of results-based approaches has emerged. Many results-based approaches exist already and several studies systematically have categorised first experiences (Birdsall / Savedoff 2010; Pearson 2011; Vähämäki / Schmidt / Molander 2011). Although there is no common terminology, a number of studies categorise results-based approaches into results-based finance<sup>2</sup> (RBF) and results-based aid (RBA) (de Hennin / Rozema 2011; Pearson 2011; Klingebiel 2012b). Result-based finance involves contracts to service providers, whereas results-based aid indicates a government-to-government aid relationship. Compared to RBF, the evidence base for experiences with RBA is still weak, and there is little experience with how government action can be incentivised directly through RBA (Perrin 2013). Also, there are no agreed criteria for defining results-based approaches, including RBA and RBF (see Box 1).

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1 Outputs are defined as “*the products, capital goods and services which result from a development intervention; may also include changes resulting from the intervention which are relevant to the achievement of outcomes*”; outcomes are understood as “*the likely or achieved short-term and medium-term effects of an intervention’s outputs*”, and impacts are “*positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended*” (OECD/DAC Network on Development Evaluation 2010).

2 Some studies do not use “results-based approaches” as the umbrella term, but instead apply “results-based financing” as the overarching term, for example Musgrove (2010) and the Asian Development Bank (2013).

**Box 1: What is results-based aid?**

There is no common terminology or definition of results-based approaches or results-based aid. The question of how innovative RBA is compared to other aid approaches depends on the criteria applied for defining RBA. A narrow definition of RBA would improve clarity in the debate but reduce relevance, since few pilots might be considered RBA under a “pure results” definition. A broad definition, on the other hand, could turn into a re-labelling exercise of existing aid programmes that might not necessarily be innovative in any way. In light of these limitations, this paper proposes the following criteria for defining RBA:

1. Approach based on a transparent contract between funder and partner government, where partner takes responsibility for achieving results.
2. Results have to be agreed on in advance.
3. Results should be
  - a. Quantifiable,
  - b. Achievable in incremental steps (e.g. unit price),
  - c. Verified regularly (e.g. annually) and independently.
4. Payments only upon achievement of goal. No payments if results are not achieved.

Source: Own representation based on (Klingebiel 2012a)

Several institutions, including bilateral aid agencies, non-governmental organisations (NGOs) and multilateral development banks, are developing individual RBA programmes. But there is still a lack of understanding of how RBA is conceptualised and put into practice in different settings. In particular, there are knowledge gaps in designing incentives and indicators, comparing advantages and disadvantages of RBA to other aid modalities, and understanding the sustainability of intended results. In addition, each RBA application is unique and highly context-specific, making generalisations of current findings difficult.

The present paper addresses the gap in empirical research on RBA and explores circumstances under which an RBA programme is more likely to work. The main focus of the research is to record potential benefits and drawbacks of RBA pilots. Therefore, this paper analyses two RBA pilots in the sector of fiscal decentralisation. The first pilot is the District Development Facility (DDF) in Ghana, a multi-donor basket fund (including support from Germany). The second pilot is the Urban Local Government Strengthening Program (ULGSP) in Tanzania, one of the first pilots under the World Bank’s Program for Results (PforR). Both programmes are RBA pilots that were designed on the basis of existing aid modalities in fiscal decentralisation. Further, fiscal decentralisation is not a typical example, as RBA implementation in decentralisation is less straight-forward than in social sectors. The development-impact chain from interventions to direct benefits for individuals is more difficult to create in fiscal decentralisation than in social sectors. However, the political incentives of the different actors involved are more easily observable in the sector of fiscal decentralisation and reveal whether incentives set by RBA programmes are relevant. Both pilots, therefore, provide insights into current practices of donors and partner countries in implementing RBA programmes.

The paper is organised as follows. The next section comprises an overview of the key challenges of adopting RBA programmes across three phases of the aid programming cycle: design, implementation and completion. Then, specific challenges of applying RBA in decentralisation are discussed, before the two case studies from Ghana and Tanzania are presented. The final section draws conclusions and gives recommendations for designing and implementing RBA programmes.

## 1.1 Results-based aid – potential challenges

The debate on results-based approaches is increasingly moving from conceptual debates towards discussions on first-implementation experiences. In recent years, donors have introduced different aid modalities that differ regarding their extent of results-orientation. Some of these modalities are “pure” RBA programmes, whereas others only possess features of RBA. The United Kingdom’s Department for International Development (DFID), for instance, has introduced results-based aid pilots (DFID 2012) that are based on the “Cash on Delivery” idea put forward by the Center for Global Development (Birdsall / Savedoff 2010). Other European Donors have experiences with integrating results-components into their programme-based approaches, such as variable performance tranches in budget support (de Hennin / Rozema 2011; Pereira / Villota 2012). Also, certain forms of climate finance, such as select payments under the United Nations collaborative initiative for Reducing Emissions from Deforestation and Forest Degradation (REDD+) can be classified as RBA (Angelsen et al. 2012). In addition, the Climate Investment Funds and the Energy+ initiative explore the use of RBA to form performance-based incentives against a range of energy indicators (ESMAP 2013).

Multilateral development banks represent another important group of actors, who have created new lending instruments that formally link disbursements to the achievement of pre-agreed results (DIE 2013). The World Bank introduced the Program for Results in 2011 (World Bank 2011). The Asian Development Bank introduced a new modality called “Results-based lending” in 2013 (Asian Development Bank 2013). The African Development Bank and Inter-American Development Bank are in the process of developing new results-based approaches. O’Brien and Kanbur (2013) estimate that since 2006, the World Bank already has committed more than US\$ 10 billion in close to 30 projects using features of an RBA framework. In addition, the World Bank and bilateral donors have used performance-based grant systems in the area of fiscal decentralisation (Steffensen 2010).

In all of these approaches, partner countries agree to a contract that defines measurable results and disbursements based on the achievement of these results. This promises to bring several benefits. The main potential of RBA lies in linking funding closely to development results. Thereby, incentives for achieving results are aligned among all relevant actors. In addition, RBA can reduce transaction costs for aid if donors refrain from setting up parallel implementation structures that duplicate the partner country’s political and administrative system.

Another potential benefit is that partner countries maintain a strong ownership of the RBA programmes because there is a clear division of responsibilities between donors and the partner-country government, as well as a more hands-off approach to management on the part of the donor. Partner countries should have responsibility over adopting their own preferred means of implementation without having to follow “best practices” prescribed by the donor. The donor adopts a hands-off position in which he is only focused on verifying achievement or non-achievement of results. Also, the dialogue between the donor and the partner country might be improved, since there is a smaller scope for disagreement about which inputs to apply if outputs and outcomes are agreed upon in advance. It has also been argued that RBA presents an innovative approach for dealing with the complexity of development challenges and offers a means for escaping “capability traps” of inefficient state administration (Andrews / Pritchett / Woolcock 2012). Partner countries would no longer be required to adopt donor-defined strategies that crowd out alternative ideas

and initiatives that may have emerged from local actors. RBA can also foster coordination among implementing agencies and allow for local identification of reform paths, which might not be possible with traditional input-oriented aid (Roseth / Srivastava 2013).

Despite the potential benefits, a number of challenges and open questions arise when RBA is implemented.<sup>3</sup> Some of these challenges are not genuine to RBA and also apply to other aid approaches such as project-based aid or programme-based aid. Often it is not possible to draw a clear line between challenges that are genuine to the results-component of a specific aid intervention or risks that depend on other factors. In light of these limitations, the paper highlights challenges that are more directly linked to the results-component of RBA. These challenges can be grouped into three phases of an RBA intervention over its programme cycle: design, implementation and completion.

### 1.1.1 Design challenges

The design phase of RBA is critical. Although aid programmes can be modified during implementation, in practice the amount of flexibility diminishes due to constraints on the donor and recipients: contracts are signed, funding lines are settled and it is expensive to change contract conditions at a later stage. Therefore, it is important to address key challenges at an early stage of adopting an RBA programme.

#### *Partner-country views*

A first consideration in designing RBA programmes is the extent of the partner country's engagement. In order to increase the partner's ownership over the RBA programme during implementation and guarantee sustainability of the intervention, it is important how partner-country views are integrated from the beginning. The political dialogue on setting up RBA can be donor-driven or open and participatory. Whether RBA is seen as an externally imposed form of new conditionality or a sensible funding instrument depends, to a large extent, on the engagement between the donor and the partner country during the design phase of RBA programmes.

At the moment, it is still unclear whether there is a real demand and interest from partner countries in adopting RBA, because most programmes are pilots and represent an additional funding source for developing countries. Also, the larger results-agenda appears to be mostly driven by donor countries at the moment. If funding through RBA were to replace funding through other modalities of support, such as general or sector budget support, this might influence the attractiveness of RBA to partner countries.

#### *Suitability and capacity requirements*

Another important design challenge is to determine which countries and sectors are suitable for RBA. Before adopting RBA programmes, a number of preconditions have to be in place. On the sector level, results should be easy to measure and monitor in order to make

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3 Fundamental criticism towards results-orientation and value-for-money thinking is brought forward by Eyben (2013), who argues for more flexible and creative support of locally generated and transformative change instead of a narrowly defined focus on results and evidence. This view is also promoted by the "Big Push Forward" initiative (<http://www.bigpushforward.net>).

discussions on the achievement or non-achievement of results as unambiguous as possible. For instance, broad public-sector reform-oriented programmes might be less suitable because they aim at longer-term changes that are not easily observable. On the country level, sufficient institutional capacity has to be in place for setting up and managing an RBA programme. Assessing a partner country's capacity can be undertaken from a stock and a flow perspective. The stock perspective looks at current institutional strengths and weaknesses, whereas the flow perspective looks at trends and dynamics.

From a stock perspective, the main concern is that countries are pre-selected based on their institutional capacities, meaning that only countries with a certain absorptive capacity are eligible for RBA. Absorptive capacity in this regard refers to the ability of partner countries to use additional aid without pronounced inefficiency of public spending and without induced adverse effects (Bourguignon / Sundberg 2006). From a flow perspective, a number of RBA programmes address institutional development or capacity development as explicit goals. This reflects the notion that development effectiveness not only depends on the amount of resources provided but also on the readiness of institutions in partner countries to implement policies and manage public resources.

Designing RBA will require adopting both stock- and flow-perspectives to assess the local context. On a general level, capacity development can be understood in two different ways. Under a narrow understanding, one would look at building capacity for implementing the RBA programme only, whereas the broader understanding of capacity development requires measures for improving overall institutional quality in partner countries. Even if RBA capacity-building measures are based on a narrow definition of capacity development, donors and partner countries should be aware of the broader institutional context. Otherwise, donors may risk distorting or displacing capacity and prioritise programme effectiveness over long-term institutional development (Keijzer 2013).

Another related challenge is the question of data availability. RBA has a high demand in terms of reliable data and existence of baselines. Before implementation, it should be clarified whether the national system can be used or whether additional monitoring and data collection systems have to be introduced. Finally, some countries will need pre-financing to either build capacity or pay for measures to “become ready” to meet the results of an RBA programme. Such pre-financing requirements can be addressed in several ways, including through non-conditional up-front payments or a gradual rollout of RBA. Under a gradual approach, outcome-level results are only assessed during a later stage of implementation, for instance. One risk in this regard will be to calculate precisely the required amounts in order to avoid potential “hijacking” of other domestic financial resources that might be needed to finance other development initiatives. Also, depending on the design of RBA, funding can either be used to directly finance investments or used to create an incentive for improved performance.

### *Incentives*

The main objective of RBA is to create incentives for achieving sustainable development results. RBA sets financial incentives by linking set amounts of funding to the achievement of pre-agreed results. In the case of non-achievement of results, there is no payment. This constitutes a shift from *ex-ante* towards *ex-post* conditioning of payments. Consequently, a greater amount of risk is placed on the partner country because donors can withhold funds when results are not achieved.

Establishing a method for calculating the size of financial incentives and selecting the appropriate amounts have to be considered as well. If the amounts allocated to RBA are too high, there is a risk of overpaying. If the amounts allocated to RBA are too low, the partner country will not be motivated to achieve results. The amount of financing in RBA does not follow an exact science, since outputs or outcomes are priced instead of inputs. Donors are tasked to allocate funding per unit of improvement, which is different from an expenditure-based approach. O'Brien and Kanbur (2013) suggest that the amount of funding should be based on three considerations: consistency with the parameters for donor financing in the country, a value-for-money test and the potential leverage effect.

Another consideration is to select the level of the incentive: government-wide, sector-wide or individual. On a general level, RBA assumes that change is within the control of the incentivised actor, but this might not always be the case. There can be barriers preventing the actor from undertaking the required activities for achieving results, despite incentives being in place. For example, RBA incentives might target a specific sector or ministry, although achievement of certain results might depend on the collective performance of several other ministries. In light of complex webs of overlapping and interlinked relationships in the public sector, the design of RBA has to weigh whether incentives for different political actors, who affect sector-results, are sufficiently aligned. One challenge will therefore be to balance sector-specific and multi-sector incentives. At the individual level, it has to be considered which incentives are needed for programme-related staff to work towards the desired results, and whether, for instance, "micro-incentives" (Datta / Mullaianathan 2012) can be adopted to induce the desired behavioural changes.

Apart from financial incentives, RBA also can set non-financial incentives for achieving results. Requiring that information on the achievement of results be made public can create social or political pressure on actors to perform. Finally, the main challenge regarding the design of incentives is the creation of "adverse incentives" or "perverse incentives" that might undermine the intended development results. Examples for such adverse incentives include distortions (ignoring important areas that are not rewarded with incentives), gaming (cheating on reporting), cherry-picking (focusing on short-term visible incentives only) or goal displacements (indicator becomes the objective rather than achieving outcomes). In addressing these questions, political economy analysis can be one important tool to identify the policies, actions and mechanisms that will improve these incentive systems to make RBA more effective.

### *Indicators*

Selecting appropriate indicators for incentivising the partner countries to achieve results is considered one of the most important design challenges, as indicators are a central element of RBA. Indicators can, however, only be beneficial if the overall purpose and objectives of the RBA programme are agreed, shared and well-understood. Apart from complying with the SMART criteria (specific, measurable, attainable, relevant and time-bound), indicators have to be unambiguous. The achievement of the indicator should be within the purview of the partner country, and development partners should be able to easily observe progress against the set indicator.

Previous discussions on development interventions have rather focused on providing inputs and establishing causality between inputs and outcomes achieved. A main feature of RBA, though, is to shift payments towards the achievement of results on the output, out-



come or impact level. For instance, looking at the number of students that complete a grade with certain scores on standardised assessments – in order to improve education access and quality – represents an indicator that can be closely linked with the intended development result (in this case, improved literacy). Just because RBA does not prescribe input action, however, does not mean that this level of analysis becomes irrelevant. In fact, there is a need to invest in a good monitoring system to capture data at this level – data which, at a later stage, can inform judgement as to whether agreed results at the outcome or impact level have been achieved.

Yet, it could be criticised that indicators suitable for RBA programmes are only available for narrow sectors, skew attention towards short-term results and are difficult to find for areas where long-term reforms are required. Natsios remarks that “*those development programmes that are most precisely and easily measured are the least transformational, and those programmes that are most transformational are the least measurable*” (2010). For example, when the intended development result is improved service delivery for the poorest (or another sector-wide or cross-sectoral policy goal), it is difficult to find indicators on the outcome level. Here, an RBA programme often would have to revert back to input or output indicators, such as better financial management or reporting, in which the link to enhanced service delivery is easier to establish. It is also possible that indicators that closely relate to development outcomes are less reliable than robust administrative input indicators, for instance (O’Brien / Kanbur 2013). Therefore, in choosing indicators, there can be a trade-off between selecting *immediate results indicators*, which are closely linked to final development outcomes, and *intermediate results indicators*, which focus on process.

A related challenge is the amount of disbursement conditions placed on the financial inputs. Whereas traditional aid approaches conditioned the inputs by verifying expenditure and procurement processes or enforcing environmental and social standards, for instance, RBA focuses on verifying outcomes instead. If RBA, however, required both – conditioning payments on documenting inputs as well as outcomes – this could place a double-burden on partner countries and undermine the overall appeal of RBA (Thomas et al. 2012). This can be particularly problematic if donors are strongly convinced of certain pathways to change and prescribe “best practices” that might not fit the local context of the partner country.

Also, deciding on quantitative or qualitative indicators (e.g. perception and level of satisfaction of beneficiaries) is important. Another question is whether an indicator should target specific vulnerable or excluded groups in order to generate more equitable impacts. Overall, these aspects should be considered during the design phase to find the right balance between *simplicity* and *complexity* of RBA programmes. Here, the partner country might have an interest in increasing the list of indicators in order to diversify the risk of non-performance. And donors have an interest in increasing the number of indicators for RBA in order to capture more policy “priorities”, especially if multiple donors are involved. However, the longer the list of indicators, the weaker the incentive of each individual indicator will be. It also becomes more likely that non-achievement of some indicators is tolerated.

### *Aid effectiveness*

A main challenge for RBA programmes is to comply with the Paris Declaration on Aid Effectiveness. The Paris Declaration placed an emphasis on shared responsibilities between donors and partner countries for implementing a set of actions to strengthen owner-

ship, alignment, harmonisation, managing for development results and mutual accountability. There are indications that, in general, results-based approaches do not perform well in supporting aid-effectiveness principles, with the exception of more programme-like approaches such as the European Union's Millennium Development Goal (MDG) contracts (Pereira / Villota 2012). This is partly due to an inherent tension within the aid-effectiveness agenda between results and ownership, especially when strict priorities are set by donors on behalf of the partner country (Sjöstedt 2013). The ability to withhold or not disburse part of the funding under RBA also gives donors greater bargaining power that could further skew the power balance that has traditionally defined aid relationships. Therefore, the engagement of the partner country during the design phase is critical.

The level of alignment and harmonisation of a specific RBA programme strongly depends on the individual design and framework conditions. Often donors "ring-fence" the implementation of their projects and create parallel structures to partner-country systems. This allows donors to track expenditures and inputs according to own fiduciary, social and environmental standards, but falls behind on the objective of strengthening partner-country systems. Establishing individual project implementation units might expedite processes for the donor, for instance, but there is the risk of bypassing donor coordination and the partner country's system. In this regard, there is a trade-off between rapid implementation of RBA programmes and building institutional and technical capacity, for which more time and training are required.

In addition, there is a danger of RBA reinforcing the accountability of partner countries to donors when donors want to know, often in quantitative terms, how their money has been spent. The accountability is, therefore, largely between the partner country and the donor, and not to those who the aid system seeks to benefit, that is, the beneficiaries in partner countries. Yet, Klingebiel (2012b) argues that RBA programmes could also strengthen the accountability of partner country's to the beneficiaries and between beneficiaries and local administrations (domestic accountability), especially if results are reported and communicated transparently.

### 1.1.2 Implementation challenges

During the implementation phase, the partner country undertakes efforts to achieve agreed goals, whereas the donor focuses more on the assessment and verification of results. It is therefore expected that the donor takes a hands-off approach and leaves the choice over the means of implementation to the partner government. But a number of challenges have to be addressed during the implementation of RBA. In particular, RBA programmes might be implemented in a different manner than they were originally designed to, meaning that there is a gap between the actual RBA programme, as experienced on the ground, and the conceptual basis.

In addition, a number of implementation considerations make RBA deviate from a "pure" design approach, and some even argue that, in reality, there can only be programmes that can be interpreted as more or less RBA-like, depending on the choice of disbursement strategies (O'Brien / Kanbur 2013). Examples for implementation considerations include: dialogue between donors and partner countries, verification and monitoring process, cost-efficiency, managing uncertainty and risk, and flexibility in making necessary modifications.

### *Broad-based dialogue*

One feature of RBA is that political dialogue should take place upfront during the design phase of an RBA, and implementation then focuses on technical discussions for achieving the agreed results. But completely de-linking RBA programmes from the wider political context might not be possible. For instance, a donor will be obliged to disburse funds as long as results are achieved, even if the governance and human rights situation in the partner country suddenly deteriorates. Thus, continued communication and established mechanisms for dispute settlements during the implementation phase are crucial. Also, a partner country might challenge the validity of results verification, which would further underscore the need for well-established channels for communication and dialogue.

### *Verification and monitoring*

RBA relies on assessments being conducted at regular intervals to verify progress against the agreed results-indicators. One important condition is that such a verification process is carried out by a third party that is independent from the donor and the partner country. Independent verification can ensure that the assessment of results is not influenced by interests of the donor or the partner country. RBA also generates a lot of information through assessments on the results-indicators, including on the performance of the RBA programme as such. This information is usually systematically collected for monitoring purposes in order to catalogue experiences and document progress. The verification and monitoring requirements therefore carry a significant price tag, which accounts for a large share of overall transaction costs of RBA.

Another key characteristic of RBA is transparency of the results recorded in the verification and monitoring process. Ideally, credible information systems are in place and inform the broader public about the outcomes of government action in a straightforward manner. Civil society organisations and the media, therefore, have an important role to foster transparency and accountability of RBA.

### *Cost-efficiency*

On top of potentially costly verification mechanisms, a number of other transaction costs occur. Existing literature is still vague regarding costs of RBA due to the multiplicity of designs and the fact that the data usually pertains to pilot projects, which tend to have higher monitoring and evaluation costs. Apart from the direct administrative costs of RBA, another important cost component are the indirect costs that partner countries have. For instance, the incremental release of funds might lead to indirect costs. Partner countries might have to pay top-ups for financing the achievement of results in smaller increments rather than paying upfront in bulk. These foregone economies-of-scale savings and other types of opportunity costs are important costs compared to conventional aid approaches. Also, it has to be considered whether partner countries receive more funds compared to other aid approaches due to the higher amount of risk placed on the partner country. Assessing such indirect costs of RBA is methodically difficult to establish, but rigorous cost-efficiency approaches should take these factors into account.

### *Uncertainty and risk*

Uncertainty over the funds disbursed and the risk of non-payments present a challenge to both the partner country and the donor. Partner countries cannot predict funds that are allocated to them as *ex-post* payments for results and face the challenge of making financial plans based on unpredictable aid flows. Especially when a government wants to access large amounts of funds over a short period, RBA might not be preferable. Partner countries might also exert political pressure on the donor and argue on a needs-basis for accessing funds, despite not achieving the agreed results. Another type of risk is misuse of funds and fiduciary risk. Although it could be criticised that RBA is more vulnerable to fiduciary risk, Leiderer (2012) shows that RBA is not different from other aid modalities regarding fiduciary risks and fungibility. Kenny and Savedoff (2013) even argue that RBA can be less prone to corruption and fraud than input-oriented modalities because an RBA programme can only be defrauded if results have been delivered first.

For the donor, uncertainty over RBA payments might also present a challenge because aid amounts that are part of the national budget usually have to be released within each financial year and perhaps cannot be rolled over or reallocated to other purposes. In addition, donors might have considerations about how to account for their assistance using current aid reporting standards. This disbursement pressure on the side of the donor also reaches down to the individual level of project managers, whose performance assessments often rely on the amounts of money released rather than on the success of the projects funded (Easterly 2002; De Renzio et al. 2005; De Janvry / Dethier 2012). Thus, there can be an inherent incentive built into RBA to soften results-requirements and disburse funds, despite the lack of results. Both the partner country and the donor have an interest in releasing funds. Hence, there is a danger of setting non-ambitious results that might trigger a “race to the bottom”. Judging the success of RBA programmes, therefore, might appear counterintuitive in certain cases. An RBA programme in which results are met every time and the flow of funds is uninterrupted, for example, could be less successful than an RBA programme in which results are only partly achieved and funds are only partly disbursed. The difference would be that the first RBA programme might have set non-ambitious results that failed to incentivise performance improvements, whereas the second RBA programme might have demonstrated effective incentives for improving performance, despite the partial release of funds.

On a technical level, the uncertainty over timing of disbursements during the implementation phase presents a major challenge. Once a results-contract between the donor and the partner country is agreed, funds have to be released on schedule to ensure that performance towards results matches the disbursements. However, if RBA programmes do not disburse funds on time, they risk weakening the incentive effect of RBA, as the link between results and rewards is distorted. Therefore, RBA needs to be carefully aligned to the partner country’s budget cycles.

### *Flexibility*

Once the implementation of RBA has started, tension can arise as a result of adjusting and maintaining the basic RBA setup. In the case that certain results prove to be either

too ambitious or not ambitious enough, discussions between the donor and the partner country on adjusting indicators and conditions of an RBA programme will start. Such adjustments can help to strengthen the incentives of RBA and adapt to unforeseen challenges and events. One example is that performance might plateau after initial improvements and incentives cease to be effective. Further, indicators often have a limited half life and naturally lose relevance (Perrin 2002). On the other hand, too many adjustments of RBA can also have an adverse effect, because there is a risk that every adjustment made decreases the credibility of the incentive structure. There is also the danger that adjustments are misused to renegotiate the terms of the RBA programme and move the goal posts.

In addition, policy objectives of RBA programmes can be adjusted to cover specific single-issues, sector-wide priorities or cross-sector themes (e.g. strengthening country systems, poverty reduction, sustainable development). Here, both the donor and the partner country might have an interest in adding additional policy objectives to existing RBA programmes in order to mobilise additional funds. For instance, donors and partner countries could mainstream sustainable development objectives by linking disbursements to carbon emission reductions, energy-efficiency improvements or increased use of renewable energy within an existing RBA programme. Thus, even after the design phase, there is a risk of overloading RBA programmes.

### 1.1.3 Completion challenges

RBA only exists for a limited time. During the completion phase of RBA, donors phase out their support and withdraw funding from the RBA programme. The main questions are what the exit strategy of the donors is, whether the RBA intervention has led to sustainable development impacts and whether partner countries will integrate the results-based approach into their own operations.

#### *Attribution*

A main objective of RBA is to demonstrate development impacts of aid interventions more visibly. The questions here are whether RBA programmes can lead to long-term measurable results, and whether certain results can be attributed to specific RBA programmes. One main obstacle is the time-lag for partner countries. For example, there can be gaps between a partner country implementing certain policies for achieving results and the positive impacts manifesting in the records of respective indicators.

Most RBA programmes are still in the pilot stage and more reliable information needs to be gathered. It can be expected, though, that the attribution of development impacts to specific RBA interventions will be difficult to demonstrate, even if RBA programmes feature a causal mechanism in which the results-indicators are closely linked to the desired outcomes. A main feature of RBA is that it aims to connect programme activities closely with development outcomes. Yet, RBA does not necessarily establish more information on causal relations because linking observed results to specific interventions *ex post* might be even more difficult than doing this in an *ex-ante* manner. Thus, expectations regarding attribution should be managed. In most cases, it will not be possible to establish causality, and it will be often more feasible to assess the plau-

sible contributions of RBA programmes rather than to attribute results directly to an RBA programme.

### *Evaluation*

RBA pilots will be rigorously evaluated, but first insights are only expected within the next few years. Already, some RBA programmes feature inbuilt evaluation mechanisms. Evaluations will be more convincing if comparisons are made between RBA interventions and analogous situations without RBA interventions. In Tanzania, for instance, the non-governmental organisation Twaweza has launched a local “Cash on Delivery” approach in education as part of a larger randomised control trial (RCT) experiment (Tweaveza 2012). Such approaches will contribute to building up the evidence base on RBA programmes, and provide further information on factors behind negative or positive impacts.

The larger issue in terms of evaluation is that RBA programmes can be used to further the knowledge about causality mechanisms between aid activities and development impacts. Evaluations of RBA can provide more insights on linkages across the results-chain and explain how outputs or outcomes lead to desired impacts. Birdsall and Savedoff (2010) argue that a comparative approach between RBA programmes and traditional aid interventions is the most promising method for assessing the attribution, causation and external validity of the impact of an RBA programme. But RBA programmes can hardly be introduced independently of other aid interventions or national policies, especially when they target sector-wide reform issues. A key challenge is to disentangle the effects of RBA programmes from other confounding factors. Birdsall and Savedoff (2010) therefore suggest that researchers thoroughly investigate and understand the context; have easy and informal access to key actors; analyse one or more relevant comparative cases; conduct initial interviews regarding expectations with key actors; trace processes and the course of events during implementation through interviews and surveys; and analyse data on expenditures, inputs, outputs and outcomes.

However, comparative approaches and evaluation tools such as RCTs should be used carefully and selectively. Some RBA programmes, as with infrastructure for instance, cannot be randomised, and RCTs will offer little external validity of findings that can be extrapolated for circumstances other than the ones studied (Pritchett / Sandefur 2013). Comparative research might reveal whether an impact can be attributed to an intervention but offer little explanation on how the impact was created and whether it can be replicated under different conditions.

### *Results-oriented culture*

A key open question for RBA is whether partner countries will adopt a stronger results-orientation, or results-culture, even after the donor has withdrawn funding. The hypothesis of RBA proponents is that shifting to a focus on outcomes and impacts will strengthen the results-management and results-orientation of both donors and partner countries. The underlying idea is that a results-culture is established through values and beliefs. Ideally, RBA assists self-motivated partner countries to achieve results, rather than mandating certain predefined activities (Perrin 2002). With a results-oriented culture, civil servants (or other actors) are constantly asking themselves what the benefits of their activities are and what they can do to be more effective, as opposed to a situation where the results-orientation is a mere pretence for mobilising additional funds. Yet, building a results-

oriented culture, by nature, is a long-term process that cannot be easily influenced from the outside (Perrin 2002).

## 1.2 Results-based aid in decentralisation

Typically, RBA programmes are associated with social sectors and service delivery. Sectors such as education, health and basic infrastructure are characterised by a number of internationally agreed development results – such as the MDGs – that are measurable and possess available baseline data. Applying RBA to the governance sector, however, presents the challenge of finding indicators that are suitable for measuring quantifiable results on the outcome or impact level (Klingebiel 2012b). In addition, there are political sensitivities when donors and partner countries have to find agreeable results related to the protection of human rights or democracy promotion. Klingebiel (2012b) argues that, within the governance sector, two areas in particular are more suitable for applying RBA programmes because they are characterised by a larger availability of measurable – and potentially less disputed – indicators: 1) administrative reform and 2) decentralisation and public financial management.

This paper assesses two RBA programmes in the sector of fiscal decentralisation: The District Development Facility in Ghana and the Urban Local Government Strengthening Program in Tanzania. Both programmes are so-called performance-based grant systems, which, over the last 10 years, have been adopted in many developing countries (Steffensen 2010). So far, there are positive signs that performance-based grant systems can improve performance of local governments, decentralised infrastructure and public service delivery at the local level (Steffensen 2010). Two challenges have to be noted when applying RBA programmes to the decentralisation sector. First, the chain of evidence for direct benefits to individuals is more difficult to create than with social sectors. Working in the context of decentralisation usually requires complex and multi-level approaches that aim at systemic change instead of specific single-indicator improvements. Second, RBA indicators in decentralisation mostly target the input or output level, and not the level of outcomes or impact. RBA decentralisation programmes focus on resource management and adopt indicators that measure processes (reflecting planning, budgeting, financial management, etc.). These indicators are viewed as intermediate-results or proxy-results indicators, which are important prerequisites for achieving service delivery outcomes. There is a tendency to predominantly rely on these process indicators, as local administrations are mostly responsible for intermediate activities that can then lead to beneficial development outcomes.

Decentralisation is not just an administrative process. In many countries decentralisation is the most important public sector reform and is central to the power relationships between political actors, including actors in development cooperation. Local governments are fundamental actors in tackling global challenges of sustainable and inclusive development, since they are mandated by law to ensure the well-being of citizens and the economic, social and environmental development in their respective territory. Decentralisation processes are the key enabling component in improving service delivery across all sectors at the local level. Over the past two decades, many developing countries have entered into processes of decentralisation. Decentralisation can be defined as “*a process*

*by which central governments confer powers and resources to sub-national government units*” (Dickovick 2013). In addition, decentralisation is often studied across three dimensions: political (e.g. promoting sub-national elections), fiscal (e.g. promoting sub-national government access to revenue) and administrative (e.g. conferring responsibilities to sub-national governments in managing expenditures and planning responsibilities) (Dickovick 2013). In general, decentralisation reforms are expected to empower local governments to deliver basic public services in a more efficient, equitable and accountable fashion than central government agencies (Smoke 2011).

Increasingly, local governments are also recognised as important actors in the international debate on aid and development effectiveness (Smoke 2011; Smoke / Winters 2011; Smoke / Kaiser / Eaton 2011), and there is a long-standing debate on the potential merits and challenges of decentralisation reforms (Smoke 2001; Bardhan 2002; Bird / Vaillancourt 2008; Veigel 2012). The European Commission has issued a communication on *“Empowering Local Authorities in partner countries for enhanced governance and more effective development outcomes”* (2013), also underscoring the importance of fiscal decentralisation as a strategic entry point to progressively build an accountability culture in partner countries. One important aspect in studying decentralisation processes is to apply political economy analysis. Smoke (2011), for instance, argues that donors supporting decentralisation reform would benefit from a fuller understanding of the political economy incentives and dynamics in the respective country, although they will be rarely in a position to influence these dynamics.

## **2 First experiences from Ghana and Tanzania**

Ghana and Tanzania are so-called donor darling countries, since they are relatively stable and democratic governments in their respective regions. Both countries have been experiencing long episodes of economic growth, in part aided by the discovery and prospective exploitation of natural resources such as crude oil and gas (Morisset 2012; Mathrani et al. 2013). Also, both countries are among the larger recipients of official development assistance in sub-Saharan Africa, where aid played a significant positive role for development progress. From 2009 to 2011, Ghana received about \$5 billion and Tanzania received \$8.2 billion in official development assistance, making Tanzania the third-highest aid recipient in Africa in absolute terms (OECD 2013). Both countries still face significant challenges in tackling poverty and providing social service delivery. According to the United Nations Development Programme (UNDP) 31.2 per cent of Ghana’s population (25.5 million) lives in multidimensional poverty, and Ghana ranked 135 out of 187 in the Human Development Index in 2012 (UNDP 2013). In Tanzania, 65.6 per cent of the population (47.7 million) lives in multidimensional poverty, and Tanzania ranked 152 out of 187 in the Human Development Index in 2012 (UNDP 2013).

### **2.1 Method**

In analysing RBA in Ghana and Tanzania, the main objective of this study is to systematically record first experiences in implementing RBA programmes in fiscal decentrali-



sation, especially in regard to the potential challenges identified above. The study provides insights on the potential of RBA programmes to generate incentives for improved results of aid programmes, but it does not conduct an impact evaluation.

Therefore, as a first element of the methodology, this paper translates the potential challenges during the programme cycle phases of RBA (design, implementation, completion) into several specific questions for applying RBA in fiscal decentralisation. The list of questions matched to each programme phase is non-exhaustive and only reflects a selective list of potentially important topics. Key questions include what kinds of incentives are created for actors to achieve results, and whether a greater focus on results can be achieved while upholding ownership, alignment and harmonisation. The chosen RBA questions can also be applied for analysing RBA experiences in other sectors, but they are also specifically tailored to the sector of fiscal decentralisation. In addition, it remains important to differentiate between design, implementation and completion phases in analysing RBA experiences. The RBA cases studied are still in the pilot phase, and the majority of current conclusions on RBA relate to the design and implementation phases rather than the completion phase.

As a second element of the methodology, the study loosely applies five criteria for assessing RBA based on the OECD/DAC evaluation criteria for development interventions: relevance, effectiveness, efficiency, impact, sustainability (OECD/DAC Network on Development Evaluation 2010). According to Picciotto (2013) the OECD/DAC criteria have demonstrated their *“usefulness at project, country and regional/global levels when put to work in high-quality evaluations.”* Applying these criteria of development effectiveness is also suggested by Perrin (2013), who calls for more rigorous evaluation of RBA in order to improve the evidence base. The advantage of this approach lies in highlighting mechanisms and sets of circumstances under which RBA is most likely to lead to sustainable development impacts by looking at a broader range of development considerations expressed in the OECD/DAC evaluation criteria. The OECD/DAC criteria are therefore used as broad guiding principles for structuring the analysis, but they are not applied in a strict fashion. Instead, this interpretation of the OECD/DAC criteria is adapted to the specific needs of this study. An overview of the conceptual framework is presented below (see Table 1).

Overall, it is important to emphasise again that this study does not conduct an evaluation of RBA programmes. The RBA programmes are not evaluated against their stated objectives, nor are they evaluated for impact. Instead, this study presents a systematic record of first experiences in the field and identifies key factors for making RBA either more or less successful in generating incentives for improved results. The two case studies illustrate specific current experiences, but the findings are not transferable to other RBA programmes. The research is exploratory and the conclusions and recommendations should be treated as preliminary.

In total, more than 50 people were interviewed using semi-structured interviews in Ghana (8–18 June 2013) and Tanzania (19–31 August 2013). The interviews were conducted individually and/or in focus groups.

<b>Table 1: Conceptual framework</b>		
<b>OECD DAC criteria</b>	<b>RBA-specific questions</b>	<b>Programme phase</b>
<b>1. Relevance</b> <i>Doing the right things</i>	<ul style="list-style-type: none"> <li>• What are the main challenges in the decentralisation sector?</li> <li>• What role does the RBA programme play in the sector?</li> <li>• What are the views of the partner country on the RBA programme?</li> <li>• Which capacity is required?</li> </ul>	<i>Design</i>
<b>2. Effectiveness</b> <i>Doing things right</i>	<ul style="list-style-type: none"> <li>• Which indicators apply, and at what level?</li> <li>• Which incentives exist for achieving results?</li> <li>• How does the programme relate to the aid-effectiveness principles (ownership, harmonisation, alignment, mutual accountability)?</li> <li>• What is the level of uncertainty and risk of not achieving results?</li> </ul>	<i>Design/ Implementation</i>
<b>3. Efficiency</b> <i>Doing things economically</i>	<ul style="list-style-type: none"> <li>• How is monitoring and verification carried out?</li> <li>• What is the balance between costs and benefits?</li> <li>• Which transaction costs occur compared to other programmes?</li> </ul>	<i>Implementation</i>
<b>4. Impact</b> <i>Making a difference over time</i>	<ul style="list-style-type: none"> <li>• What are the positive or negative effects? What are the effects on equity?</li> <li>• Are there unintended effects?</li> <li>• How will the RBA programme be evaluated?</li> </ul>	<i>Implementation/ Completion</i>
<b>5. Sustainability</b> <i>Making results last</i>	<ul style="list-style-type: none"> <li>• How flexible is the programme?</li> <li>• What happens once the donors withdraw?</li> <li>• Will the partner country take up the results-based approach?</li> </ul>	<i>Completion</i>
Source: Author's representation		

## 2.2 Ghana – the District Development Facility

In recent years Ghana has often been portrayed as a success case for development cooperation and decentralisation reform (GIZ 2012). Over the last two decades, the country has held free and fair elections and made progress towards the MDGs, including by reducing poverty levels. The 1992 Constitution of Ghana provides for “Decentralization and Local Government”. The constitution holds parliament responsible for enacting appropriate laws to ensure that functions, powers, responsibilities and resources are transferred from the central government to metropolitan, municipal and district assemblies (MMDAs) (Goel 2010). With the adoption of the Local Government Legal Instrument (L.I. 1961) in 2009 and the adoption of the “Decentralization and Policy Framework” as well as the “Ghana National Decentralization Action Plan” in 2010, the decentralisation process in Ghana has regained momentum.

Within Ghana's structure of governance, MMDAs are the highest political authorities in the districts with executive, legislative, deliberative, planning and budgeting powers. The population size determines whether a local government unit is governed by a metropolitan (population over 250,000), municipal (population between 250,000 and 75,000) or district

(population below 75,000) assembly (Hoffman / Metzroth 2010). MMDAs are administered by elected officials (70 per cent) and appointed officials (30 per cent), and the District Chief Executive, the political head of the local executive, is appointed by the President (Antwi-Boasiako 2010). The ministry in charge of the decentralisation process is the Ministry of Local Government and Rural Development (MLGRD).

### 2.2.1 Relevance

MMDAs are confronted with a number of challenges, including insufficient funding, fragmented sources of income, small amounts of discretionary funding and few incentives for performance improvement. From the donor side, a lot of funding used to be channelled through individual projects that were confined to specific MMDAs only and did not influence national policies. MMDAs have several funding sources. The largest source of revenue is the District Assembly Common Fund (DACF), which is a transfer from the central government. However, about 75 per cent of DACF transfers are earmarked, leading to a significant limitation of fiscal autonomy at the local level (Ayee / Dickovick 2010). MMDAs receive approximately 70 per cent of their budget from the DACF, 15 per cent from the DDF and only 15 per cent from internally generated funds (IGFs) (GIZ 2012). In total, there are three main sources of grant transfers from the central government: the DACF, the DDF and the Urban Development Grant (UDG). The UDG, launched in 2010, is a performance-based grant system funded by the World Bank to target infrastructure needs of 46 urban assemblies.

#### *The District Development Facility*

Against this background, four donors – France, through Agence Française de Développement (AFD); Canada, through the former Canadian International Development Agency (CIDA); Denmark, through the Danish International Development Agency (DANIDA); and Germany, through the German Development Bank (KfW) – together with the government of Ghana (GoG), established a co-financed District Development Facility in 2008 in order to provide performance-based grants to MMDAs to complement the DACF. The DDF marks a transition in the field of decentralisation from a project-based approach to a programme-based approach using existing national institutions and procedures.<sup>4</sup> The DDF aims to mobilise additional resources for MMDAs, provide incentives for performance in complying with GoG legal and regulatory frameworks, establish a link between performance assessment and capacity-development support, and to ensure harmonised systems for investment funding and capacity-building support to MMDAs (MLGRD 2012a). The DDF features an annual assessment for all MMDAs through the Functional and Organizational Assessment Tool (FOAT). This assessment has two main components: minimum conditions (MCs) and performance measures (PMs). MCs are basic indicators that ensure absorptive capacity and proper management of funds, whereas PMs are more qualitative indicators that capture institutional outputs.

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4 This study defines project-based approaches as isolated and non-harmonised aid approaches that stand in contrast to programme-based approaches defined by the OECD as “a way of engaging in development co-operation based on the principles of coordinated support for a locally owned programme of development, such as a national development strategy, a sector programme, a thematic programme or a programme of a specific organization” (OECD/DAC 2008). See also Leiderer (2012).

The DDF pool is divided into three grant components: capacity-building grant (12 per cent), basic grant (20 per cent) and a performance grant (68 per cent) (MLGRD 2012b). The capacity-building grant is disbursed to all MMDAs, even if they do not meet MCs. The basic grant is disbursed to all MMDAs that meet MCs based on a formula that considers population, land and poverty. The performance grant is allocated to all MMDAs that meet MCs based on their scores from the performance assessment, relative to the score of all other MMDAs that meet the MCs. MMDAs have discretionary use over allocated DDF resources, but certain expenditures are not permitted under the DDF, such as the purchasing of cars or residential accommodations. The DDF operational manual states: “As a guiding principle, any expenditure from the DDF Investment Grant should as far as possible benefit the communities of the districts directly” (MLGRD 2012b). According to interviewees, most of the DDF funds have been invested in education, sanitation and health, and roads.

<b>Year of disbursement / Financing partner</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
AFD (France)	3.10	6.25	6.25	3.15	18.75
CIDA (Canada)	6.50	13.00	15.00	17.50	52.00
DANIDA (Denmark)	5.30	7.90	11.40	13.20	37.80
KfW (Germany)	9.30	9.30	9.1	9.2	36.90
Government of Ghana	10.00	16.00	20.00	20.00	66.00
<b>Total</b>	<b>34.20</b>	<b>52.45</b>	<b>61.75</b>	<b>63.05</b>	<b>211.45</b>

Source: AFD (2013), interviews

Institutionally, the DDF is coordinated by the DDF Secretariat, which belongs to the MLGRD, but the overall policy guidance and directive for the implementation of the FOAT and the DDF are provided by a Steering Committee. The Steering Committee members are: the MLGRD, the Ministry of Finance, the National Development Planning Commission, the Local Government Service Secretariat (LGSS), the National Association of Local Authorities in Ghana, civil society (LOGNET), the DDF Secretariat Coordinator, development partners supporting the co-financing agreement on the DDF (non-voting members), the Institute of Local Government Studies (ILGS) and the Office of Head of Civil Service (MLGRD 2012b). In addition, there is a technical working group, also with a multi-stakeholder membership, to backstop the steering committee on policy issues.

#### *Partner-country views*

The basic premise of the DDF is that MMDAs receive funds based on their performance. Apart from the capacity-building grant and the basic grant, the major part of funding (68 per cent) is linked to performance. Overall, this principle is well accepted among Ghanaian stakeholders of the DDF, and most interview partners were in favour of this results-based approach. They believed that focusing on results empowered districts to carry out their designated functions.

The design of the DDF has been developed through cooperation between donors and the GoG, with the GoG providing a strong role in shaping the modality. The indicators assessed in the FOAT are not newly created priorities, but rather they monitor adherence to existing laws and regulations. Donor representatives in Ghana praised Ghanaian civil servants and high-ranking officials as progressive and forward-looking. They underscored that results-orientation would be visible in the public administration as well as in the broader public. However, the DDF suffers from a communication problem, as a large part of the public is not aware of this grant system. The broader public is often unaware that their local districts receive parts of their funding based on their performance. The lack of public awareness about the DDF also affects accountability structures, as better communication about the performance of local governments could also improve accountability at the local levels.

### *Capacity requirements*

MMDAs face a number of capacity constraints that impede decentralisation reform progress, including: difficulties in facilitating information flows, problems in attracting staff, limited tax revenues and dependence on intergovernmental transfers, and/or support from the partner country. The capacity constraints of MMDAs are exacerbated through the creation of new districts. Over the last decade, the number of districts in Ghana has increased from 110 to 216 (OBG 2013). Many of the new local governments possess limited resources and are not adequately staffed. In order to address some of the capacity constraints, the DDF includes a capacity-building grant (CBG) for all MMDAs.

The CBG – 12 per cent of the annual DDF pool – consists of two components: 40 per cent generic (national level) and 60 per cent demand-driven (district level) (MLGRD 2012b). With the demand-driven capacity-building grants, MMDAs themselves can analyse the results from annual performance assessments, identify capacity gaps, and then finance appropriate activities. Some donor representatives are critical of the demand-driven component, since they question whether districts spend the funds in an effective manner. Effective spending of capacity-building funds is more difficult to track than effective spending of investment grants of the DDF, and there have been select cases of misuse of capacity-building grants. Local government representatives, on the other hand, argue that the demand-driven component barely covers basic training needs and should be expanded.

The generic 40 per cent portion of the CBG is managed by the DDF Secretariat with the support of the LGSS and the ILGS. The generic component aims to generate support for the MMDAs that link to FOAT assessments and areas where further improvement is needed. For instance, if FOAT outcomes show that most districts struggle with meeting project-management-related indicators, there will be more training in this area. Here, a number of challenges impede effectiveness, including time-lags between completed training effects and results-assessments, which account for staff fluctuations and difficulties in measuring progress. Although all DDF stakeholders would agree on the critical importance of integrated capacity-building, there are different views on the right balance between demand-driven and generic capacity-building.

Finally, the share of the capacity-building grant in the overall DDF pool has changed over time. In 2008, 20 per cent of the overall funds were allocated to capacity-building, whereas in 2012, only 12 per cent were reserved for capacity-building. This represents a gradual shift in the overall composition of the DDF, which indicates that there were higher capacity-building needs in the first years of implementation.

### 2.2.2 Effectiveness

This section analyses the potential effectiveness of the DDF by exploring the indicators used, the incentives generated and the level of compliance with principles of aid effectiveness. In addition, the dialogue between donors and the partner-country government are explored, as well as questions regarding uncertainty and risks.

#### *Indicators*

The FOAT has three main objectives: provide incentives for performance in complying with the legal and regulatory framework, identify performance-capacity gaps of the MMDAs, and establish a link between performance assessments and capacity-building (MLGRD 2012a). According to the FOAT manual, MMDAs are assessed “*against their legal obligations and issues that fall within their direct span of control; consequently, all indicators are anchored in existing legal, regulatory and policy frameworks*” (MLGRD 2012a). Indicators are divided into minimum conditions and performance measures that are based on a weighted scoring system.

FOAT results can be challenged by MMDAs through a Complaints Resolution Committee, and FOAT results are published by MLGRD in national newspapers, in order to ensure transparency and accountability.

Interview partners expressed different views on the appropriate level of indicators applied in the FOAT. Some argued for including new indicators that measure outcomes in order to strengthen the focus on qualitative improvements in local administrations. The present indicators capture whether certain meetings have been held within the administration but do not capture qualitative aspects and the impact of DDF financing. In addition, meeting records are easy to falsify. Hence, introducing outcome indicators would allow for measuring the quality of local service delivery by setting certain minimum standards for service delivery or introducing social audits that assess the perception of local beneficiaries, for instance.

Yet, making local governments responsible for service delivery outcomes might lie outside their sphere of influence. Also, capturing impacts of DDF investments could not be covered by the current FOAT list of indicators, which set certain conditions for performance-based payments but do not provide for impact assessments. Service delivery improvements on the impact-level might only manifest over longer time horizons and would be difficult to link to the performance of local governments. Thus, among donors, there is a strong tendency to preserve the current focus on input and compliance indicators that mostly measure process. According to them, the integration of service delivery standards would be too complex to manage and would undermine the discretionary character of the DDF modality. In addition, service delivery in many sectors is not yet under the control of MMDAs, and even service delivery that is attributable to MMDAs might be influenced by external factors outside the influence of MMDAs.

One potential modification of the current DDF modality would be to select some indicators on a test basis to assess the quality of DDF investments, and track the investment made with DDF money over time (e.g. share of projects completed without defects, or share of planned projects completed). This would lead towards a stronger output – and perhaps outcome-orientation – of indicators. But regardless of the types of indicators adopted, the total number of indicators needs to be considered as well. Already, more than

<b>Table 3: Indicators used in the Functional and Operational Assessment Tool 2013</b>	
<b>Minimum conditions (indicators)</b>	<b>Performance measures (indicators)</b>
1. <b>Functional capacity in development planning</b> (establishment of a District Planning Coordinating Unit, Annual Action Plan has been formulated and composite budget has been prepared)	1. <b>Management and organisation</b> (e.g. meetings of the political structure, management meetings, accessibility of public places to the physically challenged)
2. <b>Functional capacity in financial management and accounting</b> (annual Statement of Accounts prepared and submitted, no adverse comments on financial indiscipline in audits conducted, preparation and submission of monthly financial reports to Controller and Accountant General's Department)	2. <b>Transparency, openness and accountability</b> (e.g. establishment and functionality of the Public Relations and Complaints Committee, information to the public, publication of annual statement of accounts)
3. <b>Functional capacity in procurement</b> (district procurement plan available and prepared)	3. <b>Planning system</b> (e.g. level of plan implementation, socio-economic data collection and management, gender mainstreaming, climate change interventions, vulnerability and social protection programmes)
4. <b>Functional capacity of assembly</b> (assembly meeting according to minimum demands - at least three meetings and respective minutes)	4. <b>Human resource management</b> (availability of a functional HR Unit, training and capacity-building)
5. <b>Plan implementation capacity</b> (progress reports on the implementation of activities in the Annual Action Plan)	5. <b>Relationship with sub-structures</b> (revenue-sharing between assembly and sub-structures, extent to which sub-structures have been mandated to perform specific functions)
	6. <b>Financial management and auditing</b> (e.g. functionality of budget committee, compliance with budgetary provisions, estimation of revenue from fees and licences, functionality of internal audit unit)
	7. <b>Fiscal capacity</b> (e.g. absolute size of IGF, efforts to improve IGF, operations and maintenance plan)
	8. <b>Procurement</b> (e.g. Meetings of Procurement Entities, Contract Mobilisation)
	9. <b>Environmental sanitation management</b> (Development of Environmental Sanitation Sub-Sector Strategy and Action Plan, data on environmental sanitation facilities, public health education and promotion)
Source: Own representation based on MLGRD (2012a)	

60 indicators are assessed for the DDF, and the costs and benefits of added indicators have to be carefully evaluated.

Another consideration should be how the data gathered for the FOAT could be utilised more effectively. In many ways, the FOAT is the central innovative element of the DDF. The FOAT is a results-based management tool for recording improvements in the financial management of MMDAs, which form the basis for DDF disbursements. But the FOAT also captures a lot of additional information, which is currently underutilised. For instance, socio-economic data disaggregated for gender is collected on expenditures of local governments all across Ghana, or similarly information on tax potentials or climate change and disaster risk-reduction programmes is collected. Such information could be used more strategically in order to distil trends or upcoming challenges to informing future policy-making of the GoG or donors, for example. Using the FOAT for allocation decisions is, therefore, only one of many potential roles the FOAT could play.

### *Incentives*

The financial incentives set by the DDF are significant at the local level. MMDAs appreciate the discretionary character of the funding, the predictability of financial flows and the comparatively low transaction costs in accessing DDF funds, as compared to other central government transfers. Local government officials reported that the DDF effectively increases motivation of MMDAs to improve financial management performance. Depending on the performance and size of the districts, DDF allocations vary, but MMDAs receive around 15 per cent of their funding from the DDF, on average (GIZ 2012).

Yet, there are multiple conflicting political incentives among the different ministries engaged in decentralisation that can potentially undercut efforts to improve performance of local governments through the DDF. The ongoing decentralisation reform in Ghana envisions a fusion of governmental agencies within MMDAs into one administrative unit, which would allow greater autonomy of MMDAs. However, several centrally administered line ministries are trying to protect their interests. Especially in terms of staffing, MMDAs face the challenge that a lot of administrative staff want to pursue careers within one specific line ministry (e.g. health, education, agriculture), even if they are intended to be Local Government Service employees overseen by MMDAs (Ayee / Dickovick 2010). For example, many civil servants resist postings to rural areas because they prefer positions in the larger cities. These dynamics can reduce the effectiveness of financial incentives created through the DDF.

Another level of political incentives is the party system in Ghana, which can also hamper the effectiveness of the DDF. As the two-party system consolidated around the National Democratic Congress and the National Patriotic Party, and as power alternated from one to the other in 2000, and then again in 2008, the main opposition party routinely advocated for greater decentralisation. In general, political parties should be expected to favour more centrally-controlled patronage if they expect national victory, but seek more opportunities for decentralised electoral contests if they expect to lose nationally. Thus, the political benefits of decentralising in Ghana's two-party system can be ambiguous. Party politics may also help account for the tendency of administrations to increase the number of districts and the proportion of government funds allocated to the DACF, as decentralisation ensures multiple opportunities for district-level patronage and electoral seats. In this re-



gard, some researchers speak of “administrative unit proliferation”, in which decentralisation can actually lead to a *de facto* re-centralisation of power (Grossman / Lewis 2013).

In Ghana, the creation of districts has not *per se* enhanced local capacity to perform responsibilities, even though proponents argue that new districts “will bring government closer to the people.” Instead, new districts rarely possess start-up funds for initial capital expenditures on basic infrastructure (such as meeting places and working space). Thus, MMDAs use operating budgets to cover these expenditures, which is contrary to local expectations that more resources and trained officials improve public services in new districts. Financial resources from central government are spread across more local administrations and are used to cover running costs rather than investments. Overall, the continual creation of new districts, therefore, also negatively impacts on the effectiveness of financial incentives set by the DDF.

On the relevance of non-financial incentives, most DDF stakeholders commented that the social pressure generated through public and media attention is critical to the success of the DDF. Over the years, there have been multiple examples in which DDF rankings of the MMDAs had direct staffing consequences. A number of District Chief Executives had to resign due to public pressure after low FOAT scores became public. Most notably, Kumasi, the second largest city in Ghana, outscored the capital, Accra, during the first years of the assessment. The public attention given to the lacking performance of Accra subsequently motivated the administrations of Accra’s districts to perform better in the FOAT. Therefore, the “naming and shaming” incentives of the DDF can even be seen as being equally important to the financial incentives.

#### *Adherence to principles of aid effectiveness*

As a multi-donor basket fund, the DDF aims to achieve greater adherence to the principles of ownership, alignment and harmonisation than isolated project aid. The DDF marks a significant step towards improved donor coordination. The GoG takes ownership by managing the DDF through its own systems. The GoG also conducts the FOAT assessment, which relies on the government’s own rules and regulations. On the side of the donors, the DDF is often portrayed as a good example of a well-managed aid programme. Yet, the DDF is less harmonised and aligned than budget support or sector budget support, for instance. Several donor representatives called the DDF a “second-best solution”. Some factors continue to impede greater harmonisation among the donors engaged in the DDF. For instance, donors have negotiated individual triggers with the GoG that condition the release of their respective financial contributions. Further, donors continue to organise individual assessments of the DDF, despite the existence of a joint-review mechanism.

In terms of accountability, the major accountability relationship lies between donors and the GoG and follows a rather traditional donor-recipient model. At the district level, there is strong accountability of MMDAs to the central government. The District Chief Executive is nominated (although MMDAs must approve of the appointment) by the central government and is therefore less accountable to locals than to the central government (Fox et al. 2011). In addition, 30 per cent of MMDA members are central government appointees, and even lower-ranking civil servants at the local level – including teachers and health workers – are not directly accountable to their MMDAs but rather to their respective line ministries. Despite these limitations, the DDF also has provisions for strengthen-

ing accountability at the local level. MMDA project proposals have to be formulated in a participatory manner, regular town hall meetings are mandatory and MMDAs are required to regularly publish audit reports, for instance. Generally, this can be seen as a significant improvement in the relation between citizens and local government.

### *Broad-based dialogue*

Despite the technical focus on measurable indicators in the DDF design, the DDF modality is highly politicised. The GoG, for instance, has a strong interest in increasing the number of districts passing the FOAT and receiving DDF funding, and thus will exert pressure on donors to disburse. Donors also have an interest in demonstrating successes, which is often measured by the amounts of money released and districts covered by the DDF. Still, a DDF that disburses to all districts might cease to provide significant incentives for improved performance. The success of the DDF, therefore, should not only be measured based on the disbursement figures but also on the improvements at the district level. In addition, a lower pass rate of districts should not necessarily be seen only as a sign of failure, but also as a sign that the incentives of the DDF are still relevant. Therefore, there is an ongoing dialogue between the GoG and DDF donors on how to balance performance requirements and coverage. This dialogue can be characterised as open and constructive.

At the district level, there have been several complaints about the quality of dialogue between MMDAs and the central government. Complaints have come from districts that did not have sufficient time to build up capacity to meet FOAT requirements, and districts that feel unfairly treated by the existing distribution formula (e.g. districts that believe their population figures are understated), for instance. Although there are dialogue structures in place to settle these disputes, some districts still feel that their voices are not sufficiently taken into account.

### *Uncertainty and risk*

One main difference between the DDF and other RBA programmes is that annual disbursements are fixed, since the amounts allocated by donors and the GoG are known in advance. Thus, there is no uncertainty over the total amounts to be channelled to the MMDAs. There is only uncertainty over the exact distribution to the districts, that is, which district receives what amount of extra funding. The DDF, therefore, generates competition among the districts but does not generate an added incentive for improved public financial management at the national level.

One remaining main factor of uncertainty in the DDF is the problem of delays in releasing funds to the MMDAs. Part of the problem is that multiple actors are involved. In order to release funds from the donors through the Bank of Ghana to MMDAs, multiple conditions involving various actors have to be in place, including computed allocations by the DDF Secretariat, notification by the Ministry of Finance and Economic Planning and instructions by the Controller and Accountant General's Department, for instance (MLGRD 2012b). These delays, to a large extent, are inherent in the GoG's national system and are not necessarily caused by the DDF design. Still, this example demonstrates conflicting incentives between different government bodies that can cause delays in the release of funds. This is important, as the success of RBA programmes also depends on precise timing in matching performance and funding as closely as possible. If the release of funds

appears to be unrelated to the achievement of the agreed results, this can diminish the credibility and the effectiveness of the incentives set by the RBA programme. Also, MMDAs lack predictability over flows that they are supposed to receive and face the challenge of aligning delayed disbursements with their budget cycles.

### 2.2.3 Efficiency

In terms of efficiency, there are two main cost factors to consider: direct costs and indirect transaction costs. Especially costs for monitoring and verification are significant direct costs.

#### *Monitoring and verification*

The FOAT assessment is carried out by independent consultants. The DDF Secretariat oversees the organisation of the FOAT assessments but reserves the right to question the score. The assessment dates are usually announced in advance, but in some cases they are not announced. Consultants usually undertake a two- or three-day assessment in each MMDA. Two days are assigned for assessing the DDF MC indicators, and one additional day is assigned in urban assemblies for assessing the World Bank Urban Development Grant indicators (MLGRD 2012a).

Interviewees commented that the consultants are as impartial as possible, yet that gaming of assessments would be difficult to catch (e.g. falsifying meeting records). Several interviewees therefore suggested to make the assessments even stricter and to scale-up the number of unannounced assessments, in order to get a better picture of actual progress. The risk of collusion between assessors and district assemblies was generally considered to be low. There were different views about whether the assessment should be carried out by independent third parties or a government body. Some argued for the GoG to carry out the assessment through regional coordinating councils or self-assessments in order to generate savings and benefit from the greater familiarity of government bodies with the content of the assessment. Yet, most interviewees stated that this would undermine the impartial and objective character of independent verification.

#### *Cost-efficiency*

The costs for the FOAT assessment range at 2–3 per cent of the annual funds disbursed to MMDAs, which can be considered reasonable, as this does not exceed administration costs of comparable aid programmes. In addition, there are costs for managing the DDF system for the GoG and costs for the donors to organise their respective administrative structures. The MMDAs also face costs for complying with FOAT indicators. This includes drafting numerous reports, including annual action plans, capacity-building plans, financial reports, various progress reports, audit reports, work plans and monitoring reports.

Although it is difficult to assess the value of these transaction costs, several interviewees compared the transactions costs of the DDF to transaction costs of the World Bank's Urban Development Grant, and all agreed that UDG transaction costs are significantly higher. The UDG relies on FOAT indicators but introduces additional indicators that have to

be assessed on an additional working day in every UDG programme assembly. Also, the UDG places higher requirements on MMDAs to comply with the environmental and social safeguards of the World Bank.

#### 2.2.4 Impact

The overall impact of the DDF is still difficult to assess because it only started in 2008. But DDF donors have commissioned an independent review on DDF impacts and are also in the process of setting up a monitoring and evaluation system, together with the GoG, which is also building on FOAT indicators.

Although the FOAT assessments indicate strong improvements in terms of MMDAs qualifying for the DDF and the average scores of MMDAs increasing, there are also doubts about the impact. One fundamental consideration is about the DDF's impact on equity, and the comparison between performance-based and needs-based allocations. In the case of Ghana, it can be argued that the DACF is a rights-based fund that gives the poorest districts an entitlement to central government resources, whereas DDF funding incentivises performance. Thus, both funds could be seen as complementary. During the first assessments, it was particularly surprising that many rural districts were able to meet FOAT conditions, whereas large urban areas failed to achieve this.

#### *Evaluation*

At the national level, the evaluation of the DDF takes place under the auspices of the DDF Steering Committee. There are annual reviews and medium-term reviews every three years. At the district level, evaluation will follow National Development Planning Commission monitoring and evaluation guidelines for the implementation of the District Medium Term Development Plans (MLGRD 2012b). In addition, DDF donors conduct individual evaluations of their DDF contributions.

#### *Effects*

A number of effects of the DDF can be observed already. First, the results indicate a continuous improvement in MMDA performance. The number of MMDAs that have met MCs has increased consistently, and average performance scores have risen continuously. Similarly, there are a lot of stories of successful implementation of various projects financed by the DDF in the districts. According to interviewees, more than half of DDF money was invested into building schools and a lot of resources have funded roads, refurbishments and health clinics, for instance. These investments represent a contribution to enhancing the role of MMDAs in achieving, for example, the Millennium Development Goals.

Also, financial management of the MMDAs has improved. Initially, very few districts were able to prepare reports, and they often had accumulated reporting arrears of five to ten years, which they have now caught up on. District officials report that competition between districts has put MMDAs "on their toes" to perform better, and relationships with the local citizens have improved, thereby also strengthening local accountability structures. In terms of indirect effects, several interviewees pointed out that in select cases, the

FOAT indicators had adversely influenced reporting behaviour of MMDAs, for instance towards creating fake meeting records to comply with FOAT indicators.

In the last years, however, there have been signs that the DDF has reached a performance plateau, where more than 90 per cent of MMDAs have met MCs and scored more than 80 per cent on the PMs. Hence, the DDF donors and the GoG are currently revising indicators in order to make the conditions more ambitious for MMDAs.

<b>Table 4: FOAT assessments and results</b>					
	<b>FOAT I</b>	<b>FOAT II</b>	<b>FOAT III</b>	<b>FOAT IV</b>	<b>FOAT V</b>
Assessment year	<b>2008</b>	<b>2009</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Reference year	(2006)	(2008)	(2009)	(2010)	(2011)
MMDAs MCs met (no.)	50/138	134/170	159/170	164/170	164/170
MMDAs MCs met (%)	36%	78%	94%	96%	96%
MMDAs avg. performance score	45%	61%	71%	84%	82%
Source: Own representation based on MLGRD (2013)					

### 2.2.5 Sustainability

As the DDF is ongoing, sustainability considerations will focus mostly on medium-term prospects and expected changes to the DDF modality rather than on long-term perspectives. A number of adjustments have been made regarding the DDF already, but it still unclear in what form the DDF will continue to exist. The DDF can be seen as an interim grant system that will eventually be discontinued once donors withdraw their funding. But there are also options for transitioning parts of the DDF into the GoG systems.

#### *Flexibility*

Recent FOAT assessments already indicate that MMDAs have reached a performance plateau, as 96 per cent of the districts qualified with an average performance score of more than 80 per cent. Therefore, donors have agreed to adjust several indicators for current FOAT assessment, including the indicator on auditing, for instance. It is open to what share of districts will be able to qualify for the DDF in the next round, as performance requirements have increased.

In the past, DDF donors and the GoG had adapted the shares of different grant elements (capacity-building, basic and performance grant) every year to react to specific needs of MMDAs. For instance, the DDF allocated more funds to capacity-building in the beginning of implementation and then shifted funds to the performance-based grant, as MMDAs had built up some capacity already. Yet, balancing the right levels of performance incentives and capacity-building support is an ongoing discussion.

In addition, donors and the GoG are discussing ways to adapt the thematic focus of the DDF by introducing new thematic indicators for mobilising additional funds or mainstreaming new thematic indicators in the FOAT. Introducing new indicators, for instance, could allow for taking into account environmental concerns, climate change or the quality of service delivery. Districts thus could mobilise additional funding from donors and the GoG and address additional development challenges. The risk, however, is that adding indicators will overload the modality. Already, FOAT assessments take three days for every district with the current list of indicators. Also, there are different views among DDF stakeholders regarding the addition of specific indicators and policy priorities. An alternative to introducing additional indicators would be to adapt current FOAT indicators to put greater emphasis on certain thematic areas. Finding the right balance between continuity and flexibility thus remains an ongoing debate with the DDF.

### *Results-orientation*

A key concern regarding RBA programmes is whether they induce change towards greater results-orientation in the partner country. As donor funding might not be available indefinitely, the DDF will eventually cease to exist. Already, there are signs that the GoG is working towards establishing a greater results-orientation in public administration. At the district level, some local officials, for example, shared that FOAT indicators – to a great extent – have become part and parcel of daily work, and would even be followed if funding was not linked to performance anymore.

Yet, it is doubtful whether the GoG will continue with the DDF under the current setup, since carrying out annual FOAT assessments in every district would present an administrative and financial challenge for the GoG. At the moment, there are also only tentative proposals on how the FOAT could be streamlined and what other types of assessments could replace the FOAT. On the donor side, Denmark is phasing out their support to the DDF in the next years because of an overall re-orientation of their development cooperation. Switzerland will join as a new donor, but with a rather limited role. Donors will also have an interest in finding a successor framework for the DDF, and one possibility would be to shift from the DDF multi-donor basket fund modality to sector budget support. This would also allow donors to engage with the government on higher-level debates, including cross-sectoral policy dialogue that goes beyond fiscal decentralisation.

In any case, the GoG will have to find a sustainable way of channelling funds to MMDAs while maintaining a results-oriented public administration at all levels and ensuring quality service delivery. This challenge will be heightened by other factors such as the ongoing decentralisation reform process that envisions continuous transfer of sectoral responsibilities (e.g. agriculture, education and health) to the local level. Also, the GoG is facing financial constraints as the wage bill, for instance, increased by 47 per cent in 2012 and the International Monetary Fund (IMF) has already called on the GoG to reduce its deficit (IMF 2013). Thus, the GoG and donors together have to think about exit strategies that preserve current benefits of the DDF system while preparing local administrations for future challenges.

## 2.3 Tanzania – the Urban Local Government Strengthening Program

Despite strong economic growth rates in recent years, Tanzania finances more than half of its annual budget through aid or non-concessional loans. The government of Tanzania (GoT) started a political liberalisation process in the early 1990s, when the country shifted from a one-party to a multiparty system, which allowed greater freedoms for the press and civil society (Tripp 2012). The decentralisation reform is one of multiple reform programmes that the GoT is pursuing simultaneously. For instance, there is National Growth and Poverty Reduction Strategy (Mkukuta II) (MoFEA Tanzania 2011), the Five Year Development Plan (POPC Tanzania 2011), the Tanzania Development Vision 2025 (POPC Tanzania 1999) as well as a newly initiated “Big Results Now” initiative. Big Results Now is a national public sector reform agenda that is modelled on experiences of the government of Malaysia, supported by McKinsey & Company (Daly / Singham 2012), and partly financed by the United Kingdom (DFID 2013).

### 2.3.1 Relevance

In order to assess the overall relevance of the RBA, this section examines how the World Bank’s Urban Local Government Strengthening Program relates to the decentralisation sector in Tanzania, what the partner countries’ views on the programme are and which capacities are required for setting up the RBA programme.

The national decentralisation reform, “Decentralisation by Devolution”, was announced in 1998 and has been implemented since 2000 through the Local Government Reform Programme (LGRP), which has been running in a second phase (LGRP II) since 2009. The main objectives of the reforms are to reduce poverty and improve service delivery by decentralising responsibilities to the local level. Tanzania has 169 local government authorities (LGAs), of which 26 are urban local government authorities (ULGAs) in mainland Tanzania. As a part of LGRP II, the GoT has introduced several intergovernmental fiscal transfer systems, which, to a large extent, are financed by donor contributions.<sup>5</sup> The main mechanism to channel grants from central to local governments is the local government development grant (LGDG), which includes core funding and additional non-core sector-specific grants (e.g. agriculture, health and water). The LGDG is a performance-based grant system that disburses funds to all LGAs in a formula-based, transparent and predictable manner. In order to access LGDG funds, LGAs have to undergo annual assessments that determine whether each LGA has met minimum access conditions (MACs) and performance indicators. These indicators ensure that funds are used effectively and in compliance with statutory and administrative requirements of the GoT.

Currently, donor support to good financial governance, including fiscal decentralisation, is in a transition phase. Except for public financial management reform support, most donors are phasing out their programmatic support to the governance sector. There are multiple reasons for this shift, including dissatisfaction with the overall reform progress, changing donor priorities and communication problems between donors and the GoT. It is unclear

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5 The LGDG is jointly funded by the GoT, the World Bank and seven bilateral donors: Belgium, Finland, Germany, Ireland, Japan, the Netherlands and Sweden.

how the GoT will react to the phasing out of financial support from donors in the coming years, and in which form governance reform will proceed in the future. The World Bank is the biggest donor in the decentralisation sector in Tanzania. The Bank especially supports urban development through three main programmes: the Dar es Salaam Metropolitan Development Project, the Tanzania Strategic Cities Program targeting seven large cities, and the new Urban Local Government Strengthening Program (World Bank 2012). Originally, the World Bank had supported the LGDG system through the Local Government Support Project, which was completed in June 2012. The new Urban Local Government Strengthening Program is one of the first pilot programmes under the World Bank's new lending instrument, the Program for Results.

### *The Urban Performance Grant*

Tanzania is a rapidly urbanising country and the ratio of people living in urban areas is expected to grow from 24 per cent in 2005 to 38 per cent in 2030 (World Bank 2012). This creates pressure on urban areas to improve service delivery and infrastructure management. Already, investments in urban infrastructure have not kept pace with urban population growth, and there is poor access to public services in urban areas (Sarzin / Raich 2012). In addition, the current LGDG system of fund transfers is in a transition phase. Most LGAs now meet minimum conditions and receive the highest performances scores, thereby rendering the incentive element of the performance system ineffective.

Against this background, the World Bank has introduced a new financing window called the Urban Performance Grant (UPG) into the current LGDG system to support urban service delivery and infrastructure in 18<sup>6</sup> urban local government authorities. The 18 cities targeted have a combined population of 2.6 million, which equals 25 per cent of the country's urban population (World Bank 2012). The UPG determines allocations to each city using a population-based formula and disburses funds on the basis of an enhanced performance assessment. The UPG is funded through the World Bank's ULGSP. The ULGSP is expected to run for a period of six years (2012 to 2018) and the total amount of funding is US\$ 255 million.

The programme's envisioned outcomes are: “(i) 18 ULGAs with enhanced institutional structures and better local governance defined in terms of improved urban planning systems, increased own source revenue generation and collection (with a particular focus on property taxation), enhanced fiduciary systems management, improved service delivery systems and enhanced accountability and oversight mechanisms; (ii) newly constructed or repaired urban municipal infrastructure; and (iii) enhanced central government LGDG mechanism to support and deepen decentralization” (World Bank 2012). Therefore, the ULGSP targets the local level of administration via support to the 18 cities as well as the central level by engaging with the Prime Minister's Office – Regional Administration and Local Government (PMO-RALG), which is responsible for decentralisation and local government affairs in mainland Tanzania. The ULGSP was declared effective in February 2013, and first assessments in the ULGAs have taken place.

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6 Babati, Bariadi, Bukoba, Geita, Iringa, Kibaha, Korogwe, Lindi, Morogoro, Moshi, Mpanda, Musoma, Njombe, Shinyanga, Singida, Songea, Sumbawanga, Tabora.



### *Partner-country views*

Overall, partner-country representatives stressed the importance of the World Bank's ULGSP for Tanzania's development process and welcomed the integration of a new fiscal transfer window into the government's LGDG system. In the beginning, the GoT led discussions with the World Bank on the appropriate instrument for supporting urban infrastructure development and several options were considered, including using the Bank's investment-lending instrument. However, World Bank representatives then proposed to use the PforR instrument, which allows a stronger reliance on GoT country systems, and thus the possibility to increase the scale of the programme to 18 cities. The PforR instrument does not finance inputs but provides governments with greater flexibility, as once the recipient's financial management systems have been approved, there is no further need for requesting clearance from the World Bank for each transaction (Roseth / Srivastava 2013).

Tanzanian officials commented that the level of potential funding mobilised through the UPG was appropriate to generate performance improvements and cover the investment needs of ULGAs. The potential annual disbursements are calculated based on an estimate that programme cities would need, on average, US\$ 18 per capita per year to finance their service delivery and infrastructure investments. Under the current LGDG system, discretionary transfers from the central government to LGAs amount to only US\$ 2 per capita on average. Under the UDG, cities can receive US\$ 3 per capita for meeting minimum conditions and up to US\$ 18 per capita for meeting the performance targets. The funds will be primarily used by ULGAs to cover their infrastructure needs according to an investment list that includes road surfacing / improvement, abattoirs, markets, drains, etc. Regarding the results-orientation, all Tanzanian officials stressed that UPG requirements would not be seen as an administrative burden, but rather as aligned with their own self-interests and as a positive incentive to improve performance.

### *Capacity requirements*

Apart from financial constraints, Tanzanian officials have frequently raised capacity constraints as a second major obstacle to improved service delivery at the local level. Therefore, the ULGSP includes a specific capacity-building grant-scheme that combines supply- and demand-driven dimensions of capacity-building support to ensure that the programme functions effectively and achieves intended results.

At the local level, ULGAs are allowed to spend up to 5 per cent of funds received on capacity-building. They will, for instance, use formal, classroom-style training from local institutions in line with their local needs on the basis of annual capacity-building plans. The existence and execution of the annual capacity-building plans will be verified through the annual performance assessment. In addition, about US\$ 44 million of the overall programme budget over five years can be spent by the PMO-RALG on capacity-building measures. These centrally coordinated measures will be provided through a number of centrally procured and managed issue-specific activities. Capacity-building advisors attached to the PMO-RALG will provide assistance in the formulation of these plans. These centrally administered funds will particularly be used to support ULGAs that do not meet MACs, for instance. In addition, one performance indicator for the PMO-RALG requires that all ULGAs are adequately staffed, meaning that key positions have to be filled in every ULGA.

Several interview partners raised concerns regarding current practices of using capacity-building funds to pay various types of allowances. For example, allowances are paid for participation in trainings or workshops in order to supplement incomes. Allowances originate in the international environment in which donor agencies operate, but have also become part of Tanzania’s national system. Although the scope of this problem varies across sectors and programmes, there is a need for clear adherence to rules on allowances, and a careful consideration of which capacity-development measure to finance. For instance, on-the-job trainings might provide an alternative to large centralised workshop events.

### 2.3.2 Effectiveness

This section analyses the effectiveness of the ULGSP by exploring indicators used, incentives generated and the level of compliance with principles of aid effectiveness. In addition, the dialogue between the donor and the partner country is discussed, as well as questions regarding uncertainty and risks.

#### *Indicators*

The ULGSP targets two levels – local and central government – and therefore uses two different lists of indicators that are interrelated. First, there is the list of indicators used in the annual assessment for the ULGAs. Second, there are indicators that measure the performance of the central government, more specifically the PMO-RALG. All ULGSP allocations are made on the basis of disbursement-linked indicators (DLIs) that are used across all World Bank PforR programmes. The indicators used in the annual assessments consist of MACs and performance indicators (see Table 5).

<b>Minimum access conditions</b>	<b>Performance indicators</b>
1. System in place for handling grievances*	1. General Planning Scheme for Council adopted
2. LGA Environmental and Social Management System in place and operational*	2. Updated local government property tax system in place
3. Use of the UPG in accordance with investment menu*	3. Increase in the number of properties in the property register
4. Final accounts for the previous FY produced and submitted to National Audit Office	4. Increase in taxable properties valued
5. Internal audit in place and functional as provided	5. Billing collection ratio of property taxes
6. LGA having annual budget for the current FY prepared before the start of the FY	6. Increase in property tax collected
7. Tender Boards and Procurement Management Units and Engineering Departments properly established and adequately staffed*	7. Average score on the Public Procurement Regulatory Authority assessment for targeted ULGAs
8. Regular meetings of the council – at least one meeting held every 3 months (quarterly).	8. Efficient financial management system in place
9. No adverse Audit Report for Audited Accounts of Council in previous FY	9. Performance Grant Utilization Plan in place and updated annually*

<b>Table 5 (cont.): Indicators used in annual assessments of Urban Local Government Authorities</b>	
<b>Minimum access conditions</b>	<b>Performance indicators</b>
10. LGA having a Comprehensive Capacity-Building Plan for the current FY incorporating all crosscutting / generic capacity-building needs of all sectors approved by Council on time	10. Increase in amount of own source revenues transferred to the development account
11. LGA has prepared quarterly reports on the utilisation of development grants and CBG for the previous FY and submitted to PMO-RALG on quarterly basic	11. Annual utilisation of performance grant*
12. The performance of a ULGA should not decrease by more than maximum 20 points from one assessment to another*	12. Operations and maintenance plan in place and executed
	13. Consultative process for Performance Grant Utilization in place
	14. Annual progress reporting and disseminating systems in place
	15. Information on use of own source revenues publicly disclosed
	16. ULGA Service Standards in place
	17. Systematic records maintained on all environmental and social management activities implemented by ULGAs*
	18. All participatory consultative processes on ULGA UPG activities address the relevant environmental and social considerations*
	19. Local infrastructure targets as set out in the annual action plans met by ULGAs utilising Program Funds*
	20. Value for money in the infrastructure investments funded by the programme*
* Indicator newly introduced for the ULGSP, and not used in the LGDG	
Source: Own representation based on World Bank (2012)	

It is notable that in case a city does not meet MACs, it will automatically not receive any funds from the UDG. The list above (Table 5) shows the 18 indicators used from the beginning of the ULGSP onwards. In 2014 and 2015, additional performance indicators (indicators 19 and 20 in Table 5) will be added to the assessments in order to measure the quality of investments made.

This list is diverse and covers several themes (taxes, planning, procurement, auditing, environmental and social considerations, etc.), but it captures key areas in the public administration of ULGAs. The focus on internally generated funds in particular was appreciated by all ULGSP stakeholders interviewed. ULGAs are already familiar with most indicators through the LGDG assessments, but several new indicators have been added (marked by

asterisk). These new indicators capture utilisation of UPG funds and adherence to environmental and social standards, for instance.

Disbursements are made on the basis of six DLIs that apply to the overall ULGSP (see Table 6). DLIs 1, 2 and 3 are linked to the performance of ULGAs, amount to US\$ 201 million over the whole programme period and are channelled through the UDG directly to ULGAs. The basis for DLIs 1, 2 and 3 allocations are the annual performance assessments. DLIs 4, 5 and 6 target the national level and are channelled to the PMO-RALG.

	2012/13 Year 1	2013/14 Year 2	2014/15 Year 3	2015/16 Year 4	2016/17 Year 5	2017/18 Year 6	Total
Grants for UPG results (DLI 1,2,3)	0	9	35.5	52.2	52.2	52.2	201
Funds for PMO-RALG results (DLI 4,5)	0	8.8	8.8	8.8	8.8	8.8	44
Funds for mainstreaming UPG (DLI 6)	0	–	–	10	–	–	10
Total	0	17.8	44.3	71	61	61	255

Source: Own representation based on World Bank (2012)

DLIs 4, 5 and 6 aim to leverage central government actions, which are critical to the success of the ULGSP. In total, the PMO-RALG can receive up to US\$ 44 million. Under DLI 4, the PMO-RALG will receive payments based on the number of ULGAs with at least 10 core staff members in place (e.g. treasurer, council internal auditor, council planner, etc.). As the PMO-RALG has the appointing authority over the staffing at the local level, they will receive more than US\$ 100,000 annually from the ULGSP for each ULGA that has been staffed. Although this ensures basic capacity of every ULGA to perform on a range of administrative tasks, there is also the risk of strengthening central control over local administration. Also, there is no differentiation between larger cities and smaller cities regarding the amount of staff, and no requirement on the quality of staff. Thus, certain ULGAs could profit disproportionately from high-quality staff, whereas other ULGAs might lose out. Under DLI 5, the PMO-RALG will receive payments for completed capacity-training activities for ULGAs. DLI 6 aims to strengthen the fiscal decentralisation through the LGDG programme in general and amounts to US\$ 10 million. The funds are paid to the PMO-RALG, depending on integration of lessons learnt from the ULGSP into the national LGDG.

### *Incentives*

The ULGSP is implemented in close cooperation with the PMO-RALG, yet there are several other ministries that influence the performance of ULGAs. For example, the Ministry of Finance releases funds to the district, the President's Office Public Service Management is partly responsible for staffing of ULGAs and various line ministries (e.g. water,

health, education) have strong links to local administrations. Within this institutional set-up, the PMO-RALG is one of the comparatively weaker bodies, and the overall system is characterised by fragmentation and little coordination. There are limits as to how much one programme can change underlying structural problems, especially given limited resources. At the same time, there would be a need to harmonise incentives set by the ULGSP with other ministries.

One notable feature about the incentives set by the ULGSP for ULGAs is that individual allocations to each city depend on the overall performance of all cities. Before annual funds are distributed to every ULGA, the average performance of all ULGAs combined is measured, which then determines the overall size of the pool to be allocated. Thus, the performances of ULGAs are linked to each other and all ULGAs benefit if average results improve. Conversely, all ULGAs will be affected by stagnating results of individual ULGAs. The intention behind such a design is to construct positive competition, in which individual ULGAs do not benefit from the failures of other ULGAs but rather encourage each other to improve.

Comparing financial and non-financial incentives, there are high expectations among ULGSP stakeholders that the transparent character of annual assessments will motivate ULGAs to improve performance. But first assessments on performance measures have yet to be made, and the level of civil society engagement has yet to be seen. Civil engagement is one important factor in strengthening non-financial incentives for local governments to perform. Another challenge will be to incentivise performance beyond the national and local administrative bodies. At the individual level, there are few institutionalised means to encourage performance or sanction non-performance, and there are few provisions for results-oriented human resources management in the public sector overall.

#### *Adherence to principles of aid effectiveness*

The ULGSP is strongly driven by the GoT, and the World Bank plays a supportive role in implementing the programme. Also, ULGAs take ownership, as they are free to plan projects according to their own needs, and concrete implementation of infrastructure projects is carried out in a bottom-up manner. Harmonisation among donors in the decentralisation sector is strong, and there are many efforts to coordinate. Donor contributions to the LGDG and LGRP, for instance, are made through a common basket fund that is administered by a Local Government Development Partners Group. The World Bank also reports that “*during preparation of the ULGSP Program, dialogue was held with the development partners who, in the context of their ongoing commitments to [LGDG] and the LGRP, indicated broad overall support for the Program with the Bank as the initial funding source*” (World Bank 2012). So far, however, no other donor has expressed willingness to join the ULGSP. Moreover, the UPG represents an additional financing window in the overall system of intergovernmental fiscal transfers, which is already characterised by fragmentation.

Regarding alignment with the country’s own systems, the record of the ULGSP is mixed. The ULGSP strongly relies on the country’s system in terms of rules and regulations of the UPG assessments, and the administration is largely managed by the GoT. Yet, the unit in the PMO-RALG responsible for the ULGSP is a project implementation unit that is exclusively responsible for World Bank projects. The unit already existed before the

ULGSP was introduced and also manages the World Bank's other urban development projects. This unit is based in Dar es Salaam, whereas the Ministry, the PMO-RALG, is based in Dodoma. On the one hand, this structure ensures that the ULGSP is implemented by high-quality staff, but on the other, this creates an additional structure within the PMO-RALG.

The ULGSP influences accountability relationships on at least three levels. First, it strengthens accountability at the local level between ULGAs and local citizens. Transparency and public participation are required by the UPG assessments, and ULGAs have to involve civil society in planning activities. Second, the ULGSP enforces accountability between the central level (PMO-RALG) and the local level (ULGAs). This relationship functions in two ways. The PMO-RALG exerts control over ULGAs through staffing, for instance, whereas ULGAs themselves can also exert political pressure on the PMO-RALG through Members of Parliament. Third, the ULGSP features a strong accountability relationship between the PMO-RALG and the World Bank, which can be characterised as a rather traditional donor-recipient relationship.

Another important accountability consideration involves a potential trade-off between ownership and greater accountability in adopting social and environmental safeguards by the World Bank. The safeguard approach in Tanzania follows the safeguard approach of the PforR instrument, which can be characterised as slimmed down compared traditional safeguards of the investment-lending instrument, for instance (Larsen / Ballesteros 2013). Although the PforR safeguard approach provides greater flexibility and ownership in using a country's rules and institutions, it also enhances the risk that the World Bank and governments will not be held accountable for adverse social and environmental effects resulting from investments (Larsen / Ballesteros 2013).

For the ULGSP the World Bank has conducted an Environmental and Social Management System Assessment and an Environmental and Social Management Manual was jointly drafted by the PMO-RALG and other stakeholders. The Environmental and Social Management Manual defines criteria for implementing projects with UPG funds and excludes certain projects with potentially adverse social and environmental impacts, such as landfills, new roads or any projects involving large-scale resettlements (PMO-RALG 2012). In addition, most projects financed under the ULGSP are expected to rank low in terms of environmental and social risks. Also, several indicators at the ULGA level assess the provisions that cities have undertaken to address social and environmental considerations. Yet, for the World Bank PforR instrument in general, including the ULGSP, it has yet to be seen whether the greater ownership through using country systems can be balanced with potentially reduced accountability for the social and environmental impacts of investments that are made.

### *Broad-based dialogue*

The dialogue between the GoT and the World Bank on ULGSP-specific issues is open and ongoing. After the design of the ULGSP was agreed on, the dialogue shifted towards technical questions regarding implementation. Yet, assessments just started in 2013, and more experience is needed to judge the political dimensions of the ULGSP. For instance, there might be political discussions once the first ULGAs fail their assessments and do not receive potential funding.

In case ULGAs have complaints regarding the assessment results, there is a dispute settlement process in place between the central governments and ULGAs. At the local level, there are additional provisions for resolving disagreements between local administrations and the local population, including civil society and private companies, for instance. Minimum access conditions in the ULGSP also require all cities to put systems in place for handling grievances in order to resolve social and environmental management issues or fiduciary issues.

### *Uncertainty and risk*

RBA partner countries are always confronted with the risk of not receiving part of the funding. For the ULGSP the overall funding envelope is even calculated on the assumption that not all districts will meet all performance targets every year. If all ULGAs reached high scores every year, the allocated World Bank funding would not be sufficient.

There are different risks for the World Bank and the GoT. Traditionally, the amount of money disbursed is a rough indicator of success – the more money that is channelled through the programme, the better things are going. The World Bank has an interest in disbursing allocated funds, because non-disbursement means that resources could have been allocated more efficiently for other purposes. The GoT has an interest in ensuring that maximum amounts are disbursed to the PMO-RALG and the ULGAs. Therefore, it has to be checked whether there are sufficient provisions to preserve the results-based character of the programme and to resist the underlying pressure to disburse funds. One important element is that indicators are unambiguous and leave no room for interpretation. Also, both partners, the World Bank and the GoT, have to resist making exceptions and bending rules to allow funds to flow, despite failures in meeting agreed results. Similarly, communication to ULGAs and the PMO-RALG should underscore that ULGSP funds are additional sources of funding, to which there are no entitlements or claims.

Another challenge is the timing of disbursements. Under the UDG two disbursements per year are envisioned. The specific problem here is to time the release of funds closely to the publication of assessment results. Otherwise, the incentive element of the ULGSP will be distorted. ULGAs need feedback that is closely linked to their performance in the assessment period. In addition, scheduled disbursements have to be kept in order to allow ULGSP security on the planning and execution of their infrastructure projects. If the release of funds is delayed, however, ULGAs will also question the authority of future assessments and disbursement cycles.

### 2.3.3 Efficiency

In terms of efficiency, there are again two main cost factors to consider: direct costs and indirect transaction costs.

### *Monitoring and verification*

The direct costs for monitoring and verification are a major cost component of the ULGSP. The annual assessment for UPG allocations are carried out by independent consultants who visit every city for several days. The costs for the assessment range between 1 and 2 per cent of annual funds disbursed to ULGAs, which is reasonable compared to similar aid programmes. For the LGDG, recent assessments were carried out by internal government bodies, but the assessments for UPG will be independent. Considering potentially conflictive results, this independent character of the assessments should not be altered. In addition to annual performance assessments, there will also be value-for-money audits, a mid-term review, impact assessments and regular reports from ULGAs to the PMO-RALG.

### *Cost-efficiency*

Indirect transaction costs of the ULGSP to a large extent depend on how much added workload the PMO-RALG and the ULGAs have to shoulder. On the one hand, the ULGSP relies on GoT rules and regulations – much of the documentation required from ULGAs exists already and does not represent an additional burden. Thus, it can be argued that ULGAs are motivated through the UPG to take certain actions they were supposed to carry out anyway.

On the other hand, the ULGSP assessments also introduce several new requirements for ULGAs, which already bear a lot of reporting duties. Local government officials often write different reports on the same activities, since each reporting authority (e.g. regional councils, different ministries, political parties, auditors, etc.) requires a different format. A number of local officials shared that they spend more than half of their work time on preparing reports. In addition, there are several assessments taking place for every local administration, also adding to the administrative burden of implementing development projects at the local level. Further, ULGAs have to comply with the environmental and social safeguards and criteria laid out in the Environmental and Social Management Manual, which represents another added cost for ULGAs.

Finally, one specific type of transaction cost for ULGAs is opportunity cost, in this case foregone economies of scale. Since disbursements are made annually and cannot be predicted precisely, ULGAs have to base their planning and purchasing strategies on smaller individual increments. If ULGAs, however, were able to access larger amounts at once, they could purchase in bulk and capture price advantages, for example.

### 2.3.4 Impact

It is not yet possible to assess the overall impact of the ULGSP, since the programme only started in 2012. Therefore, only preliminary considerations regarding potential effects of the ULGSP are elaborated upon here.

In terms of the impact on equity, it has to be noted that only 18 cities are part of the programme currently. Certain smaller local administrations or larger cities were excluded from the programme, and it is an open question as to whether more cities will be allowed



to join the ULGSP. Also, it remains to be seen whether increased capacity-building measures for ULGAs that do not meet MACs will be sufficient to improve ULGA performance and enable them to access ULGSP funds in the future.

### *Effects*

The ULGSP effects will have to be observed at different levels. At the ULGA level, the quality of infrastructure projects, the quality of public financial management, the level of taxes generated and the level of engagement with the public will be key areas to consider. The infrastructure investments will lead to different outcomes across the cities, but the World Bank envisions several potential benefits, including “*reduced environmental degradation and sanitary conditions through improved waste management systems; lower vehicle operating costs, reduced transport costs, fewer road accidents and reduced traffic congestion as a result of improved road conditions and improved access to public transport services; and reduced risk of flooding and soil erosion as a consequence of drainage improvements*” (World Bank 2012). At the national level, the performance of the PMO-RALG in supporting ULGAs through staffing and/or capacity-building measures will have to be assessed.

### *Evaluation*

The ULGSP, similar to other PforR pilots, will be evaluated by the World Bank’s Independent Evaluation Group, which has been involved with the ULGSP from the very beginning and already conducted a first mission to discuss the evaluation methodology with ULGSP stakeholders and gather baseline data. It will not be possible to construct solid counterfactuals for programme cities. But the amount of data gathered in the annual assessments will allow evaluators to observe differences between the different ULGAs and draw lessons about overall implications of the ULGSP.

### 2.3.5 Sustainability

The ULGSP, despite being in the early stages of implementation, features provisions for scaling-up in the future. While currently 18 ULGAs are being targeted by the programme, it can be expected that, in the future, smaller LGAs will graduate to ULGA status, for instance, and become eligible for the ULGSP. In terms of the infrastructure projects financed through the ULGSP, there is an inbuilt incentive for ULGAs to invest in maintenance funds and to generate own funds to pay for future maintenance costs.

Also, after the conclusion of the ULGSP, the UPG can continue on a permanent basis within the LGDG, similar to other sector windows. However, the question then is whether the UPG will be financed through other donors or through GoT resources. For the core contributions to the LGDG system, GoT contributions grew from 7 per cent in the 2005–2006 period to 22 per cent in 2010–2011, and is projected to grow to 43 per cent in 2011–2012 (World Bank 2012). This indicates a commitment by the GoT to further the decentralisation reform process.

A stated goal of the World Bank is for the ULGSP to play a catalytic role for fiscal decentralisation in Tanzania. Especially DLI 6 is intended to transfer lessons learnt from the

ULGSP to the LGDG system. During the mid-term of 2016, DLI 6 will incentivise the GoT to update the LGDG system based on lessons from the ULGSP. In the long-term, however, the World Bank plans to withdraw funding and expects that ULGAs will be able to finance themselves based on transfers from the central government and own funds.

### *Flexibility*

One challenge for performance-based grant systems is to prevent local governments from reaching a performance plateau, where incentives cease to be effective. The ULGSP assessment, therefore, “raises the bar” for achievement each year and contains a correction mechanism that kicks in during mid-term reviews to help in making the necessary adjustments to the performance system.

Within the World Bank, PforR is also a more flexible instrument than development policy lending or investment lending. O’Brien and Kanbur (2013) argue that, for the PforR, “*there is the maximum de facto flexibility, in so far as the results framework (and more specifically the DLIs) can be changed according to the same (relatively easy) protocol as applies to an investment loan, and this directly changes then the basis on which disbursement is made.*” Although adjustments of the ULGSP are possible in theory, a restructuring process would still take several months. In light of the detailed design of the ULGSP, the mid-term review and general obstacles in adjusting a World Bank programme, it is unlikely that the ULGSP will undergo major adjustments during the first programme cycle of six years.

### *Results-orientation*

It is too soon to tell whether the ULGSP can induce more results-oriented behaviour in the ULGAs and the PMO-RALG, but there are already signs about what obstacles might emerge. At the local level, citizens still have to be more empowered and learn how to demand good service delivery and performance from local governments. The ULGSP provides for some engagement between ULGAs and the public, but it is questionable whether this will lead to a results-oriented mindset of all stakeholders involved. Several interviewees commented, though, that the enhanced results-orientation of the ULGSP system bears the potential of establishing a “results-culture”. Considering that the local governments targeted are urban authorities, it can be argued that ULGAs possess a growing economic base and are in a good position to attract capital and talent. Thus, the World Bank suggests that “*Program ULGAs will be well positioned to become the first wave of high-performing local government authorities in Tanzania*” (World Bank 2012).

On the central government level, it is evident that there is a stronger interest in gearing the focus of public administration on results, as demonstrated by the Big Results Now initiative. In addition, aid flows to Tanzania have not decreased yet, but donors are currently reconsidering the basis for their engagement with the GoT. Looking forward, interviewees have warned that establishing a results-oriented culture, as well as achieving decentralisation reform progress, are long-term systemic changes that need time to evolve. Yet, these positive changes, once started, will not be reversed.

### 3 Conclusion

The current trend in the debate on different aid modalities is that a number of donors withdraw from budget support and go back to traditional aid projects, even though budget support often is the preferred modality of partner governments. Also, negative examples concerning the effectiveness of budget support are often driven by domestic political economy issues in donor countries rather than by evidence. For example, an evaluation of budget support in Tanzania has demonstrated positive effects on growth, education-sector outcomes and poverty reductions, and rather points to shortcomings related to exaggerated expectations and flaws in the management of budget support (Lawson et al. 2013). But despite these positive findings, the amount of general budget support to Tanzania has fallen from a high of US\$ 755 million in 2009–2010 to US\$ 452 million in 2011–2012. The reasons that donors put forward include slow implementation of public financial management reforms, lack of improvement in the business and investment climate, and slow progress in public services (Tripp 2012). The European Union has reduced general budget support by 27 per cent in 2012–2013, citing the need for more measurable results and improved accountability, particularly relating to concerns over corruption and public financial management (Dickovick 2013).

Against this background, the logic of RBA seems to offer a compelling alternative to budget support and traditional isolated project aid. Compared to project approaches, RBA focuses on outputs or outcomes rather than dwell on inputs only. Compared to budget support, RBA programmes might offer benefits in terms of communicating results to the public in donor countries. RBA programmes are also a natural entry point to measure, monitor and verify results more robustly. Establishing a focus on results, however, is highly challenging. Therefore, linking disbursements to results has to be carefully managed, and several lessons from the case studies should be taken into account.

#### 3.1 Lessons from Ghana and Tanzania

Both RBA programmes, in Ghana as well as in Tanzania, face a number of similar challenges and provide first insights into the circumstances under which RBA is more likely to be successful. The experiences in fiscal decentralisation also clearly underscore the practical and political challenges encountered when implementing RBA programmes. Several lessons can be deduced.

**1) Relevance:** In both countries, the RBA programme is a small part of a larger set of donor-financed activities in the decentralisation sector, and both programmes are explicitly built on prior experiences gathered in development cooperation in the sector of fiscal decentralisation. Although Ghana as well as Tanzania welcomed the results-based approach, in both cases donors were the driving force in designing the RBA programme. Also, the DDF as well as the ULGSP have limited relevance when considering broader political dynamics in the decentralisation sector. In Ghana, the creation of new districts significantly affects the effectiveness of the DDF, whereas in Tanzania a number of competing reform agendas influence development activities at the local level. Both countries also face major challenges in designing effective capacity-building measures and aligning the RBA programme with these. Overall, the RBA programmes can therefore be seen as innovative

approaches that are developed with a high awareness of the context, yet both programmes are ultimately not able to alter underlying structural dynamics.

**2) Effectiveness:** In Ghana and Tanzania, the RBA programmes are thoroughly designed towards encouraging increased levels of performance, and both programmes set effective incentives for achieving results. In addition, a number of potential benefits such as improved financial management and greater interaction between local governments and local citizens are observable. The indicators adopted in both countries capture key dimensions of local government performance, but assessment processes are very demanding for partner countries and the donors. Both programmes have set up complicated systems that are often difficult to manage for donors, the partner-country government and local governments. Also, both RBA programmes have mixed records regarding their adherence to principles of aid effectiveness. Although there are signs of greater harmonisation and use of country systems, both programmes also require additional administrative structures that need to be created. Furthermore, both programmes reinforce traditional donor-recipient accountability relationships. Dialogue between donors and partner countries is generally proceeding in an open and constructive manner, yet dialogue on results remains highly political.

**3) Efficiency:** Both RBA programmes are characterised by the need for elaborate annual assessments of local governments, but the costs for these assessments do not exceed administrative costs of other comparable decentralisation programmes. Overall, both programmes were therefore rated as good value for money. Still, it has to be taken into consideration that both of these programmes are pilots, for which higher costs tend to be tolerated. Also, both programmes are associated with indirect transaction costs that occur due to reporting requirements, for instance, or the piecemeal release of funds. These costs are difficult to quantify but should feature in more detailed assessments.

**4) Impact:** In Ghana, first observable effects of the DDF indicate positive results in terms of improved financial governance at the local level, greater dialogue between local governments and citizens, and stronger harmonisation among donor countries. For Tanzania it is still too early to draw conclusions on the potential impact of the ULGSP. Regarding equity considerations, it is clear from both cases that the RBA resources are additional funds that supplement the core funding of local governments. Both RBA programmes feature capacity-building support in a narrow sense. Local governments that fail to meet minimum conditions for accessing RBA funds receive capacity-building support to meet programme conditions in the future. However, both programmes face challenges in ensuring effective capacity-development support in a broader sense, where the overall quality of the partner country's institutions is concerned.

**5) Sustainability:** The decentralisation reform process in Ghana and Tanzania is characterised by an absence of quick results and requires donors to be patient. One pitfall of RBA in the decentralisation sector is that initial incentives might cease to be effective once the majority of local governments meet the performance criteria. Thus, RBA programmes should set ambitious and realistic results in order for performance incentives to remain relevant. The success of RBA programmes depends on the relevance of incentives for continuous performance improvements. The biggest challenge regarding sustainability, though, will be to establish a results-oriented culture, which was identified as the ultimate

goal in Ghana and Tanzania. Yet, progress towards such a strong results-oriented public administration is proceeding only slowly.

Also, the future relevance of both RBA programmes will be influenced by the larger political and economic contexts in Ghana and Tanzania. Both countries are in the process of reviewing their constitutions, which will inadvertently impact decentralisation reforms and the relevance of donor-backed fiscal decentralisation (Tripp 2012; Kpessa / Atuguba 2013). Further, Ghana will be increasing its exploitation of newly discovered oil resources and Tanzania will soon start exploiting newly discovered gas fields. Despite uncertainty over expected revenues, these discoveries have already influenced the ability of both countries to mobilise funds in international capital markets. If Ghana and Tanzania are able to mobilise more funds from international financial markets, this might also indirectly make RBA programme less attractive.

### 3.2 Recommendations

Overall, donors face the challenge of designing RBA programmes that introduce strong incentives for achieving results while retaining flexibility to operate in different policy environments. There will be no single modality that can address this challenge. A potential solution is likely to feature a strategic mix of aid modalities, including RBA programmes, multi-donor basket funds and budget support. Building expertise and a body of knowledge on RBA will remain essential. No single RBA programme is appropriate in all circumstances, and each RBA programme will require careful consideration on two levels in particular: design and implementation. Against the background of the analysis provided above, the following recommendations can be made.

#### *Design*

- *Partner countries should lead the design process:* The success of RBA programmes critically depends on decisions made during the design phase as well as the open engagement between donors and partner countries. RBA programme incentives need to be aligned with a country's own incentives for improving results.
- *Invest resources and time in design:* RBA is technically demanding and sufficient investments in the design of RBA programmes will outweigh adjustment costs that otherwise might occur as RBA programmes are being implemented.
- *Keep things simple:* Donors and partner countries should resist the temptation to overload RBA programmes with too many competing priorities and indicators. Although some sectors, such as fiscal decentralisation, can justify longer lists of indicators, most RBA programmes will benefit from a limited number of concise indicators.
- *Make RBA programmes predictable:* Donors should adjust their RBA programmes to the budget cycles of partner countries and establish clear links between assessments and disbursements. Partner countries should view RBA programmes as additional sources of finances that are performance-based allocated and do not create dependency.

- *Align incentives:* Donors and partner countries should strive to align RBA programme incentives with the overall sector dynamics. Programme incentives should be aligned with intrinsic motivations of partner countries. This also implies that RBA might not be the right instrument under all circumstances. Partner countries have to be motivated and capable of achieving results, in order for RBA programmes to be successful.

### *Implementation*

- *Donors should avoid implementing stand-alone RBA programmes:* Donors should uphold the principles of the aid-effectiveness agenda, harmonise their aid programmes and work through country systems instead of creating parallel structures. This means that donors should work jointly in implementing RBA programmes and respect country ownership.
- *Ensure transparency and communication:* Results should be published and lines of communication should be upheld to ensure continuous dialogue between donors and partner countries.
- *Balance flexibility and effectiveness:* Donors and partner countries should remain flexible towards adjusting RBA programmes if initial incentives lose effectiveness. This implies that partner countries and donors should not judge success by the level of funds released but by the continued relevance of incentives generated through the RBA programme.
- *Identify and fill knowledge gaps:* Donors and partner countries should utilise data generated in annual assessments in a strategic manner in order to improve RBA programmes and overall public administration systems.
- *Mainstream results-orientation:* Donors and partner countries should work towards promoting results-orientation together. RBA programmes should therefore be seen as an interim instrument to establish a stronger results-culture within activities of donors and partner countries. This also includes establishing clear exit strategies for RBA programmes.



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## **Annex**



<b>List of interviews – Ghana</b>		
<b>Name</b>	<b>Position</b>	<b>Organisation</b>
Aboagye, David	Assistant Coordinator	Regional Coordinating Council for Greater Accra Region
Adjaottor, Mabel	Director, Quality Assurance & Technical Services	Local Government Service Secretariat (LGSS)
Amadu, Haleem	Assistant Director	Ledzokuku Krowor Municipal Assembly
Amengor, Lynda	Senior Development Advisor	GIZ, German International Cooperation Support for Decentralization Reforms (SfDR) Ghana
Amoah, William	Team Leader, Local Revenue Enhancement Project	GOPA Consultants
Asare, Bossman	Senior Lecturer, Department of Political Science	University of Ghana
Asmoah, Henry	Assistant Director	Regional Coordinating Council for Greater Accra Region
Atiah, Augustine	Project Officer (Decentralisation)	Agence Française de Développement (AFD) Ghana
Dari, Gabriel	Coordinating Director	Adentan Municipal Assembly
Grotkjaer Nielsen, Thomas	Technical Advisor, Monitoring and Evaluation	Ministry of Local Government & Rural Development, District Development Facility Secretariat
Joly, Christian	Cooperation Attaché	French Embassy Ghana
Kwawukume, Smile Dem	Senior Public Sector Specialist	World Bank Ghana
Lux, Martin	Project Manager	KfW Development Bank Ghana
Mensah-Ackman, Emmanuel	Deputy Director Democracy, Rights & Governance Office	USAID Ghana
Mensah, Aborampah	Programs Officer	Ghana Center for Democratic Development
Myaing, Kyaw Htwe	Technical Advisor	Local Government Service Secretariat (LGSS)
Oduro Osae, Eric	Dean of Studies and Research	Institute of Local Government Studies (ILGS)
Piccoli, Sara	Programme Officer, Governance and Decentralisation	Delegation of the European Union to Ghana
Schiff, Noah	Senior Development Officer	High Commission of Canada to Ghana
Steffensen, Jesper	Senior Partner	Dege Consult
Sunderhaus, Sebastian	Advisor Urban Development	GIZ, German International Cooperation Support for Decentralization Reforms (SfDR) Ghana

<b>List of interviews – Ghana (cont.)</b>		
<b>Name</b>	<b>Position</b>	<b>Organisation</b>
Tepper, Sibylle	Senior Officer	German Ministry for Economic Cooperation and Development
Wefers, Peter	Sector Manager	KfW Development Bank
Weiler, Frank	Head of Sector and Policy Division Governance	KfW Development Bank
Zierz, Berit	Project Manager, Sector and Policy Division Governance	KfW Development Bank

<b>List of interviews – Tanzania</b>		
<b>Name</b>	<b>Position</b>	<b>Organisation</b>
Adkins, Julie	Senior Advisor, Local Governance	SNV Netherlands Development Organisation
Bald, Andre A.	Senior Urban Specialist	World Bank Tanzania
Barraut, Guillaume	Economist, Budget Support and Public Finances Management	Delegation of the European Union to Tanzania
Cassens, Hans-Jürgen	Sector Coordinator Governance	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) Tanzania
Charnock, Annabel	Project Officer	Department for International Development (DFID) Tanzania
Cockerill, Phillip	Statistics and Results Adviser	Department for International Development (DFID) Tanzania
Fleuth-Leferink, Marion	Senior Officer	German Ministry for Economic Cooperation and Development
Imwolde-Krämer, Claudia	Head of Cooperation	Embassy of the Federal Republic of Germany Tanzania
Karuwesa, Agnes	Programme Officer	Association of Local Authorities of Tanzania (ALAT)
Klaus, Benjamin	Coordinator for Municipal Partnerships	Association of Local Authorities of Tanzania (ALAT)
Kombe, Wilbard J.	Professor of Urban Land Management, and Director of the Institute of Human Settlements Studies	Ardhi University Tanzania
Lee-Henderson, Diana	Governance Advisor	Independent
Matafu, Jennifer	Senior Programme Officer, Local Governance	Embassy of Sweden Tanzania
Mbogoro, Philotheusy J.	National Coordinator	Tanzania Cities Network (TACINE)

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<b>List of interviews – Tanzania (cont.)</b>		
<b>Name</b>	<b>Position</b>	<b>Organisation</b>
Mbwele, David	Head of Unit, Procurement Management	Moshi Municipal Council
Msaki, Engineer Neville	Ag. Head of Water Department	Moshi Municipal Council
Mseja, Richard J.	Head of Unit, Internal Auditing	Moshi Municipal Council
Nyiti, Engineer		Prime Ministers Office Regional Authorities and Local Governance (PMO-RALG)
Omolo, Jenifa	Town Director	Kibaha Town Council
Padou, Jean Jose	Public Financial Management Advisor	Canadian Cooperation Office Tanzania
Rajpar, Janne	Senior Project Officer, Public Finance Management	KfW Development Bank Tanzania
Ruchyahinduru, Alex M.	Manager – Communication & Advocacy	Policy Forum Tanzania
Salehe, Engineer Juma	Head of Department, Works and Fire	Moshi Municipal Council
Schattenmann, Philipp	Governance & Accountability Advisor	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) Tanzania
Shamumoyo, Habraham Jacob	Secretary General	Association of Local Authorities of Tanzania (ALAT)
Van der Waals, Renet	Head of Development Cooperation	Embassy of the Kingdom of the Netherlands Tanzania
Vitalis, Mbilinyi A.	Assistant Research Fellow	Economic and Social Research Foundation (ESFR) Tanzania





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