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The World Bank's support for subnational governance through conditional grants: Lessons learned from Bangladesh, India, and Nigeria

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The World Bank's support for subnational governance through conditional grants:

Lessons learned from Bangladesh, India, and Nigeria¹

This note presents lessons learned from the World Bank's subnational governance projects in three large countries - Bangladesh, India, and Nigeria - between 2006-2020 (see Table 1 for project summary and Table 2 for full project details). The note synthesizes the main evaluation findings from the World Bank's Implementation Completion and Results (ICR) reports and ICR reviews of these projects.



Table 1: Projects Summary

Project Name	Bangladesh Local Governance Support Project II (P124514)	Karnataka Panchayat Strengthening Project (P078832)	Nigeria States Health Investment Project (P120798)
Country	Bangladesh	India	Nigeria
Lead Global Practice	Social, Urban, Rural and Resilience	Governance	Health, Nutrition & Population
Instrument	Specific Investment Loan	Specific Investment Loan	Investment Project Financing
Actual Cost	(US\$M): 265.92	(US\$M): 140.39	(US\$M): 252.17
Board Approval	29-Nov-2011	29-Jun-2006	12-Apr-2012
Closing Date	30-Jun-2017	30-Mar-2014	31-Oct-2020
ICR Outcome Rating	Highly Satisfactory	Moderately satisfactory	Substantial
IEG Outcome Rating	Highly Satisfactory	Moderately satisfactory	Moderately Satisfactory

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Introduction

Decentralization requires a long-term commitment by both governments and development partners to gradually transform long held governance arrangements. Time and absorptive capacity of recipient institutions are important factors to consider when designing progressive interventions such as predictable and transparent intergovernmental transfer programs like conditional grants. The combination of capacity building and conditional grants can provide powerful support to achieve meaningful decentralization if a focus is placed on the so called 3 F's - functions, funds, and functionaries.

A strong, top-down state commitment and action is critical to the success of decentralization policies and using conditional grants complemented by capacity building has proven to be effective in this regard. Even if it requires modifications along the way to achieve long-lasting impact. However, capacity interventions need to be designed for all levels of government, not just for local governments. A sustained effort for institutional development of central and local governments, as well as that of communities, should be an integral component of decentralization efforts as well as a conditional grant system. Introducing conditional grants provides a financial incentive for subnational governments to perform well in key governance areas and undertake accountability measures under its purview.

The differing contexts for engaging in either basic block grants or performance grants is an important theoretical distinction. The balancing of differing incentives and imperatives generated by these two types of grants is an essential precondition for the Bank in determining what form of fiscal transfers to support. Basic block grants fulfill the central government's obligation of providing funds for functions allowing greater funds to be transferred to more populous, poorer, and harder to reach local governments. However, they cannot generate incentives for improved performance. On the other hand, performance grants can incentivize certain performance criteria and can be effective in aligning multiple disparate inputs towards a common goal. At the same time, they also run the risk of giving more to the highest capacity or the local governments most aligned to the central government.

In terms of design elements, the three projects exhibit several important similarities and differences. In terms of similarities, all three projects were implemented in large countries with lower-middle income economies. They all used conditional grant financing to build local government capacities and strengthen institutional performance to make local governments more accountable, responsive, and effective. They were all designed as hybrid projects, combining investment financing with capacity building. Moreover, they all used a traditional lending instrument: Specific Investment Loan/Investment Project Financing.

With regard to differences, firstly, although Bangladesh, India and Nigeria are all large countries, they vary in size and have specific development challenges, both nationally and in the subnational areas where the projects were implemented. They also have different public administration set up: Bangladesh is a unitary country whereas India and Nigeria are federal countries. Secondly, the use of conditional grants had different concrete goals in the three projects – strictly improving local government capacity and the intergovernmental fiscal system in Bangladesh; improving maternal and child healthcare in Nigeria; and a combination of building capacity and better service delivery in India. Thirdly, the projects used different types of conditional grants: Bangladesh used Basic Block Grants (BBGs) and Performance Based Grants (PBGs); India used Formula-Based Block Grants; and Nigeria used Results-Based Financing such as Performance-Based Financing (PBF), Decentralized Facility Financing (DFF) and Performance Bonuses. Lastly, they were led by different GPs: Social, Urban, Rural and Resilience in Bangladesh; Governance in India; and Health, Nutrition & Population in Nigeria.

The lessons learned from these projects aim to help with the design of future subnational governance projects in other client countries, particularly those that employ intergovernmental fiscal transfers to improve local government performance. This note summarizes the most valuable and transferable lessons learned from the three projects. The lessons are thematically grouped and apply to more than one project. The second part of the note contains a table outlining the PDOs and main components of each project in detail, followed by a document references section (Table 3).

General recommendations and 14 lessons learned:

- 1. Decentralization requires a long-term political commitment by both the government and development partners to gradually transform long held governance structures.** Time and absorptive capacity of recipient institutions are important factors in designing progressive interventions such as predictable and transparent intergovernmental transfer programs like block grants. For example, in Bangladesh, the project used intergovernmental transfer system by employing a transparent formula to transfer resource to Union Parishads (UP).² The central government's commitment to a certain level of financing to UPs for three years provided predictability which in turn enabled UPs to plan for a longer term with priorities identified after direct consultations with constituents.
- 2. Right sizing and proper sequencing of intergovernmental transfers are important.** Basic block grants (BBGs) and Performance based grants (PBGs) are both important and need to complement each other and be sequenced appropriately. For example, in Bangladesh, UPs needed adequate block grant allocations that would allow them to deliver on their mandates without encouraging rent seeking and patronage activities. Similarly, rightsizing the PBGs is also critical to ensure that they incentivize local governments to improve their performance and are recognized publicly for their improvements. The PBG system should also be well understood by all parties concerned: central governments, local governments, and citizens.
- 3. Introducing performance-based grants can provide a competitive incentive to subnational governments to perform well in key governance areas and undertake accountability measures within the purview of local governments.** For example, in Bangladesh, UPs improved tax revenue collections, increased participation of citizens in decision making processes, and strengthened planning, budgeting, and reporting systems and practices in part due to incentives set in conditional grant mechanism.
- 4. The importance of periodic independent auditing.** In the Bangladesh case, universal annual audits of UPs by private chartered accounting firms (with a verification by the Office of Comptroller & Auditor General of Bangladesh) were used to ensure the fiduciary management of the basic block grants, as well as generating the compliance data necessary for determining the performance grants. The tangible link between these audits and the grant system enabled the private audit firms to contribute significantly to an expansion in the financial management and procedural compliance capacity of UPs.
- 5. An early contingency plan for financing may facilitate PBF financial sustainability in the long term.** When the project in Nigeria closed there were concerns about how PBF-related incentives would be maintained. The outlook at entry was favorable, as external contributions from donors represented a small proportion of total health financing in Nigeria. In addition, a National Health Bill was expected to generate an additional US\$3.14 per capita to the US\$8 per capita public spending on health at that time. However, macroeconomic challenges that emerged during the project implementation period revealed the need for concrete and realistic long-term financing options beyond the project period.
- 6. Strong, top-down state commitment and action is critical to the success of decentralization and the “block grants plus capacity building” approach.** The variations of support during the lifetime of the India project that occurred due to changes in the political and executive machinery had an impact on project performance at specific junctures. This underlines the need to fully understand the political economy of decentralization and to find measures to mitigate risks associated with it. It also underscores the importance of ensuring a strong policy framework and enabling environment for decentralization in parallel to bottom-up approaches and strengthening local institutions. The Decentralization Analysis Cell (DAC) was one important step in this regard, although it would require further strengthening in order to ensure greater influence on the thinking of the state on such matters. Similar lessons, regarding the critical importance of top-down state support for decentralization, were made in other states in India. The Bangladesh capacity development framework provided a different conceptual perspective. It enabled a combination of several modalities to improve capacity: top-down (cascade

2. Union Parishads (UPs) - the lowest level of government in rural areas.

training modalities primarily focused on core curricula), bottom-up (local government access to elective training courses and/or accessing technical assistance through a central Call Centre/Help Line) and horizontal (local government learning from others and/or procuring particular expertise).

7. **The approach of discretionary block grants complemented by capacity building has proven to hold potential, even if it may require modifications to continue having strong impact.** In the India project, it contributed to the improved management and citizen-centered prioritization of resource allocation at the Gram panchayats (GPs - village council level).³ This was one of the Bank's first local government strengthening projects that shifted away from sectoral projects on the one hand, and from community-driven development projects, on the other. However, a risk was noted that Block Grants (BGs) may be dwarfed by other existing schemes in India. As such the BG model may need to be modified so that it serves as a more direct vehicle and incentive for convergence with existing grant schemes. This will help it to add value by filling critical funding gaps, contribute to broader development outcomes and, by extension, help to catalyze critical institutional change.
8. **Political will and ownership of the client is key for the success of a local government strengthening program.** In Bangladesh, the government continued to demonstrate its full ownership throughout the implementation of the program and even exceeded various agreed outcome targets. The project was also instrumental in securing government ownership of the program by helping to increase the government funding share of BBGs to ensure the longer-term sustainability of such fiscal transfers.
9. **Capacity building efforts would need to be better tailored and more appropriately targeted and rolled out if the full potential of the block grant system is to be realized.** In India there is a risk that gains achieved in the GP – in terms of their ability to deliver and maintain services – would not be sustained in the absence of continued and tailored capacity development support. In addition, such support could be better targeted and tailored so that a range of groups beyond GP functionaries (such as community-based organizations, facilitators, excluded groups and elected representatives) would also receive appropriate forms of capacity strengthening. It would be helpful if a strong capacity 'needs and gaps assessment' was carried out prior to developing subsequent capacity development plans. The capacity strengthening could be dynamic and field-based to increase the chances of its application in real-life circumstances. The Project also illustrated the large, and often unmet, demand for 'just-in-time' technical support, handholding and troubleshooting to GPs and other stakeholders to carry out their functions. These issues could be addressed in planned follow-up projects.
10. **Keeping project designs straightforward and learning from implementation experience.** The Nigeria project design was originally designed as a complex operation with state level and district level DLIs; two types of decentralized health facility financing approaches; PBF and DFF. DLIs were dropped at mid-term in 2017 as they had no impact. The project effects were through federal level, state level, and sub-national level performance-based contracts, and the extensive decentralized facility financing with additional health reforms such as: strengthened supervision and results monitoring, enhanced autonomy and ability to procure drugs from certified pharmacy outlets. While this logic may appear simple, paying for outputs and not inputs, the concept and process were not only new, but required a 360-degree change from how the Nigerian Health Care system operated. Because of the newness of the concept of RBF, international RBF experts were invited to build in-country capacity to be able to implement the project. Despite these challenges the project achieved a large impact on health in the targeted States. This was proven through a rigorous impact evaluation, the results of which were published in peer-reviewed journals.⁴ PBF and also DFF approaches are complex systemic interventions, and both need significant handholding and learning from implementation and should only be considered in an institutional context that is able to absorb such changes. In addition, rigorous guidance for design and implementation was available through a solid World Bank guidance document.⁵ The client took the lessons from the initial phase and designed a significant expansion to all six north-eastern states with an enhanced PBF approach. The project at the end covered 8 States, 37 million population.

3. Gram Panchayat is a basic village governing institute in Indian villages. It is a democratic structure at the grass-roots level. It is a political institute, acting as cabinet of the village. (Source: Gram panchayat – Wikipedia)

4. Khanna, M., et al. (2021). "Decentralized facility financing versus performance-based payments in primary health care: a large-scale randomized controlled trial in Nigeria." BMC Medicine 19(224). <https://doi.org/10.1186/s12916-021-02092-4>

Zeng, W., et al. (2021). "Cost-effectiveness analysis of the decentralized facility financing and performance-based financing program in Nigeria." Journal of Hospital Management and Health Policy. <https://dx.doi.org/10.21037/jhmhp-20-82>

5. Fritsche, G., et al. (2014). Performance-Based Financing Toolkit. Washington DC, © World Bank. <https://openknowledge.worldbank.org/handle/10986/17194> License: CC BY 3.0 IGO.

11. **The need to work with the grain.** The foremost lesson from 10 years of project implementation is the need to work with the grain, i.e., the political economy which determines how much funding is allocated for health in Nigeria. Without enhanced domestic funding pre-conditions met, no health project funded by loans or grants will sustainably impact Nigerian health indicators. Sustainability plans should be formulated in ways that clearly highlight the transition from inception. This will ease sustainability challenges that many projects may face despite their significant impacts. There are two aspects of this lesson. If a provider payment reform is initiated, which involves changes in the way providers are remunerated, and additional funding is involved, there needs to be commitment from the Government to continue financing the cost through its domestic budget. The second aspect concerns World Bank programming. If the Bank decides to embark on such provider payment reforms, it needs to ensure that the domestic funding for a continued operation is in place prior to starting the approach. There are various policy instruments that the Bank can apply here, but the key is, that a decision that ensures financial sustainability should not be subject to an individual manager's or CMU's preferences.
12. **Using new approaches to help scale access to quality health care in fragile and conflict areas.** Tailoring the Nigeria project and the services it offers to the complex context of the insurgency in the Northeast of the country, a more effective service provision was achieved. The project introduced very innovative approaches to scale up the provision of health care services in a fragile and or conflict areas. Some of these approaches include mobile clinics, performance-based financing (PBF) which guaranteed regular funding to the facility and introduction of psychosocial support in routine health care delivery. Verified project data (through an independent third party) documented significant improvements in both quantity of services and the quality thereof across all five additional financing states.
13. **Enhanced separation of functions (institutional arrangement) and rigorous counter-verification mechanism that help improve the quantity and quality of health services.** The Nigeria project has experimented with various institutional arrangements for strategic purchasing of quality basic health services at scale. The first iteration of institutional arrangements in the parent project suffered from an inadequate separation of functions and weak counter-verification mechanism, while still showing noteworthy impact as documented by the impact evaluation. In the additional financing states, a new and much enhanced separation of functions and more rigorous verification and counter-verification mechanisms were introduced. This second institutional setup showed strong increases in quantity and quality of health services as independently verified by non-governmental agencies. In each of the five States there were two separate NGOs tasked with ex-ante and ex-post verifications.
14. **Project Evaluations:** Great emphasis should be placed on the evaluation designs; baseline, midline and end line, as they are crucial in project performance evaluation. In addition, irrespective of intervention approach, baseline should always be conducted in order to ascertain the likely impact attributable to the project.
15. **The importance of strong community participation:** By involving the community at every stage of project implementation, the Nigeria project experimented with insightful improvements and built a strong community voice. The introduction of programs such as the Grievance Redress Mechanism has created channels for patients and staff workers to file any complaints in a systematic way. Before project preparation, the Governors of the participating states (Adamawa, Nasarawa and Ondo) signed a policy note endorsing the project for their individual states. The three Governors also initiated reforms that provided health facility autonomy and promote community participation in management of health facilities. Notably two of the states had established (with legislative backing) their State Primary Health Care Development Agencies (SPHCDA) and the third state was at final stages of obtaining legislative and executive assent. The State governments had also set up an RBF Technical Support Unit in each state. The units were staffed by government officials that had been trained in the implementation of PBF. The PBF pre-pilot interventions commenced in three LGAs, one per state, in December 2011. The state governments provided the equivalent of US\$100,000 each to support implementation of the pre-pilot which lasted for about two years.

Conclusion

As the benefits of decentralization and greater flexibility at the local government level are being recognized by an increasing number of countries, conditional grants can help clients achieve better development outcomes if the grant system is well embedded in the project design.

By analyzing three projects from the past decade, we present key transferable lessons that were synthesized, and which can be widely applied across future Bank operations. In short, these lessons include: The importance of right sizing and proper sequencing of intergovernmental conditional transfers, an early transition plan for extended financing through a domestic budget beyond the project lifetime of conditional grants, institutional leadership both at the local and national level, maintenance of strong community participation, and undertaking thorough project evaluations, among others. The lessons learned from these operations and recommendations outlined in this note can enhance the Bank's operational effectiveness and will allow the institution to deliver better outcomes for its clients.

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Table 2: Detailed information on the selected decentralization projects

Project Name	Bangladesh Local Governance Support Project II (P124514)	Karnataka Panchayat Strengthening Project (P078832)	Nigeria States Health Investment Project (P120798)
Lead GP	Social, Urban, Rural and Resilience	Governance	Health, Nutrition & Population
Instrument	Specific Investment Loan	Specific Investment Loan	Investment Project Financing
Original Commitment	WB – (US\$M): 290 Borrower - (US\$M): 242 Total: (US\$M): 532	(US\$M): 133.33	(US\$M): 316.70 Revised (US\$M): 266.05
Actual Cost	WB - (US\$M): 265,92 Total: (US\$M): 265,92	(US\$M): 140.39	(US\$M): 252.17
Board Approval	29-Nov-2011	29-Jun-2006	12-Apr-2012
Closing Date	30-Jun-2017	30-Mar-2014	31-Oct-2020
Project Development Objective	To strengthen Union Parishads (UPs) to become accountable and responsive, through an efficient and transparent intergovernmental fiscal transfer system to Union Parishads.	To improve the effectiveness of service delivery by Karnataka Gram Panchayats (village governments) particularly with respect to the management of public resources and the delivery of relevant services that the rural people prioritize.	Original PDO To increase the delivery and use of high impact maternal and child health interventions and improve quality of care at selected health facilities in the participating states. Revised PDO To increase the delivery and use of high impact maternal and child health interventions and improve quality of care available to the people in Nasarawa and Ondo and all the States in the NE.

<p style="text-align: center;">Project Components</p>	<p>Component 1 - Union Parishad Grants (US\$491.96 million): This component would finance two kinds of grants: basic block grant (BBG) and a performance based grant (PBG). These grants would help UPs to execute their assigned expenditure mandate and also incentivize improved UP performance in a number of governance and public financial management areas.</p> <p>Basic Block Grants (BBGs) - US\$436.76 million: Individual UP allocations would be determined through a two-step process. First, every UP would get a minimum amount, which will be equal shares of 25% of the total BBG funding pool. Second, the UPs that comply with a set of minimum conditions (MCs) would get an allocation based on a formula that takes into account the population and area of the UP.</p> <p>Performance Based Grants (PBGs) - US\$55.2 million: The project would introduce PBGs to reward UPs that demonstrate improvements in key governance and financial management areas.</p> <p>Component 2 - Information Flows and Accountability (US\$10.47 million): This component would aim to strengthen systems of downward and upward</p>	<p>Component 1: Block grants to Gram Panchayats (US\$ 113.33m): Providing block grants to 1,343 Gram Panchayats in the 39 poorest rural blocks (Taluks) of the State of Karnataka.</p> <p>Component 2: Capacity Building and Information Systems for Constituents (US\$ 1.43m): Supporting community organizations (such as women’s self-help groups), watershed associations, drinking water committees, and others) in participating in the new Panchayat planning process, voice their demands from government, and access services and programs, as well as in providing relevant and easy-to-understand information to constituents.</p> <p>Component 3: Building the capacity of Panchayats (US\$ 14.97m): Increasing the capacity of all three levels of Panchayats in managing resources, collecting revenues and delivering services.</p> <p>Component 4: Building the capacity of the State (US\$ 3.0m): Putting in place systems at the state level to enable it to oversee, facilitate and manage the Panchayat system in general and the Karnataka Panchayats Strengthening Project in particular.</p>	<p>The components were revised three times during project implementation.</p> <p>(a) 1st Restructuring and AF (March 2014) - Additional HRITF Grant (\$1.7m): introduced interventions to address demand-side barriers to accessing health care through a new sub-component (Strengthening Community Demand), targeting poor communities and households.</p> <p>(b) 2nd Restructuring and AF (June 2016) - Additional IDA Credit \$125m and GFF Grant (\$20m): revised components one and two and added a third new component as follows:</p> <p>Component 1 (Strengthening Service Delivery). Total estimated budget US\$209.1 Original budget estimate: US\$122.4m (IDA US\$106.8m and HRITF US\$15.6m), 1 st AF (US\$1.7m (HRITF) and 2nd AF US\$85m (IDA: US\$71 and GFF: US\$14m). Component 1 was revised to “Strengthening Service Delivery” and had additional interventions targeting the challenges of the NE aimed at reinforcing services under Performance-Based Financing (PBF) component 1.A.1 of the original project.</p> <p>Component 2 (Technical Assistance) Total estimated budget US\$57m. Original budget estimate: US\$34m</p>
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<p style="text-align: center;">Project Components</p>	<p>accountability, improve transparency, and support informed decision making through better information flows among UPs.</p> <p>Component 3 - Institutional Development (US\$37.17 million): This component would aim to strengthen the intergovernmental system at all levels to enable accountable and responsive service delivery by the UPs.</p> <p>Component 4 - Project Management (US\$3.71million): This component would provide technical and financial support to the National Project Director (NPD) and two Deputy Project Directors (DPDs) and other project implementing staff in: (i) financial management, (ii) procurement, (iii) safeguards, and (iv) project management.</p>		<p>(IDA US\$29.6m and HRITF US\$4.4m); 2nd AF US\$23m (IDA: US\$19.5 and GFF: US\$2.5m).: The approach to Technical Assistance (TA) in component 2 of the original project was modified to support contracting with non-state actors to provide TA and verification services. This was aimed at strengthening governance and accountability.</p> <p>Component 3 (Partnerships to Strengthen Service Delivery). Total estimated budget US\$18 (IDA: US\$15.5m and GFF: US\$2.5m). This component supported partnerships with non-state actors and ensures flexibility to respond to changing circumstances in the NE.</p>
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Table 3: Project Documents References

<p>Bangladesh Local Governance Support Project II (P124514) Project Appraisal Document (PAD) Implementation Completion and Results Report (ICR) Implementation Completion Report Review (ICRR)</p>	<p>Karnataka Panchayat Strengthening Project (P078832) Project Appraisal Document (PAD) Implementation Completion and Results Report (ICR) Implementation Completion Report Review (ICRR)</p>
<p>Nigeria States Health Investment Project (P120798) Project Appraisal Document (PAD) Implementation Completion and Results Report (ICR) Implementation Completion Report Review (ICRR)</p>	

