



GOVERNANCE

EQUITABLE GROWTH, FINANCE & INSTITUTIONS NOTES

The World Bank's support for subnational governance through conditional grants: Lessons learned from Brazil, Indonesia, and Tanzania

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

Lessons learned from Brazil, Indonesia, and Tanzania

This note presents lessons learned from three ongoing World Bank PforR projects in - Brazil, Indonesia, and Tanzania - which were highlighted in the Primer Conditional Grants in 'Principle, in Practice and in Operations' developed by the Decentralization GSG. The primer can be found [here](#). This note is aimed to complement the theory presented in the primer and targets Task Team Leaders designing WB projects with a decentralization component or that wish to include conditional grant schemes to enhance results at the local level. The projects were all launched in the past few years and reflect current understanding of the challenges and opportunities of conditional grants (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 Mid-Term Reviews of two projects, technical note of one project and in the case of the Tanzania project the draft Implementation Completion and Results Report (ICR). Two projects were ongoing at the time of writing this report while one had recently closed. And the recommendations and learning lessons derived in this note should be seen in this light.

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Table 1: Projects Summary

Project name	Fiscal transfers for upper secondary education reforms in Brazil (P163868)	Indonesia - Supporting Primary Health Care Reform (P164277)	Tanzania Education Program for Results (P147486)
Country	Brazil	Indonesia	Tanzania
Lead Global Practice	Education	Health, Nutrition and Population	Education
Instrument	PforR	PforR	PforR
Original Commitment (in Mio.)	\$250	\$150	\$202
Board Approval	26/10/2017	17/07/2018	10/07/2014
Estimated Closing Date	31/12/2023	30/04/2024	31/01/2022
Progress toward achievement of PDOs as of June 2022	Moderately Satisfactory	Substantial	Moderately Satisfactory

Introduction

Decentralization requires a long-term commitment by both governments and development partners to gradually transform long held dysfunctional 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 performance-based 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.

When using performance-based grants, a well-functioning monitoring and evaluation system is key to achieve the relevant information within the attributed timeframe. This requires ample coordination between the independent evaluator, the central government agency in charge of overall project implementation and local governments on the ground. When seeking ultimate results, it might be crucial to have a mechanism to get to the facility level.

The three projects studied in this note exhibit certain similarities and differences. In terms of similarities, all countries are big exporters of natural resources and have a relatively large population. Operationally, all projects used Program-for-Results Financing using a country's local institutions and processes and linking disbursement of funds directly to the achievement of specific program results through disbursement linked indicators (DLIs). All three focus on enhancing public service delivery either in the education or health sector through investments and capacity building activities, working with the relevant national ministries to roll out activities with local governments.

The countries also illustrate several differences, while Brazil is a federal country, both Indonesia and Tanzania are unitary. However, the former introduced big-bang decentralization approach with the adoption of a new constitution in 1998.¹ Given their different geographic settings and former colonial history they also face uniquely different institutional and legal contexts. The countries have large GDP per capita differences. Brazil's (\$6,800) is 6 times that of Tanzania (\$1,100) and Indonesia (\$3,900) is located in between.² In terms of level of democracy at the local government Brazil (0.82) scores considerably better than both Indonesia (0.66) and Tanzania (0.62) in terms of offering free and fair elections at the local level.³

The lessons learned from these projects will help in the design of future subnational governance projects, particularly those that use performance-based grants (PBGs). This note summarizes initial learning lessons from the mid-term reports in two cases and the ICR in one case. The lessons are thematically grouped and may in some cases 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.

Recommendations and lessons learned

The following section discusses some of the lessons from the projects or observations that the mid-term review and technical notes made.

The three projects illustrate that performance-based grants can be effective at achieving results at the local government level. The needed technical assistance will help improve the quality of those results. In the case of Indonesia, a workshop on "Verification Arrangements for Performance-Based Transfers: International Experiences and Implications for Indonesia's BOK Kinerja" was held to inform the ministry of health how to enhance its performance-based transfers to local communes. In Tanzania school performance began to be measured against a set of criteria and despite falling public resources performance-based grants allocated to schools actually increased. DLIs should ideally be formulated in a way that they also take into consideration institutional changes that cement grant transfers beyond the project lifetime.

1. <https://www.forest-trends.org/publications/%C2%93quasi-federalism%C2%94-in-indonesia/>

2. World Bank Data.

3. https://datacommons.org/place/country/BRA?utm_medium=explore&mprop=amount&popt=EconomicActivity&cpv=activitySource%2CGrossDomesticProduction&hl=en
GovData360. Subnational elections free and fair

Effective development partner coordination can lead to improved results. In Tanzania the PforR counted upon strong donor support, including for technical assistance financed by DFID (FCDO). Given the close collaboration between donors and the complementarity of their funding, government transaction costs were significantly reduced. The program provided a framework that allowed some flexibility for donors to focus their support on specific aspects aligned with their own strategic priorities. It contributed greatly to achievement of the foundational DLRs which ensured that the program had a solid basis for its implementation and monitoring. This holds true for the ongoing Uganda Intergovernmental Fiscal Transfer (UgIFT) PforR as well. This was seen as particularly useful for improving greater decentralization which requires donor harmonization around systems and institutional change with results often taking a lot of time to materialize.

A results-based financing mechanism can be designed in a way which allows it to be assigned to different government levels--- national level (Ministries), local government authorities, and schools, to ensure that incentives are provided to those that truly have control over specific results. In the case of Brazil issues such as the municipal level of education, prevailing learning inequality across school districts, children's socioeconomic conditions, and the fiscal conditions of the municipalities were decisive for delimiting the indicators that compose the performance index, the weights of the components of this index and the reward levels necessary to generate the right set of incentives for results. If done right, then assessment process becomes very straight forward. This is an ongoing challenge with the Uganda PforR and is part of the reason for the proposed restructuring. The Brazil project observed that school districts with worse performance sought to adopt better practices, so their results converged to the level of top performance school systems. If entities are tasked to accomplish something they have no control over, it can lead to consternation. In Tanzania local governments were incentivized to improve the distribution of teachers within their districts. Although they were able to make progress on this mandate, they felt powerless to affect teacher numbers overall since that responsibility lies with the Ministry of Finance and the Civil Service Commission. This also holds true for the Uganda PforR. Beyond just the right choice of indicators, another issue to consider is the definition of the DLRs and DLIs and the frequency with which they are assessed.

Pro-Active Research and knowledge management on decentralization. In Tanzania the technical assistance support financed instruments were critical to achieve results; among them were the technical assistance support (TAS), the independent verification agency (IVA), improvements in the Education Management System (EMIS). The IVA proved to be of exceptional value in that not only did it verify achievement of results for disbursement purposes, it also provided recommendations that significantly helped improve the EMIS and contributed to policy areas such as on textbooks, capitation grants, etc., providing insightful recommendations for follow-up. In Indonesia the World Bank team is providing technical support to BOK Kinjara⁴ and Litbangkes⁵ to study how DAK transfers are being used by districts in 2021, other areas of technical assistance include verification arrangements, improved planning and budgeting at the local level and helping with data analytics of performance indicators.

Ensuring resources end up going to local governments or public entities such as schools as a means of reward for accomplishments. Performance based grants do not always reach those entities responsible for the success. In the case of World Bank funded projects DLIs may be disbursed to the central government which in turn commits to use the funds to related activities. However, this can cause frustration among the local government entities that contributed to achieving the DLR. The Tanzania Education Program for Results assigned DLIs/DLRs to different entities and funds disbursed for certain DLRs were passed directly to Local Governments according to disbursement arrangements outlined in the Program Operational Manual. In Indonesia, domestic funds are used to reward local governments- while the IBRD DLI disbursement to the national government were used to help with improvements in design and implementation of the program. DLR 2.3 supported the operationalization of this strategy by incentivizing improvements in the provision of textbooks to public primary schools. The DLR incentivized improvements in both distribution and monitoring of textbooks by rewarding the presentation of detailed evidence of textbook receipt by schools, specifying the textbook grade and subject.

Ensuring a stable evaluation monitoring environment. In Brazil the criteria of the Education Quota-Part methodology have to be sufficiently stable to encourage the continuity of good local policies beyond the project lifetime, since constant

4. UHealth operational assistance fund a sub-fund of Indonesia's Special Allocation Health Fund
5. Indonesia's Health Research and Development agency

changes in rules compromise the long-term planning of municipalities and may cause them to eventually abandon attempts to participate in the scheme. On the other hand, the policy design requires sufficient flexibility to allow for course corrections that prove necessary or that may help align it with new strategic priorities of the state. Language could be provided in the POM to cater for this. For example, adjustment of the MTP if Macro fiscal challenges affect revenues and subsequently the transfers overall.

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 conditional grant system is well embedded in the program design. Such as through a consistent incentive structure to achieve sustained transfers, targeted capacity building to institutions both at the national and local level and the use of tailored DLRs.

By analyzing three recent projects, 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 supplementing conditional grants with technical assistance, effective and continuous development partner collaboration, designing a results-based financing mechanism in a way which allows it to be assigned to different government levels, ensuring resources end up going to local governments and facilities as a means of reward for accomplishments, and ensuring a stable evaluation monitoring environment, among others.

Employing the recommendations outlined in this note can enhance the Bank’s operational effectiveness and will allow the institution to deliver better outcomes for its clients.



Table 2: Detailed information on the selected decentralization projects

Project Name	Fiscal transfers for upper secondary education reforms in Brazil (P163868)	Indonesia - Supporting Primary Health Care Reform (P164277)	Tanzania Education Program for Results (P147486)
Lead GP	Education	Health, Nutrition and Population	Education
Instrument	PforR	PforR	PforR
Original Commitment (in Mio.)	\$250	\$150	\$575
Actual Cost (in Mio.)	TBD	TBD	\$1,272
Board Approval	26/10/2017	17/07/2018	10/07/2014
Estimated Closing Date	31/12/2023	TBD	31/01/2022

<p>Project Development Objective</p>	<p>To strengthen the capacity of the state secretariats of education to implement the upper secondary reform, prioritizing vulnerable schools, and to increase the Index of Basic Education Development in targeted full-time upper secondary schools in Brazil's territory.</p>	<p>Strengthening performance of Indonesia's primary health care system</p>	<p>Improve education quality in Tanzanian primary and secondary schools.</p>
<p>Project Components</p>	<p>Component 1: Supporting the New Upper Secondary Education. By complementing the MEC programs and resources, Component 1 will support activities nationwide through a PforR lending instrument. It will be implemented by the SEB, with support of the FNDE, in accordance with the current arrangements for the execution of activities under the budget lines included in the operation. At the SEB, the General Coordination of Secondary Education (Coordenação-Geral de Ensino Médio, COEM), under DICEI, will be the main interlocutor for the technical aspects of the operation and operation coordinator.</p> <p>Component 2: Technical Assistance to Implement the New Upper Secondary Education. This component will follow the traditional operational and fiduciary arrangements for an IPF. The unit at the SEB responsible for implementing Component 2 is the COEM. This component includes several</p>	<p>Results area 1: strengthening performance monitoring for increased local government and facility accountability is to improve performance monitoring and benchmarking of health care delivery (both primary and referral care), including developing and publishing district level "performance dashboards."</p> <p>Results area 2: improving implementation of national standards for greater local government and facility performance will support the strengthened implementation of a quality assurance program and accreditation of puskesmas. This will involve supporting puskesmas to reach higher levels of accreditation, which are associated with more stringent clinical quality and managerial performance standards that are difficult to achieve.</p> <p>Results area 3: enhancing performance orientation of health financing for better local service delivery supports the introduction of incentives for improved primary health care readiness and availability of front line health services through supply side inter-governmental fiscal transfers</p>	<p>Results Area 1: Ensuring that a robust system-level framework for a results-based financing model has been established (DLI 1)</p> <p>Results Area 2: Ensuring that resources flow in an adequate and timely fashion to schools (DLI 2)</p> <p>Results Area 3: Improved results monitoring and data management at different levels of service delivery (DLI 3)</p> <p>Results Area 4: Ensuring equitable teacher deployment across and within districts (DLI 4)</p> <p>Results Area 5: Ensuring effective implementation of key BRNEd interventions (DLI 5)</p> <p>Results Area 6: Incentivizing PDO achievement in terms of 3R assessment results (DLI 6)</p>

<p style="text-align: center;">Project Components</p>	<p>consultancies (firms and individuals) and studies, including evaluations and diagnoses, to be carried out mainly during the first half of the operation implementation period. A substantial and critical part of this component is to support the states in the implementation of the new upper secondary education, which will be conducted regionally with the assistance of consulting services (firms).</p>	<p>(DAK non-fisik) as well as through improved demand side purchasing of primary care (JKN). The proposed financing indicators are described later in this section.</p>	
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Table 3: Project Documents References

<p>1) Fiscal transfers for upper secondary education reforms in Brazil (P163868) - Project Appraisal Document (PAD) - Mid-Term Review Report - Technical Note</p>	<p>2) Indonesia - Supporting Primary Health Care Reform (P164277) - Project Appraisal Document (PAD) - Mid-Term Review Report</p>
<p>3) Tanzania Education Program for Results (P147486) - Project Appraisal Document (PAD) - Draft Implementation Completion and Results Report</p>	

