



Performance-Based Fiscal Transfers for Urban Local Governments

Results and Lessons from Two Decades
of World Bank Financing

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Executive Summary

Setting the Stage: An Introduction to Urban Performance-Based Grants

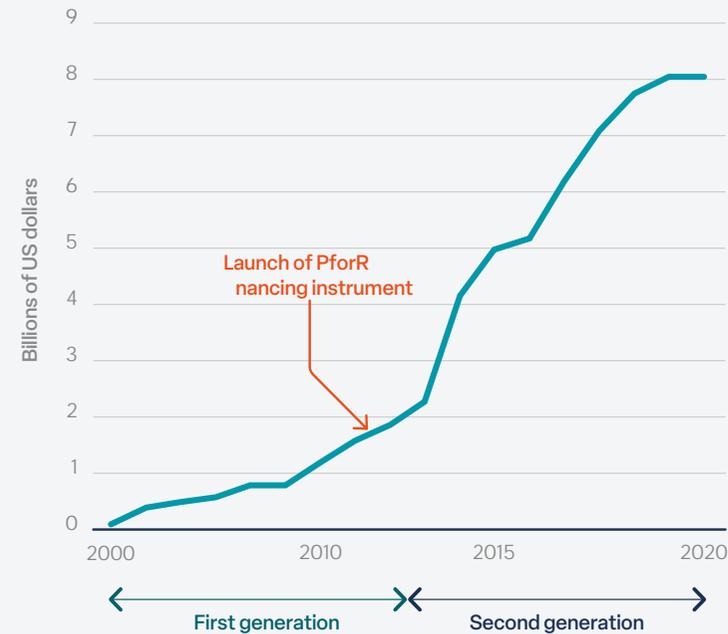
The World Bank has an extensive portfolio of programs that provide performance-based grants (PBGs) to local and other subnational governments as an incentive to improve institutional performance and service delivery outcomes. The Bank's Global Practice for Urban, Disaster Risk Management, Resilience, and Land (GPURL) has led the way in supporting these programs over the past two decades, overseeing over US\$8 billion in financing for them in this period across several regions (Figure ES.1).¹ In the last ten years, a second generation of such programs has substantially expanded them, both in financing volume and global geographical scope. The PBG programs overseen by GPURL are broadly referred to as **urban performance grant (UPG)** programs.

UPG programs generally have the following key design features:

- UPGs use performance-based grant financing to provide incentives to local governments to improve their institutional performance and service delivery outcomes in their jurisdictions.
- The programs rely on a robust, credible, and transparent common annual performance assessment (APA) system to evaluate local governments based on established criteria. The results of the assessments form the basis for the fiscal transfer (grant) allocations to these local governments, which receive grants from a central or regional agency, such as the Ministry of Finance, on the achievement of predefined result targets.
- Grant funding is generally used for capital investments (infrastructure and service delivery). The investments are measured and reported on, but the participating local governments have discretion over them, within limits, in line with local plans and priorities.

¹ Other global practices of the World Bank also support PBG programs, including the Governance Global Practice and the Social Sustainability and Inclusion Global Practice. The scope of this report is limited to programs supported by GPURL.

Figure ES.1. Cumulative World Bank Financing for UPG Programs under GPURL since 2000



Source: Team analysis based on data from World Bank's internal Operations Portal standard report and Business Warehouse database on June 30, 2021.

Note: The scope of the Urban Performance Grant programs included in this figure covers a total of 33 financing operations approved by the World Bank Group Board of Executive Directors and overseen by the Global Practice of Urban, Disaster Risk Management, Resilience, and Land between fiscal years 2000 and 2020. It includes the first and second generations of UPG financing programs, comprising over US\$8 billion in approved financing.

- **Capacity-building support is provided to different tiers of government.** Both the central government agency or ministry administering the program and the recipient local governments receive this support, which is sometimes delivered to the latter through earmarked capacity-building grants and is typically closely linked with the results of the performance assessment system.
- **UPG programs generally cover multiple cities, municipalities, and urban local governments.** In some cases, however, a single large city or metropolitan area may be targeted for specific purposes. Urban as well as rural local governments may be grant recipients, depending on program objectives and the specific political, administrative, and institutional context.

In the more than two decades they have been in use, UPGs have been acknowledged as contributing to improved local government performance in several areas. It is important, then, to systematically take stock of the implementation experience, results, and performances of these programs in achieving intended outcomes and to identify key lessons for the design and implementation of future programs that support this agenda. In addition to pursuing these objectives, this report provides key metrics and high-level analysis of the UPG portfolio and presents in-depth case studies of selected UPG programs, focusing on their achievements, challenges, and implementation experiences.

Key Findings from Review of World Bank Financing for UPG Programs

UPG programs represent a sizeable share of the World Bank’s urban portfolio² and are substantially larger in financing size and more cost-effective than non-UPG urban sector projects financed by the Bank. Between Fiscal Year (FY) 13 and FY20, they account for 41 percent of the urban portfolio in financing volume, amounting to US\$5.2 billion in total, and 56 percent of total International Development Association (IDA) financing in the portfolio (US\$3.5 billion). The average Bank financing for a UPG program is US\$275 million, which is 2.3 times

higher than the average Bank financing for non-UPG urban sector projects. While UPG programs tend to cost the Bank more to prepare and provide implementation support for—with total preparation and annual implementation support costing 24 percent and 34 percent more on average respectively—they are much more cost effective than non-UPG urban sector programs in terms of per-million-dollar financing.

Most local governments in the UPG programs reviewed in this report successfully complied with eligibility criteria (minimum conditions, or MCs) over the lives of their respective programs. In almost half of the reviewed programs, all the participating local governments continuously met the MCs throughout the entire program periods, while the rest started with lower rates that substantially increased over time. The former included countries with previous experiences in UPG systems and preparatory activities carried out before launch of the programs, which prepared them sufficiently to comply with the conditions.

The overall performance of participating local governments in areas targeted for institutional strengthening significantly improved across all UPG programs, as measured in rigorous APAs. One key metric is how the average performance score for the local governments within each program changed during its duration. Across all the UPG programs reviewed, the average performance score for local governments—comprising specific performance metrics (PMs) pertaining to key institutional and capital investment processes—increased by as much as 50 percent (Figure ES.2 shows this increase for each program reviewed). The UPG programs enhanced urban systems mainly by improving the generation of own-source revenues (OSR); public financial management (PFM); transparency, accountability, and citizen engagement; capital investment design, execution, and maintenance; asset management; and human resources (HR) management and local staffing. The key enablers of such improvements combined strong financial incentives with targeted capacity-building support, both before and during the implementation.

² See Box 1.1 for a description of the urban portfolio and other financing programs overseen by GPURL.

Figure ES.2. Increase in Average Score of APA Score over Program Period for All Local Governments in Program

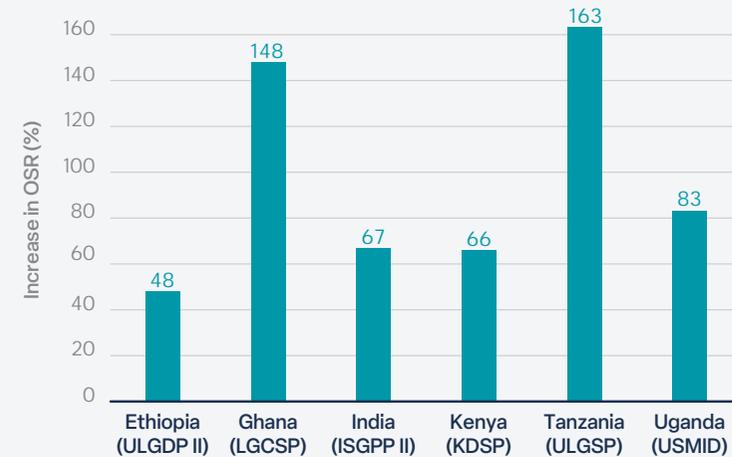


Source: Team analysis based on relevant program documents and data provided by World Bank task teams for respective UPG programs.

Note: Of nine reviewed UPG programs, three are not included because of data unavailability (i.e., it was too early to measure the improvement or too hard to track the trend due to changes to the measurement system).

OSR increased significantly in seven out of nine UPG cases, for example. Six showed an absolute increase in OSR collection, including Ethiopia (ULGDP), Ghana, India-West Bengal, Kenya, and Uganda (Figure ES.3), while in Ethiopia (UIIDP) the share of participating local governments with 10 percent annual increases in OSR rose from 77 percent in the first year to 85 percent in the second. The positive impact of UPGs on OSR regeneration has not been limited to the reviewed programs but has also been found in other cases, as shown in recent empirical research on a UPG program in Mozambique.

Figure ES.3. Percentage Increase in Own-Source Revenue over Program Period



Source: Team analysis based on relevant program documents and data provided by World Bank task teams for respective UPG programs.

Note: Percentage increase in OSR in nominal figures in local currency. Two UPG programs in Ghana (GSCSP) and Tunisia (PDUGL) were not included because of data unavailability.

UPG programs have also financed the rehabilitation or development of substantial capital infrastructure investments and assets for improved service delivery to citizens and businesses. Figure ES.4 summarizes the improved infrastructure and services outputs financed by the reviewed UPG programs.

Figure ES.4. Snapshot of Results Achieved: Improved Infrastructure and Services Outputs Financed by UPG Programs



Source: Compiled by authors using data from various UPG programs

Lessons and best practices for Urban Performance Grant programs

This review provides evidence and lessons learned on key design features and implementation drivers of UPG programs, which are applicable to other PBG programs for local and other subnational governments. The enablers of successful UPG programs are a combination of strong financial incentives provided through adequate *grant design* parameters; *grant operationalization and implementation* modalities (particularly an APA system) that are rigorous, credible, and transparent and fully integrated with the government's budget cycle and systems; and the coordinated delivery of *capacity-building support* and technical assistance to local governments to achieve improved performance. These are the three mutually reinforcing core components of a successful UPG

program, each of which needs to be carefully designed and implemented to achieve the development objective. Lessons and best practices on these three components are summarized below. In addition, at an overarching level, UPG programs should ideally be embedded into existing IGFT systems to leverage these systems for fund transfer and oversight.

1) Lessons and good practices on the design of UPGs

Ensuring UPGs are substantial in size—in both relative and absolute terms—is important to provide local governments with incentive to achieve performance targets and finance investments with impact. UPGs should constitute a meaningful share of all capital (or total) fiscal transfers to the recipient local governments, preferably comprising more than 20 percent of the annual capital grants allocated to them. Grant size should also be substantial on a per capita basis to enable the governments to deliver meaningful services to citizens and beneficiaries, preferably amounting to not less than US\$5–10 per capita annually for typical local governments in charge of core urban services. Finally, UPGs should enable local governments to undertake larger capital investments, generally for infrastructure, of at least US\$150,000–200,000 per project, especially in urban areas. This report discusses these general recommendations, as well as design proposals for contexts where the recommended levels are not feasible, especially when the policy preference is for an equitable distribution of grants for a much larger set of local governments, as well as substantial geographical variation among the governments across urban and rural areas. [Figure ES.5](#) summarizes key lessons on design factors for successful UPG programs, while noting the interaction and mutual influence among the various factors.

Figure ES.5. Summary of Lessons and Good Practices on Key Design Factors for Urban Performance Grants



2) Lessons on operationalization and implementation of UPGs

In addition to a well-designed program, it is important to develop a performance measurement and assessment process that is rigorous, credible, and objective enough to build trust among stakeholders and provide adequate performance incentives to local governments. An effective APA is designed to be *objective* by being contracted out to an entity external to the program, *credible* by having a multilayered verification and quality assurance system, and *rigorous* through the selection of adequate and targeted performance indicators. Local governments often require technical assistance to implement such an APA system, but its use helps provide them with strong performance incentives. It is also essential to ensure predictability and timeliness in the allocation and disbursement of UPGs to local governments by aligning the APA timelines with the governments' annual budget and intergovernmental fiscal transfers cycles. Figure ES.6 summarizes key lessons for effective and credible performance assessments and program operationalization.

3) Importance of capacity building to support program implementation and sustainability

Providing capacity-building support to local governments is important to strengthen their institutional performance and improve outcomes in infrastructure and service delivery. Well-designed capacity-building support targets specific areas that pose institutional barriers to improving performance and is especially helpful to low-performing local governments. Most of the UPG programs reviewed adopted a balanced capacity-building strategy combining supply- and demand-driven activities, often financed through a separate funding window: a small capacity-building grant. Figure ES.7 summarizes recommendations for effective capacity-building support under UPG programs.

The Way Forward: Issues for the Next Generation of UPG Programs

The next generation of UPG programs will need to persist with lessons learned from the earlier programs and innovate further as new issues emerge. Such programs are being required to tackle several emerging issues that affect their design and implementation:

- How to sustain the impacts of the programs beyond the program period and embed them into intergovernmental fiscal frameworks
- How to provide more direct incentives for improved service delivery outcomes, in addition to improved institutional performance at the local level
- How to promote local climate change action by providing financial incentives to local governments.

1) Ensuring sustainability of UPG programs within government systems

There is some evidence emerging of the sustainability of UPG interventions within government systems after program closure, but with caveats. In most of the cases reviewed, the governments retained (or replicated or even scaled up) several features of their UPG programs even after the programs closed, and aspects of UPGs became an element of the IGFT systems in these countries. In addition, UPG programs in several countries strengthened local institutions and contributed to policy dialogues on fiscal decentralization, with governments continuing or incorporating these improvements into their institutional systems. The strong results have also had clear demonstration effects, leading to considerable geographical expansion of such programs within countries and indicating strong government interest in their outcomes. These experiences show that Bank support to UPG-based intergovernmental fiscal transfers should be thought of as long-term partnerships with governments with time horizons of 15 years or more, with consistent and increasingly sophisticated support and incentives to local governments over this period. This will also provide governments with fiscal space for evolving and incrementally improving UPG systems.

Figure ES.6. Summary of Lessons and Good Practices for Effective and Credible Performance Assessments



Launch of APA

Synchronize program launch with local government budget cycle



Well-designed performance indicators

- Align APA thematic areas with objectives of UPG program
- Select indicators that are under local government control
- Balance between comprehensiveness and impacts



Neutral and objective APA protocols

- Conduct through third party
- Can be seen as similar with systems of external audit



Robust verification and quality assurance system

- External, “two-layer” quality assurance system is recommended for credibility



Clear and transparent reconciliation system

- Systematically reconcile any discrepancies found in APA results
- Close collaboration between World Bank and government



Value for Money (VfM) Audits

- Utilize VfM audit findings into APA indicators where feasible
- VfM costs need to be affordable relative to grant size (more relevant for larger urban projects)



Reflections of APA results

- Disseminate & publicize APA results for transparency & accountability
- Use APA results as input to capacity building support focusing on weak performance areas
- Incorporate APA results into overall program monitoring system

Figure ES.7. Recommendations for Effective Capacity-Building Support



2) From institutional processes to service delivery outcomes: The next generation of UPG programs

Most UPG programs aim to resolve institutional bottlenecks for service delivery and provide incentives to improve local governments' core institutional processes and systems, as these are the basic building blocks of their performance, accountability, and effectiveness in delivering services. The higher-level goal of these programs—improved service delivery—is pursued through an instrument based on a theory of change that is cognizant of the low-capacity and governance-challenged institutional environments in which the programs operate. Evidence is emerging that among the important drivers for better service delivery is better institutional processes for public investment management, accomplished by improving the efficiency and quality of capital investment expenditure. As a result, stakeholders have continued to demand direct incentives for and measurement of improvements in service delivery at the local level and the tying of UPG funding for local governments to these outcomes. It is important to acknowledge the challenges in doing so, however, especially for multisectoral UPG programs, where the local governments generally have discretion to spend the funds across multiple sectors within their remits and expenditure assignments, which makes it difficult to compare performance across sectors. Other issues include equity and attribution of results, lack of flexibility and discretion for local governments, and time lags between inputs and results. Providing incentives and measuring outcomes may, therefore, be much more suitable for sector-specific grant programs, where the sectors to which use of the grant funds is tied are predefined.

One useful approach to overcoming these challenges—especially in multisectoral grants where local governments have a broad mandate to expend funds across sectors—is the use of proxy-type indicators to provide incentive for service delivery outcomes. Such indicators, which might include results from Value for Money audits and capital expenditure execution rates (for example, measuring the efficiency, effectiveness, and quality of expenditure from UPG funds), among others, were generally effective in the UPG programs reviewed in this report. In

contexts where local governments have built strong processes and systems, UPG programs can also aim to move up the value chain with more sophisticated programs or target institutional performance and output indicators for specific municipal services. Entire programs can be designed with a sector-specific focus, targeting performance factors that are closer to the point of service delivery and alleviating critical constraints to delivery outcomes. Some promising recent examples, including improved solid waste management services and metropolitan coordination and management for better service delivery, are reviewed in the report.

3) Promoting climate change action at local level

Attention is increasing on promoting local climate actions through financial incentives under UPG systems. In many cases, the United Nations Capital Development Fund (UNCDF) has been taking the lead in this area through its Local Climate Adaptive Living Facility (LoCAL), which provides performance-based climate resilience grants in several countries.³ More generally, PBG programs are increasingly being utilized to focus more on climate change mitigation and adaptation at the local level, either through standalone grants or funding integrated into existing multisectoral grants. These initiatives are linked with a targeted performance assessment system and capacity-building support for local governments. The Bank has also started piloting climate-focused UPG programs in some countries, including Ethiopia and Kenya. While most such programs have focused on adaptation, incentive is also needed for local actions toward mitigation. A key tool for this may be the menu of eligible investments available to local governments, which should include investments to reduce local greenhouse gas emissions, such as funding for public and nonmotorized transportation, solid waste management to reduce methane emissions, and green public spaces, among others.

³ See the report for more information on this.

Glossary of key terms used

Performance-based grants (PBGs) are a specific type of intergovernmental financing mechanism, whereby local and other subnational governments receive fiscal transfers (grants) from higher tiers of government, conditioned on their assessed performance in predetermined areas. (“Local and other subnational governments” can refer to provinces, states, governorates, counties, districts, municipalities, corporations, and various other types of urban and rural local governments.) PBGs are generally integrated into national intergovernmental fiscal transfer (IGFT) systems. They are typically designed to improve the institutional performance and service delivery of the targeted local governments through a set of financial incentives, often in support of decentralization and devolution objectives of the national government, but they may be focused on a wider range of performance areas. PBGs can be categorized along two basic dimensions: the type of performance the grant is trying to leverage, particularly in terms of generic institutional performance or sector-specific performance; and the use of funds—that is, either discretionary or earmarked for certain types of uses or sectors.⁴

Urban performance grants (UPGs or UPG programs) are a subset of performance-based grants that promote enhancement of the institutional performance and service delivery of an identified range of local governments in developing countries, with the support of the World Bank’s Global Practice for Urban, Disaster Risk Management, Resilience and Land (GPURL). They mostly cover multiple cities, but in some cases a single large city can be targeted for specific purposes—for instance, to support the local economic development of a certain metropolitan area. Furthermore, while they generally apply to urban local governments (such as municipalities, metropolitan governments, corporations, and so on), both urban and rural local governments may be included, depending on program objectives and the country’s institutional context.

Annual performance assessment (APA) is a commonly used performance assessment protocol in UPG programs. APAs are conducted annually, in some cases by an independent verification agent (IVA), to ensure the credibility of performance results on which—complemented by various quality assurance systems—the size of the grant disbursed to local governments is based. Chapter 4 provides details on the APA process.

Infrastructure investments as referenced in this report are specific investments in municipal infrastructure and services that are funded and supported by UPG programs. Typically, over 80 percent of the total funding available under such programs is used to cover the costs of executing the planned infrastructure and service delivery.

Minimum conditions (MCs) are basic requirements with which all participating local governments should comply to become eligible for grants tied to the achievement of performance measures (see below). The role of MCs is to ensure fiduciary comfort and that funds will be absorbed with due safeguards in place. See chapter 1 for more details.

Performance measures (PMs) represent a set of predefined targets local governments should achieve, covering various thematic areas, with more refined and qualitative indicators than MCs. PMs determine the size of grants allocated to local governments, and they also inform capacity-building needs and overall monitoring and evaluation systems. See chapter 1 for more details.

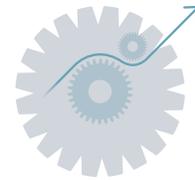
Investment Project Financing (IPF), a World Bank financing instrument, helps countries develop their physical and social infrastructures and service delivery in the medium to long terms (five to ten years). It also works as a vehicle for global knowledge sharing and technical assistance.

Program-for-Results (PforR), another financing instrument offered by the World Bank, links the disbursement of funds directly to the achievement of predefined performance results using a country’s own institutions and processes. Its aims are to build capacity within client countries, enhance the effectiveness and efficiency of investments, and lead to the achievement of scalable, sustainable impacts. See chapter 1 for more details on the World Bank’s financing instruments.

⁴ See UNCDF 2010 for PBG systems concepts and experience.

Abbreviations

APA	Annual performance assessment	O&M	Operation and maintenance
CFC	Central Financial Commission (in India)	OPAMS	Online Performance Assessment and Monitoring System
CPSC	Municipal Development Fund (in Tunisia)	OSR	Own-source revenue
DLI	Disbursement-linked indicator	PBG	Performance-based grant
DPAT	District Assembly Performance Assessment Tool (in Ghana)	PDUGL	Urban Development and Local Governance (in Tunisia)
DRM	Disaster risk management	PforR	Program-for-Results
E&S	Environmental and social systems	PFM	Public financial management
FOAT	Functional and Organisational Assessment Tool (in Ghana)	PIM	Public investment management
GoB	Government of Bangladesh	PIMA	Public Investment Management Assessment
GPURL	Global Practice for Urban, Disaster Risk Management, Resilience and Land	PM	Performance measure
GSCSP	Ghana Secondary Cities Support Program	SFC	State Fiscal Commission (in India)
HR	Human resource	SWM	Solid waste management
IDA	International Development Association	UIIDP	Urban Institutional and Infrastructure Development Program (in Ethiopia)
IGFT	Intergovernmental fiscal transfer	ULGDP	Urban Local Government Development Program (in Ethiopia)
IMF	International Monetary Fund	ULGSP	Urban Local Government Support Program (in Tanzania)
IPF	Investment Project Financing	UNCDF	United Nations Capital Development Fund
ISGPP	Institutional Strengthening of Gram Panchayats Project (in India)	UPG	Urban performance grant
IVA	Independent verification agent	USMID	Uganda Support to Municipal Infrastructure Development
KDSP	Kenya Devolution Support Program	USMID AF	Uganda Support to Municipal Infrastructure Development Additional Financing Program
LoCAL	Local Climate Adaptive Living Facility	VfM	Value for Money audit
LGCSP	Local Government Capacity Support Project (in Ghana)		
MC	Minimum condition		



Part I

Key findings and lessons for Performance Grant Programs

1. Introduction: Why Urban Performance Grants?

1.1. Context and motivation for this report

Performance-based grants (PBGs) are a specific type of intergovernmental fiscal transfer (IGFT) mechanism that provides incentives to local and other subnational governments to improve institutional performance and service delivery outcomes. Fiscal transfers from a higher level of government (for example, the central government) to local and other subnational governments are conditioned on their performance in predetermined areas.⁵ PBG programs are generally embedded within countries' IGFT systems and support the decentralization objectives of national governments.

The World Bank has established an extensive portfolio of such programs supporting governments across several regions. The Bank's Global Practice for Urban, Disaster Risk Management, Resilience, and Land (GPURL) has led the way in supporting these programs, overseeing over US\$8 billion in Bank financing for them. Currently, eighteen such Bank-financed programs across four regions of the world are being overseen by GPURL. These tend to target urban local governments and are broadly referred to as urban performance grant (UPG) programs.⁶ Other Global Practices of the Bank, including the Governance Global Practice and the Social Sustainability and Inclusion Global Practice, also support several PBG programs. The scope of this report is limited to those supported by GPURL, but the lessons learned and recommended best practices are applicable to the design and implementation of all PBG programs.

UPG programs have generally been acknowledged to have contributed to improving local government performance in several areas.⁷ These include but are not limited to the following:

- Supporting core administrative functions and compliance with basic statutory requirements
- Catalyzing public investment management and PFM by local governments (for example, high-quality planning processes, compliance with procurement regulations, timely accounting, audit processes, outcomes, and responses)
- Enhancing local government transparency and accountability, including downward accountability (the interface among local governments, citizens, and firms), upward accountability (incentives for local governments to comply with national laws and regulations), and horizontal accountability (between local civil servants and elected officials)
- Improving local infrastructure service delivery performance and expanding the stock of municipal infrastructure
- Spotlighting cross-cutting issues, such as gender, social inclusion, poverty targeting, and the environment

After more than two decades in which UPG programs have been in use, this report is intended to take stock of the design and implementation experiences of such programs and their results in achieving intended outcomes. The objective is to document these experiences and emerging findings on performance-based grant financing that supports institutional and service delivery improvements for local governments. The report identifies and analyzes the key achievements and challenges of GPURL's UPG financing portfolio to draw key lessons pertaining to the design and the implementation of these programs and provide recommendations for future programs.

⁵ Also see the Glossary for a definition of PBGs (and other terms used in this report) and the various types of local and other subnational governments that are generally recipients of PBGs.

⁶ The terms PBG and UPG are generally interchangeable and are used interchangeably in this report, with the difference that UPGs tend primarily to target urban local governments, while PBGs cover any type of subnational or local governments (see also the Glossary for definitions). Some UPGs, however, include both urban and rural local governments as recipients, depending on the local institutional and program context.

⁷ This paragraph has been derived from UNCDF 2010.

1.2. Objectives, methodology, and structure of this report

This report provides key metrics and high-level analysis of the UPG portfolio of the World Bank, specifically such programs overseen by GPURL; presents in-depth case studies of selected UPG programs, focusing on their achievement of results, the challenges they have faced, and their implementation experiences; and identifies key lessons and recommendations based on these lessons for the design and implementation of future UPG programs.

The report includes a combination of quantitative and qualitative analyses. The quantitative review provides overall metrics concerning the size, growth, and performance of the UPG portfolio, comparing it to the rest of the GPURL's urban development portfolio (see [Box 1.1](#) for a description of financing programs overseen by GPURL). The reviewed portfolio includes eighteen financing operations approved by the World Bank Group Board of Executive Directors between fiscal years 2013 and 2020, which represent the second generation of UPG financing programs. The programs comprise over US\$5.2 billion in approved financing, cover around 4,351 local governments, and benefit an estimated 226 million people (see [Table 1.1](#) for a list of the financing programs reviewed).⁸ Chapter 2 of this report describes the evolution of the first and second generations of these programs.

The quantitative review is supplemented by a qualitative analysis comprising in-depth case studies of nine UPG financing programs across four regions (see [Table 1.1](#)). The selection of these programs was based on three criteria:

- Regional balance
- Representativeness in terms of a standard typology of a UPG program (that is, decentralization context, second generation operations, targeting of multiple municipalities)
- Programs drawing upon accumulated experiences to generate meaningful lessons

⁸ This analysis is based on data retrieved from the World Bank's internal operations database as of June 30, 2021.

Box 1.1. Scope of World Bank Financing Programs Overseen by GPURL

The World Bank's Global Practice for Urban, Disaster Risk Management, Resilience, and Land (GPURL) finances three types of programs: urban development, disaster risk management and resilience, and land administration and management. Each category includes the following thematic areas:

- Urban development: Includes urban infrastructure and service delivery; services and housing for the poor; public transportation; urban planning; urban water and sanitation; and municipal finance (or urban performance grant programs).
- Disaster risk management (DRM) and resilience: Includes disaster preparedness and response; disaster risk reduction; post-disaster recovery and reconstruction; disaster risk information and decision-support systems; and DRM governance
- Land administration and management: Includes geospatial services and land information systems; national land policy and administration; urban land administration and management; and geospatial information frameworks

In this report, the "urban portfolio" is defined as comprising all programs in the urban development category approved between fiscal years 2013 and 2020. It includes a total of 81 programs, a list of which was reviewed and endorsed by GPURL management across all regions.

For more information, see, respectively, [Urban Development](#) (World Bank 2020c), [Disaster Risk Management & Resilience](#) (World Bank 2020a), and [Land](#) (World Bank 2020b).

Notably, most of the selected cases (seven of the nine) were in the Africa region, where the UPG experiences have been largely concentrated and have had the longest histories. Each analysis was based on desk reviews of key project documents,⁹ complemented by virtual internal interviews with respective World Bank task teams.¹⁰

⁹ Key project documents reviewed included the following: (1) project appraisal documents, which set out the World Bank staff's appraisal and assessment of the feasibility of and justification for each financing program; (2) implementation status and results reports, which are the Bank's main tool for internal and external reporting on the implementation performance and prospective outcomes of its financing programs; (3) annual performance assessments (typically externally conducted); (4) midterm review, a tool to assess the implementation performance at the midpoint of the program implementation cycle; and (5) implementation completion reports, which are among the Bank's main instruments of self-evaluation at the close of each of its financing programs.

¹⁰ Initially, a series of field visits to the case countries was planned for rigorous reviews, entailing detailed result verifications and interviews with local stakeholders. The scope of the overall analyses was limited, however, by the COVID-19 pandemic, which necessitated virtual modalities.

Table 1.1. Overview of the Reviewed UPG Programs

No.	Country	UPG program	Financing instrument	Amount of WB funding (US\$ millions)	Participating local governments	Target beneficiaries, estimate (millions)	Case study included
1	Bangladesh	Municipal Governance and Services Project	IPF	410	26	3.4	
2	Egypt	Upper Egypt Local Development	PforR	500	2	7.8	
3	Ethiopia	Second Urban Local Government Development Program (ULGDP II)	PforR	380	44	3.6	✓
4		Urban Institutional and Infrastructure Program (UIIP)	Hybrid	600	117		✓
5	Ghana	Local Government Capacity Support Project (LGCSPP)	IPF	175	46	9.6	✓
6		Ghana Secondary Cities Support Program (GSCSP)	PforR	100	25		✓
7	India	West Bengal Institutional Strengthening of Gram Panchayats Program (ISGPP II)	PforR	210	3229	67	✓
8	Kenya	Kenya Devolution Support Program (KDSP)	PforR	200	47	54	✓
9	Morocco	Casablanca Municipal Support Program	PforR	200	106	15	
10		Municipal Performance Program	PforR	300			
11	Pakistan	Punjab Cities Program	PforR	200	16	40	
12	Senegal	Municipal and Agglomerations Support Program	PforR	110	142	7.5	
13	Tanzania	Urban Local Government Strengthening Program (ULGSP)	PforR	255	18	3	✓
14	Tunisia	Urban Development and Local Governance and AF (PDUGL)	PforR	300 and 130	264	7	✓
15	Uganda	Uganda Support to Municipal Infrastructure Development Program and AF (USMID)	PforR	150 and 310	22	3.5	✓
16	Vietnam	Results-Based National Urban Development Program—Northern Mountains	PforR	250	7	0.8	
17	West Bank and Gaza	Local Governance and Services Improvement Program	PforR	18	144	3.6	
18		GZ-Third Municipal Development Project	IPF	76			
Total				5,224	4,351	225.8	9

This report is structured in two parts, as follows:

Part I presents key findings and lessons for the design and implementation of UPG programs.

- **Chapter 1** sets the stage by providing the context and motivation for the report and introducing the concept of performance-based financing for local and other subnational governments. It also describes the report's objectives and methodology.
- **Chapter 2** provides more details on the substance and evolution of UPG programs, describing the key features of UPGs financed by the World Bank and how they work to improve institutional performance and service delivery at the local level, followed by a description of their evolution and growth over the past two decades.
- **Chapter 3** reviews the results achieved by UPG programs (and participating local governments) across key performance metrics and municipal institutional variables, including OSR improvements; PFM; transparency, accountability, and citizen engagement; operation and maintenance (O&M) of capital infrastructure investments; and human resource (HR) management and local staffing. It also discusses results achieved in the provision and improvement of infrastructure and service delivery for beneficiaries. The chapter also broadly compares the performance of UPG programs with other urban sector projects financed by the Bank.
- **Chapter 4** discusses lessons learned and good practices for UPG programs across three components key to the successful design and implementation of future programs: grant design, grant operationalization, and capacity-building support for local governments.

- **Chapter 5** concludes by discussing several issues that will likely affect the next generation of UPG programs. It reviews the sustainability of these programs within country systems and how it can be further improved. This is followed by a discussion of how the next generation of UPG programs can more directly provide incentives for service delivery outcomes and how they can promote local action with regard to climate change.

Part II includes case studies of nine UPG programs across seven countries: Ethiopia, Ghana, India-West Bengal, Kenya, Tanzania, Tunisia, and Uganda.

2. Role and Evolution of Urban Performance Grants in Improving Local Government Outcomes

This chapter discusses the role of UPG programs in improving institutional performance and service delivery at the local level, focusing on programs financed by the World Bank over twenty years across several regions. A summary of key design and implementation features typical of these programs and how they work is followed by a description of their evolution and growth over this period.

2.1. Key features of urban performance grants: How they work

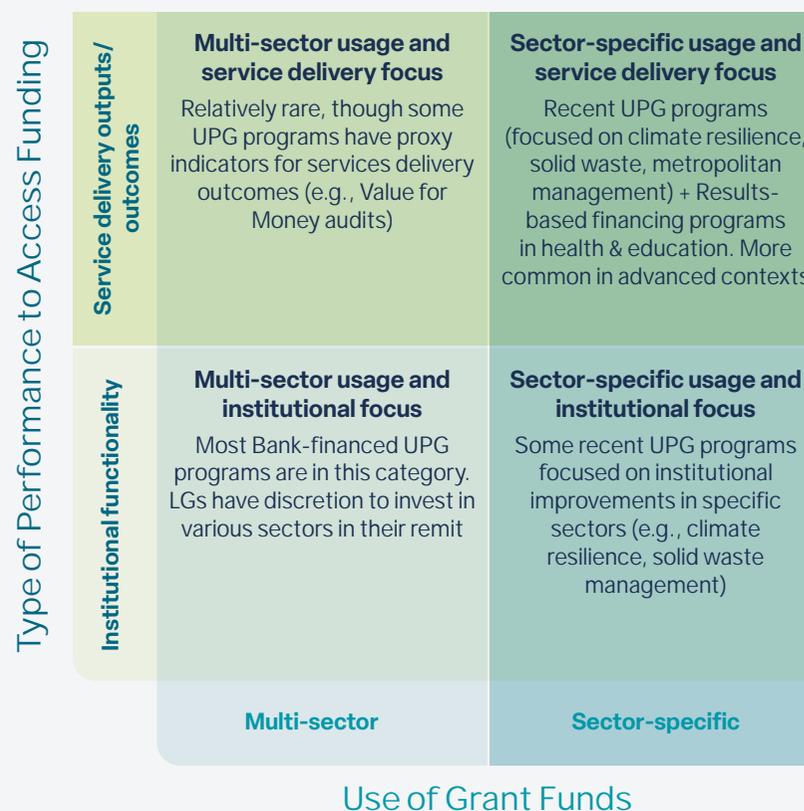
UPG programs are typically designed to utilize performance-based grants to provide incentive for improvements in the institutional performance and the infrastructure and service delivery of an identified range of urban local governments. In general, UPG programs have two objectives. First, they aim to improve the institutional performance of urban local governments, focusing on strengthening their capacity and organizational functionality and increasing their accountability in core areas such as service delivery planning and execution, PFM, strategic development planning, and citizen engagement among others; and, second, they expand the stock and coverage of municipal infrastructure and services within the mandates of local governments, including roads and public transportation, water and sanitation, municipal waste management, drainage, and public spaces, among others.

PBG programs can generally be categorized along the following two dimensions:

- **The eligible uses of grant funds for local governments:** That is, whether grant funds are meant to be expended only for specific, predefined sectors (such as education, health, water and sanitation, and so on), or whether the local governments have the flexibility and discretion to expend them across multiple sectors based on their own priorities and expenditure assignments.

- **The type of local government performance that is directly measured and assessed:** That is, whether the areas of local government performance assessed by the program to determine grant eligibility are institutional and process indicators or, rather, indicators that aim to measure service delivery outcomes, either directly or through proxy indicators.

Figure 2.1. Typology of Performance-based Based Grant Programs along Two Dimensions

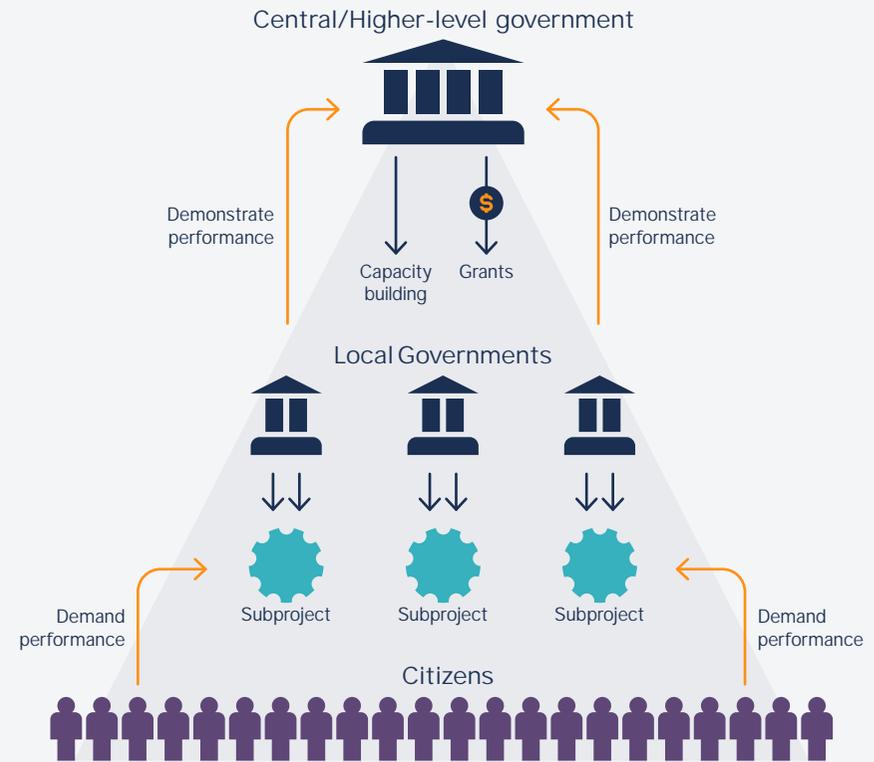


Source: Adapted and updated by authors from UNCDF 2010.

Most UPG programs reviewed in this report are located in the bottom-left quadrant of the typology shown in Figure 2.1. Local governments participating in such programs have a broad mandate for using grant funds across their wide sets of expenditure assignments but typically restrict them to capital investments (such as infrastructure and services) rather than recurrent expenses. The performance assessments also generally focus mostly on institutional indicators.

The participating local governments receive their grants from a central or regional agency, such as the Ministry of Finance, upon the achievement of predefined result targets. Figure 2.2 shows an illustrative design of a UPG program, in which the result areas mostly focus on institutional performances as “drivers of change” for efficient and effective service delivery and infrastructure expansion. The targeted results of such programs, on which local government performance is to be measured, can be calibrated from measures of institutional performance to more advanced measures such as service delivery outcomes, depending on the existing institutional environment and program objectives. The performance results of local governments are generally measured through a robust, externally executed, and transparent annual performance assessment (APA) system, generally comprising a set of minimum conditions (MCs) and performance measures (PMs). The MCs ensure and safeguard local governments’ capacities to handle funds (and function as eligibility criteria for local governments to receive funding from the program), while the PMs are more advanced and reflect qualitative aspects of local governments’ performances. The findings of the APA, which documents the achievement of the performance metrics by participating local governments, are shared with the higher tiers of government responsible for managing the PBG program and form the basis for the allocation of grant funds to the local governments. The APA cycle is supposed to be synchronized with the intergovernmental annual budget planning cycle to ensure the allocations are reflected in the governments’ annual budgets on time (see Box 2.1 for more details).

Figure 2.2. Stylized Structure of Urban Performance Grant Programs



Source: Authors

Upon receipt of grants, local governments have discretion over the design and implementation of grant-funded infrastructure investments in line with their local development plans and priorities. Most UPG programs provide multisectoral development grants that support a wide range of municipal infrastructure and services, including education and health-related facilities, roads, public spaces, drainage, and solid waste management (SWM). A few programs that are increasing

in number are sector- or theme-specific, focusing, for example, on SWM, climate change, and city competitiveness.¹¹ Citizens can play an important role in setting up investment priorities and monitoring the performances of local governments in the planning and execution of infrastructure investments (Figure 2.3).

UPG programs also mostly cover multiple cities, but in some cases a single large city or metropolitan area may be targeted for specific purposes—for example, to support local economic development.¹² In some cases, urban as well as rural local governments are grant recipients, depending on program objectives and the specific political, administrative, and institutional context.

Figure 2.3. Example of How UPGs Work and Align with Government Systems



Source: Authors

¹¹ Recent examples at the World Bank include a US\$105 million project supporting the Indian state of Kerala in strengthening urban SWM services; a US\$120 million project on cities and climate change in Mozambique; and a US\$500 million program in Egypt promoting the local business environment and development in a lagging region.

¹² Examples include the Competitive and Livable City of Karachi Project, the Casablanca Municipal Support Program, and the Greater Kampala Metropolitan Area Urban Development Program.

A key feature of UPG programs is the capacity-building support that is provided to local governments to help them achieve the institutional performance objectives for which they are being offered incentives.

Typically, the programs incorporate a set of capacity-building activities at different levels of government, with local governments receiving training, mentoring, and guidelines from higher tiers. Capacity-building support is sometimes delivered to local governments through specific earmarked grants dedicated to their capacity-building needs, with a small set of conditions for gaining access to the funding (see chapter 3 for more details on capacity-building support). The grants earmarked for capacity-building activities support a demand-driven approach that helps local governments take full responsibility for and ownership of their performances.

The generic design of UPGs reflects the goals and impacts of the program in the institutional contexts in which they are introduced.

Broadly speaking, UPG programs are focused on cross-cutting institutional strengthening and reform because the local governments they target are characterized by deep institutional weaknesses, and more effectively functioning institutions are needed before service-delivery improvements can be made (in other words, a sequencing imperative exists). The higher-level goal of these programs—improved service delivery—is pursued through an instrument based on a theory of change that is cognizant of the low-capacity and governance-challenged institutional environments in the countries in which the programs operate. If one were trying to improve the service delivery of a highly capable local government in a higher-income country through such a program, an explicit focus on institutional strengthening might not be necessary, as the baseline performance might already be strong. In such cases, the grant can focus on providing direct incentives for service delivery improvements, as PBGs in developed countries have often done.

Box 2.1. Typical Minimum Conditions and Performance Measures in UPG Programs

Minimum conditions (MCs) are a set of basic requirements with which all participating local governments should comply to become eligible to receive grant funding from the program. The role of MCs is generally to ensure fiduciary comfort, and that funds will be absorbed with due safeguards in place. Most UPG programs have a similar set of MCs, comprising a series of binary conditions (Yes/No indicators) without qualitative variations in performance.

Performance measures (PMs) represent a set of predefined targets local governments should achieve, the results of which determine the success of the UPG program. PMs, which cover various thematic areas, comprise more refined and qualitative indicators than MCs. The selection of the indicators varies across UPG programs, ranging from very simple designs with complex ones with over 60 indicators. The results of PMs are also used as references for capacity building and overall monitoring and evaluation systems.

Table B2.1.1. Illustrative Examples of MCs and PMs for Common Thematic Areas

	Minimum Conditions	Performance measures
Agreement to participate in the program	Participation agreements signed with local governments for duration of program	n/a
Planning and budgeting	Plans and budgets approved by local council in timely manner	Quality of the development plan and links to budget
PFM & Auditing	Timely preparation and approval of annual budgets and end-of-year financial statements & budgets Financial Audits without adverse opinions/disclaimers	Book of accounts, asset management up to date and with standard quality Clean audit and follow-up on audit findings
Capital budget execution and implementation	Adherence to eligible expenditures in previous fiscal year	Rate of execution of planned capital increase in OSR investment budget
Quality of capital Investments	n/a	Value for Money (VfM) audit, sustainability. Completed infrastructure rated meeting quality & efficiency standards

	Minimum Conditions	Performance measures
OSR performance	Increase in OSR, but used in rare cases	Increased OSR collection year-on-year Improved OSR management systems
Accountability, Transparency & Citizen Engagement	Sharing of information through public disclosure Functional local government websites etc.	Participatory budgeting & investment prioritization Involvement of citizens in budget planning, monitoring and reviews Functional Grievance redress mechanisms and their performance
Public Procurement	Presence of procurement plans and basic systems in place	Timely preparation & disclosure of Procurement plans Procurement performance and contract management
Asset management and O&M of infrastructure	n/a	Development of Asset registers / inventory, asset management plans Improved O&M planning & execution
Environmental & Social (E&S) risk management	Basic E&S systems or sta capacity in place	Performance of E&S systems
HR management and sta ng	Minimum sta ng and positions in place	Overall sta functionality, etc.
Cross-cutting areas	Mainly environmental and social safeguards and complaints handling system	Gender, local economic development, disaster risk management and resilience, local climate change action etc.

Sources: Authors, based on review of various UPG programs; UNCDF 2010.

a. Also referred to as minimum criteria, minimum access conditions, and minimum mandatory conditions in various programs.

In summary, UPGs generally have the following key design features:

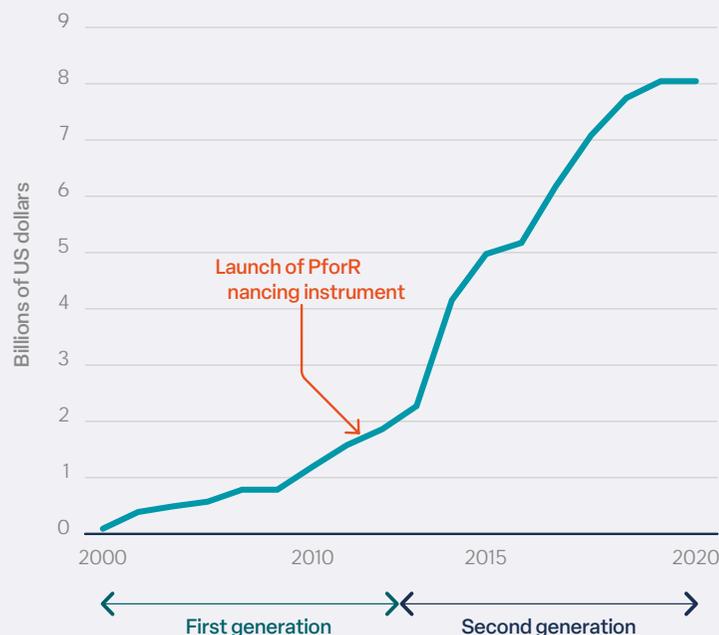
- **Performance assessment system:** The program relies on a robust, externally executed, and transparent common APA system that which informs the grant allocation and funding to local governments in strict accordance with established conditions.
- **Measured results focus on improvements in institutional performance.** Local governments receive funds upon achievement of pre-defined performance indicators. The targeted results of UPG programs, on which local government performance is to be measured, can be calibrated from measures of institutional performance to more advanced measures such as service delivery outcomes, depending on the existing institutional environment and program objectives. However, doing so also introduces challenges and complexities, as discussed in Chapter 5 of this report.
- **Grant funding is generally used for capital investments (infrastructure and service delivery)** within the mandates of local governments, which are measured and reported on. Within limits, participating local governments have discretion over the grant-funded capital investments in line with local plans and priorities.
- **Capacity-building support is provided,** both to the central government agency or ministry administering the program and to the grant recipient local governments, with delivery to the latter sometimes through earmarked capacity-building grants and typically closely linked with the results of the performance assessment system.

2.2. Evolution of urban performance grant programs

The UPG financing portfolio overseen by GPURL has grown substantially over the past two decades, reaching over US\$8 billion in financing volume (Figure 2.4). The Bank-financed UPG programs over this period have also evolved substantially in design and scope, and they generally constitute two broad generations of programs. The first generation began around 2000, with programs in East Africa (Tanzania and Uganda) and South Asia (Bangladesh). These programs often built upon and scaled up some of the pilot PBGs initiated by other development partners, such as the United Nations Capital Development Fund (UNCDF). In Uganda, for example, the concept of PBGs, which

was first piloted in five districts in 1997 with support from UNCDF, was subsequently scaled up with Bank support under multiple UPG programs, totaling US\$600 million in cumulative Bank financing to date (UNCDF 2021).

Figure 2.4. Cumulative World Bank Financing for UPG Programs under GPURL since 2000



Source: Team analysis based on data from World Bank’s internal Operations Portal standard report and Business Warehouse database on June 30, 2021.

Note: The scope of the Urban Performance Grant programs included in this figure covers a total of 33 financing operations approved by the World Bank Group Board of Executive Directors and overseen by the Global Practice of Urban, Disaster Risk Management, Resilience and Land between fiscal years 2000 and 2020. It includes the first and second generations of UPG financing programs comprising over US\$8 billion in approved financing.

The second generation of UPG programs has seen them expanded substantially, both in financing volume and geographical scope (Map 2.1 and Figure 2.5). While UPGs, like general PBGs, can be implemented in any country or region around the globe,¹³ over two-thirds of those overseen by GPURL at the World Bank are concentrated in Africa and South Asia. Several World Bank-financed UPG programs have utilized Program-for-Results (PforR), a new financing instrument introduced by the Bank in 2012 (see Box 2.2 for a discussion of Bank financing for UPGs using various financing instruments). In a number of countries, the first phase of the second-generation programs is now evolving into a second phase, with the number of local governments covered often expanded under follow-on programs and with refined approaches. Generally, both generations of UPG programs can be broadly divided into initial and subsequent phases, with the initial phase in most countries followed by scaling up and expansion to cover additional local governments.

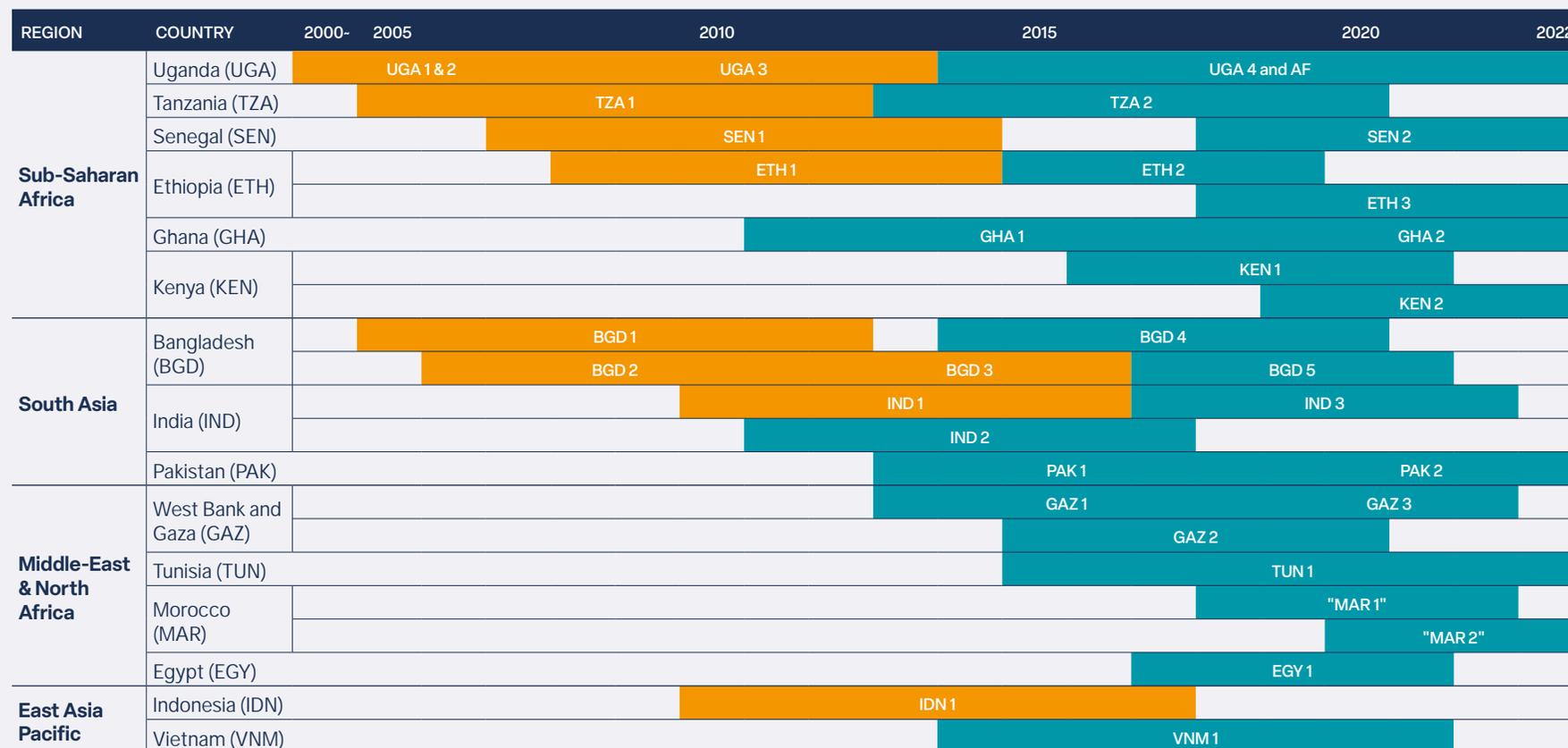
Map 2.1. Geographical Coverage of World Bank-Financed UPGs Overseen by GPURL



Source: Authors

¹³ Overall, performance-based grants have expanded across all regions. Such programs began in Africa and subsequently were implemented in Asia (for example, in Bangladesh, India, Lao, Mongolia, and Nepal), Europe (such as in Kosovo and Serbia), and the Pacific Islands (Solomon Islands and Tuvalu). See more examples in UNCDF 2021.

Figure 2.5. Evolution of UPG Programs in Each Country



Source: Team analysis based on data from World Bank's internal Operations Portal standard report and Business Warehouse database on June 30, 2021.

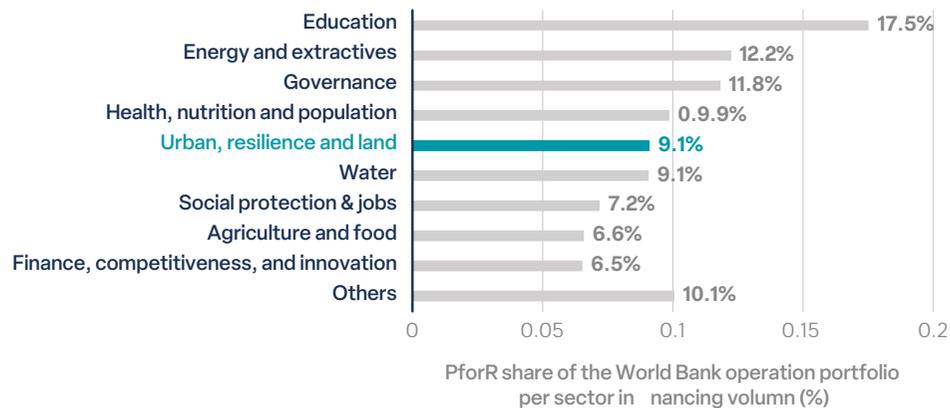
Note: The orange bars represent the first generation of UPG programs, with blue bars for the second generation. Each urban performance grant program is labeled with a respective country code and the ordinal number of a given program in the country (for example, the first UPG program in Uganda is shown as UGA 1).

Box 2.2. World Bank Financing for UPG Projects and Programs Using Various Financing Instruments

In 2012, a new World Bank financing instrument, Performance for Results (PforR), was launched to support directly part of an existing government program that targets specific results. Funds under PforR are disbursed upon the achievement of disbursement-linked indicators (DLIs) that reflect the results of government programs. One of the benefits of the PforR modality is that it encourages governments to take ownership of the design and implementation of the investments. Previously, most UPG programs used other Bank investment financing instruments, such as Investment Project Financing (IPF).

The World Bank has increasingly used its PforR instrument to support UPG programs because it naturally serves the objective of UPGs to support the improvement of intergovernmental fiscal transfer systems in a country, as well as the improvement of infrastructure and service delivery upon achievement of the predefined results. Using this instrument, the Bank disburses funds to the central government based on the verified performance of local governments, which, in turn, receive funds from central government transfers. The first PforR-type UPG was introduced in Tanzania, followed by Uganda. As Figure B2.3.1 shows, as of FY22, GPURL ranked as the fifth largest PforR user among all fifteen global practices (sectors) at the World Bank.

Figure B2.3.1. Use of PforR by World Bank Global Practices



Source: Team's analysis based on the data from the World Bank's internal Operations Portal standard report database as of June 30, 2021.

3. Key Findings from Review of World Bank Financing for Urban Performance Grant Programs

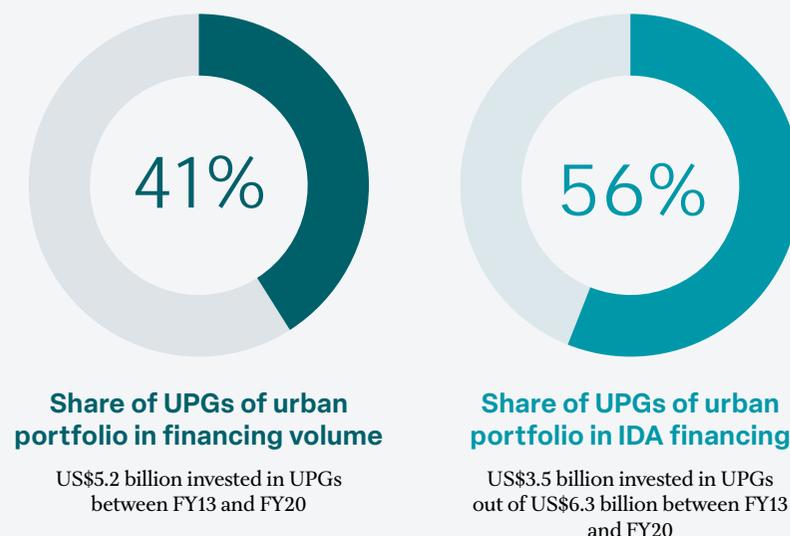
Chapter 3 reviews how UPG programs perform relative to other urban sector projects overseen by GPURL, referred to as the “urban portfolio” in this report. The chapter also provides the results attained by UPG programs across three key performance areas—overall performance of local governments, improvements in key urban and municipal institutional variables, and infrastructure, service delivery, and beneficiaries—based on findings from in-depth case studies of nine UPG programs.

3.1. Performance of UPG portfolio relative to other urban sector projects

UPG programs represent a sizeable share of the urban portfolio. They account for 41 percent of the portfolio in financing volume, amounting to US\$5.2 billion in total (see Figure 3.1). The UPG programs also take 56 percent of total International Development Association (IDA) financing¹⁴ (US\$3.5 billion). This significant share of UPG programs shows a strong demand from IDA client countries for performance-based grants that focus on addressing urban development challenges and reiterates the important role of UPGs in the overall success of the urban portfolio.

The Bank invests substantially more in UPG programs, on average, than in non-UPG urban-sector financing projects, and they are more cost effective. The average Bank financing for a UPG program is US\$275 million, which is 2.3 times higher than for non-UPG projects. While UPG programs tend to cost more to prepare and provide

Figure 3.1. Share of UPGs Out of Urban Portfolio



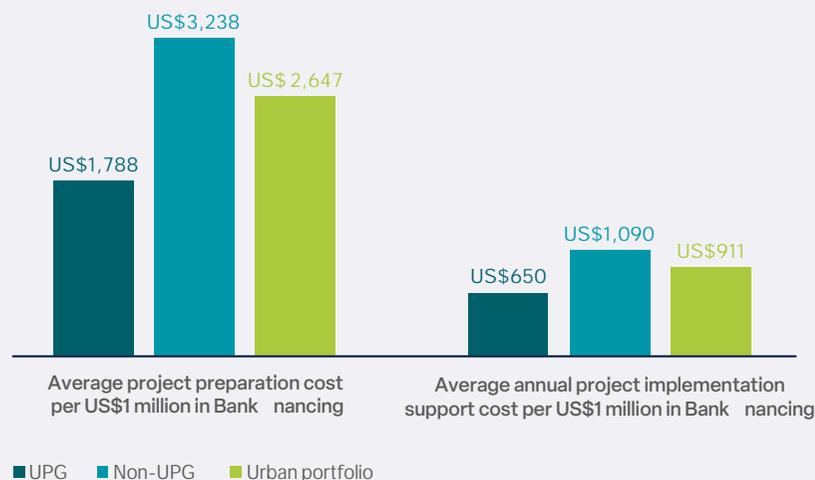
Source: Data retrieved from the World Bank’s internal Operations Portal standard report and Business Warehouse database on June 30, 2021. Projects overseen by Bank’s GPURL.

Note: Scope includes Urban Operations and second-generation UPGs approved between FY2013 and 2020, with one exception (Ghana LGCSP) that was approved before FY2013 but was an important part of the second-generation UPGs.

implementation support for—with 24 percent higher total preparation costs and 34 percent higher annual implementation support costs, on average—they are much more cost effective in per-million-dollar financing terms (see Figure 3.2). The average project preparation cost for UPG programs per million-dollar financing is about \$1,800, compared to over \$3,000 for non-UPG urban-sector projects, while the average annual implementation support cost is also substantially lower in per-million-dollar financing terms.

¹⁴ The IDA is the part of the World Bank Group that provides concessional funds, including zero- to low-interest loans (called “credits”) and grants, to the world’s poorest countries for programs that boost economic growth, reduce inequalities, and improve people’s living conditions. See <https://ida.worldbank.org/> for more details.

Figure 3.2. Cost Effectiveness of UPG Programs

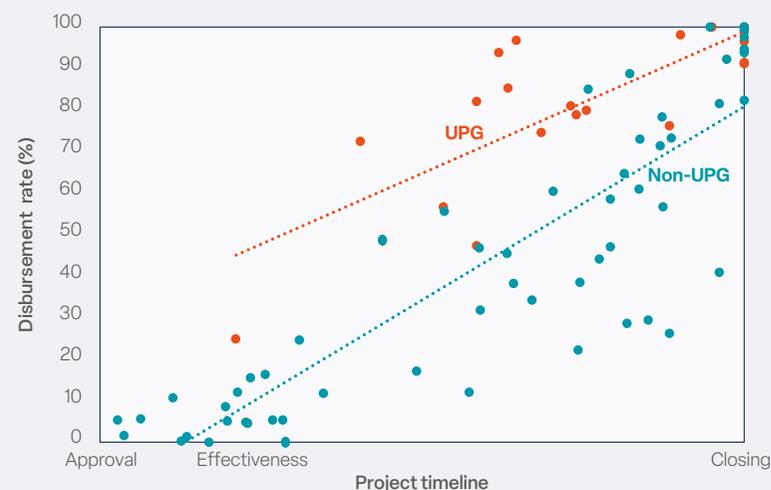


Source: Data were retrieved from World Bank’s internal Operations Portal standard report and Business Warehouse database on June 30, 2021. Projects overseen by Bank’s GPURL.

Moreover, UPG programs disburse Bank funds faster than non-UPG urban-sector projects over their lifetimes. While one may expect the disbursement rates of UPG programs to be lowered by the challenging conditions of their designs—such as the need for timely and transparent assessment of all participating local governments and a demanding list of performance metrics and disbursement-linked indicators (DLIs)—they disburse Bank funds well relative to non-UPG urban-sector projects over the course of their timelines (see Figure 3.3).

UPG programs also perform as well as non-UPG urban-sector projects in achieving program development objectives and implementation progress, as reported in biannual program ratings by Bank task teams.

Figure 3.3. Disbursement Trends of UPG and non-UPG Programs Over a Standardized Project Timeline



Source: Data were retrieved from World Bank’s internal Operations Portal standard report and Business Warehouse database on June 30, 2021.

Note: The X-axis refers to standardized values (0–1) of the project timeline: 0 = just approved projects; 0.5 around midterm review; and 1 for closed projects. The Y-axis refers to the percentage of program costs utilized out of allocated funding. The red dots represent UPG programs, with blue dots for non-UPG programs out of GPURL’s Urban Portfolio.

On a scale of 1 to 5, with 5 being highest, UPG programs have an average rating of 4.53 on their achievement of development objectives, which is slightly higher than the average rating of 4.37 for non-UPG urban-sector projects in the comparative period. A similar pattern was observed in average reported ratings for implementation progress, with UPG programs scoring 4.29, compared to 3.96 for the non-UPG projects.¹⁵

¹⁵ Ratings are for active or ongoing programs or projects and are based on publicly available implementation status and results reports for each, prepared by Bank teams and approved by Bank management. The rating scale of 1 to 5 is defined as follows: satisfactory = 5; moderately satisfactory = 4; moderately unsatisfactory = 3; unsatisfactory = 2; NA = 1. Data were retrieved from the World Bank’s internal Operations Portal standard report and the Business Warehouse database on June 30, 2021.

3.2. Results of nine case-study UPG programs across key performance areas

This section discusses results achieved by UPG programs in nine case-study countries. These cases show overall performance improvements achieved by UPGs in the following results areas:

- **Overall performance of local governments**, in terms of how those participating fared in complying with UPG program MCs, and their improvements in institutional performance over time
- **Improvements in key urban and municipal institutional variables**, including OSR, operation and maintenance (O&M) of capital investments, PFM, transparency, accountability, and citizen engagement, and human resource (HR) management
- **Infrastructure, service delivery, and beneficiaries**, covering physical infrastructure improved, number of beneficiaries served, and jobs created
- **Improvements to environmental and social (E&S) systems**

3.2.1 Overall performance of urban local governments

Most local governments participating in the UPG programs reviewed successfully complied with the eligibility criteria (minimum conditions, or MCs) over the lifetimes of their respective programs. In almost half the programs, all the participating local governments consistently met MCs throughout the entire program periods, while the rest started with lower rates of compliance that substantially increased over time (Table 3.1). The former included UPG programs in Ethiopia (ULGDP II and UIIDP), Ghana (GSCSP), and Uganda (USMID). The experiences of these countries in UPG systems and preparatory activities before the launch of their programs (such as capacity-building activities and awareness building among local governments) sufficiently prepared the local governments to comply with the MCs and gain access successfully to UPG funding. In the cases where they could not comply in the beginning, their response to the demands of the MCs improved rapidly.

Table 3.1. Increase in Minimum Condition Compliance Rate across UPG Programs

	% of urban local governments with MC compliance		% increase	Years taken for increase
	Baseline	Most recent result		
Ethiopia (ULGDP II)	100	100	0	4
Ethiopia (UIIDP)	100	100	0	1
Ghana (GSCSP)	100	100	0	1
Ghana (LGCSPP)	65	89	24	3
India-West Bengal (IGSPP-II)	52	75	23	3
Kenya (KDSP)	28	81	53	3
Tanzania (ULGSP)	83	100	17	5
Tunisia (PDUGL)	89	97	8	3
Uganda (USMID)	100	100	0	4
Uganda (USMID AF) ^a	78	100	22	2

Source: Team analysis based on relevant program documents and data provided by World Bank task teams for respective UPG programs.

a. USMID AF is shown separately from USMID, as their performance measurement designs were very different.

A prominent example was Ethiopia, where a rich learning experience about UPG systems took place at all levels of government. The central government successfully executed and rolled out performance grant financing across the two UPG programs in the country. Several regional governments adopted and tested a new performance measurement model that was developed under the first UPG program in the country, and local governments participating in the first and second UPG programs actively shared lessons learned with nonparticipating local governments. In addition to attaining a high level of understanding of UPG systems, 73 local governments that had newly joined the third UPG program (UIIDP)¹⁶ in the country received technical assistance

¹⁶ The third UPG program (UIIDP) scaled up its geographical coverage from 44 local governments under the previous UPG (ULGDP II) to 117 local governments.

and awareness-raising support before the program launch, enabling them to comply with the MCs from the outset.

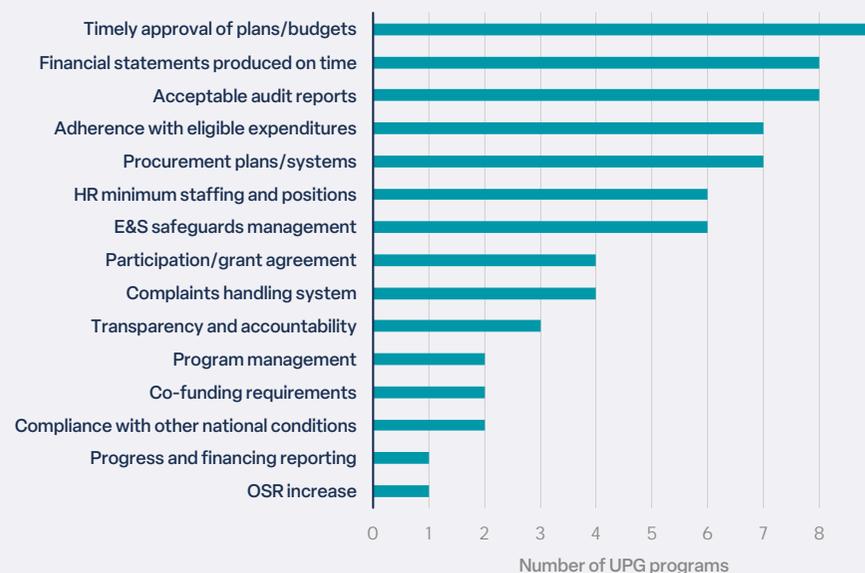
The remaining UPG programs showed annual increases in MC compliance rates of approximately 9 percent, on average. A common pattern observed was that more than 80 percent of participating local governments managed to comply with the MCs after three years of implementation. Even if a UPG started with lower MC compliance rates, the local governments tended to respond quickly to financial incentives. Kenya’s first UPG program, for example—the Kenya Devolution Support—introduced two sets of MCs for different funding windows, one for capacity-building support grants with fewer access conditions and the other for development grants with more demanding conditions. At the beginning, only 28 percent of the participating local governments met the MCs for the development grants. The compliance rate dramatically increased, however, to 81 percent within three years. This improvement indicates that the financial incentives in the MCs were adequately designed, and, complemented by targeted capacity-building support, they produced an effective response. [Figure 3.4](#) lists common MC indicators across the reviewed UPG programs.

These trends merit a few observations that are relevant for the design of future programs. First, while all participating local governments complied fully with the MCs right from the start of some programs (that is, 100 percent compliance at baseline for Ethiopia and Ghana), these were programs or contexts that had strong previous experience with UPG systems. They also had strong preparatory activities, managed by the central government, prior to the launch of the programs and the assessments. Through them the local governments were familiarized with program requirements, increasing their chances of achieving the MCs. These experiences indicate that conducting such preparatory activities is an important way to prepare local governments for program implementation, familiarize them with the program system, and mobilize the needed fiduciary and other support. Second, even in cases where baseline compliance was

low, it increased rapidly over the implementation period. This indicates that even noncomplying local governments generally take only a few years to come up to speed with all minimum requirements and improve their systems to ensure that they do.

Thus, MCs seem to be a strong instrument for providing incentive to improve core systems. It is important, however, to ensure they are not too easy to achieve (which could explain 100 percent compliance at baseline), and that they are properly selected within the range of commonly used indicators (see [Figure 3.4](#)).

Figure 3.4. Common Types of Minimum Conditions across the UPG Programs Reviewed

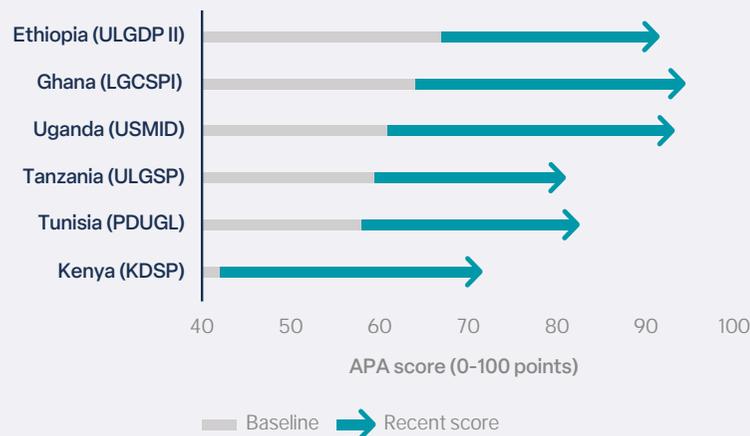


Note: Shows the list of MCs for UPGs. There are often separate MCs for capacity-building grants under UPG programs, as in Ghana, Kenya, and Uganda, which are not included in the graph. These MCs typically include a requirement for preparing a capacity-building plan and adherence with eligible expenditure categories.

The overall performance of participating local governments in areas targeted for institutional strengthening also significantly improved across all UPG programs, as measured in annual performance assessments (APAs). In most cases, average performance measure (PM) scores for local governments started from around 60–70 percent and reached more than 80–90 percent over the reviewed program periods, increasing by an average of 49 percent (Figure 3.5). It is also noteworthy that the UPG programs provided targeted support to weaker local governments so they could catch up with the top-performing ones. In Tanzania, for example, the standard deviation of PM scores among participating local governments decreased by 40 percent over the program period. In some cases, the performance trend was hard to analyze if substantial changes had been made to the PM indicators during implementation; typically, the bar was raised over time in some places.

In addition to indicators used for the APAs, Bank-financed UPGs using the PforR financing instrument included disbursement-linked indicators (DLIs) to provide incentive for higher tiers of government to support local governments in institutional strengthening. Here, the disbursement of Bank financing was tied to the successful accomplishment of actions by higher tiers of government, as well as to institutional improvements by participating local governments. See Box 3.1 for a discussion of how DLIs have been used to provide incentive for these actions and results across different levels of government.

Figure 3.5. Increase in Average Score of APA Score over Program Period for All Local Governments in Program



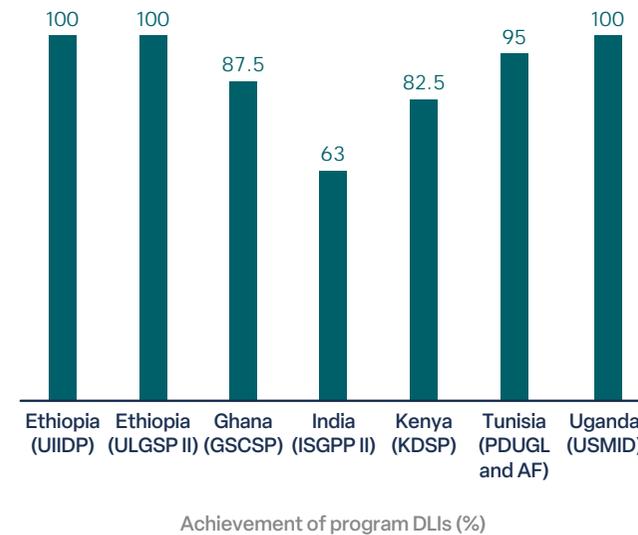
Source: Team analysis based on relevant program documents and data provided by World Bank task teams for respective UPG programs.

Note: Of nine reviewed UPG programs, three are not included because of data unavailability (i.e., it was too early to measure the improvement or too hard to track the trend due to changes to the measurement system).

Box 3.1. Use of DLIs to Provide Incentive for Institutional Actions in UPG Programs

Bank-financed UPG programs generally make use of six to ten disbursement-linked indicators (DLIs) related to the key performance areas of the APA and aligned with the programs' development objectives. These are indicators that have, in past experience, proved challenging for urban local governments and/or higher tiers of government to deliver on and, therefore, need a boost in terms of incentive. DLIs among the reviewed UPGs commonly included requiring compliance with MCs; the achievement of annual PM targets; and the delivery of capacity-building support. Other key results areas incorporated into DLIs include timely audits; OSR collection; HR management; accountability; and timely execution of infrastructure and/or VFM results. In some cases, DLIs are used to resolve specific program management challenges, such as delays in APAs and/or audit reports. Three out of seven reviewed UPGs using the PforR financing instrument included a DLI on the timely completion of the APA by the government, even though delays persisted in this, at times due to strong external factors outside the scope of the program or its coordinating agency. Some programs, such as in Ethiopia (ULGDP II and UIIDP), had DLIs formulated around defined capacity-building support to be provided by a higher tier of government (regional or central) and/or for various types of institutional systems for participating local governments. The Bank-financed UPG programs reviewed that used the PforR financing instrument achieved an average of 90 percent of their DLIs, ranging from 63 to 100 percent (see Figure B3.1.1).

Figure B3.1.1. Percentage Achievement of Disbursement-Linked Indicators in Various UPG programs



Source: Team analysis based on latest data provided by World Bank task teams for respective UPG programs in FY21.

Note: This is the share of DLIs achieved against targets out of a total number of DLIs under each UPG program, according to the latest results available.

3.2.2. Key urban and municipal institutional variables

UPG programs have helped enhance urban systems, mainly by improving OSR performance, PFM, transparency, accountability and citizen engagement, operation and maintenance (O&M) of capital infrastructure investments, and human resource (HR) management and local staffing (see part II for detailed results of each UPG program). Key enablers of such improvements have been a combination of strong financial incentives and targeted capacity-building support, both before and during the implementation.

OSR significantly increased in the seven out of the nine reviewed UPG cases for which these data were available¹⁷. Six cases showed an absolute increase in OSR collection, including Ethiopia (ULGDP II), Ghana (LGCSP), India-West Bengal (IGSPP II), Kenya (KDSP), Tanzania (ULGSP), and Uganda (USMID) (Figure 3.6). In the seventh case (Ethiopia, UIIDP), the share of participating local governments with 10 percent annual increases in OSR rose from 77 percent in the first year to 85 percent in the second. The positive impact of urban performance grants on OSR regeneration has not been limited to the reviewed programs but has applied to other UPG cases, as well, as shown by recent empirical research on a UPG program in Mozambique (see Box 3.2). These are remarkable results, seen in the context of various challenges in most of these countries with OSR collection systems, risks of crowding out of OSR improvement when fiscal transfers are increased, and previous OSR trends. In Uganda, for example, OSRs were decreasing or stagnant in many years prior to the UPG program, and increasing fiscal transfers was among the challenges mentioned.¹⁸

¹⁷ It should be noted that an increase in fiscal transfers due to UPGs can at times create a crowding out effect on OSR in the same period, as pointed out in the literature on municipal finance. In this case, however, OSRs have increased in absolute terms in the same period as fiscal transfers via UPGs. A counterfactual analysis has not been done on this subject for this report.

¹⁸ See, for instance, Mahler (2005), who argues that the substantial increase in fiscal transfers undermined local government incentives to collect OSR. Researchers from Nigeria, such as Kayode (2020), confirm this, although others—for example, Masaki (2018)—show it depends on the context, and that this may not always be the case, depending on the design of the fiscal transfers.

Figure 3.6. Percentage Increase in Own-Source Revenue over Program Period



Source: Team analysis based on relevant program documents and data provided by World Bank task teams for respective UPG programs.

Note: Percentage increase in OSR in nominal figures in local currency. Two UPG programs in Ghana (GSCSP) and Tunisia (PDUGL) were not included because of data unavailability.

In the reviewed programs, the UPGs contributed to improving O&M of capital investments in urban infrastructure and services. In all but one program (in India-West Bengal), where O&M was not monitored during implementation, performance indicators related to O&M showed progress. The share of local governments with the planned budget allocated to O&M, for instance, increased by 94, 79, 45, and 35 percentage points, respectively, in Tanzania (ULGSP), Uganda (USMID), Ethiopia (UIIDP), and Tunisia (PDUGL). In Ghana, the average PM score on asset management plans and strategies increased by 15 percent under the first UPG in the country (LGCSP) and specific urban infrastructure and

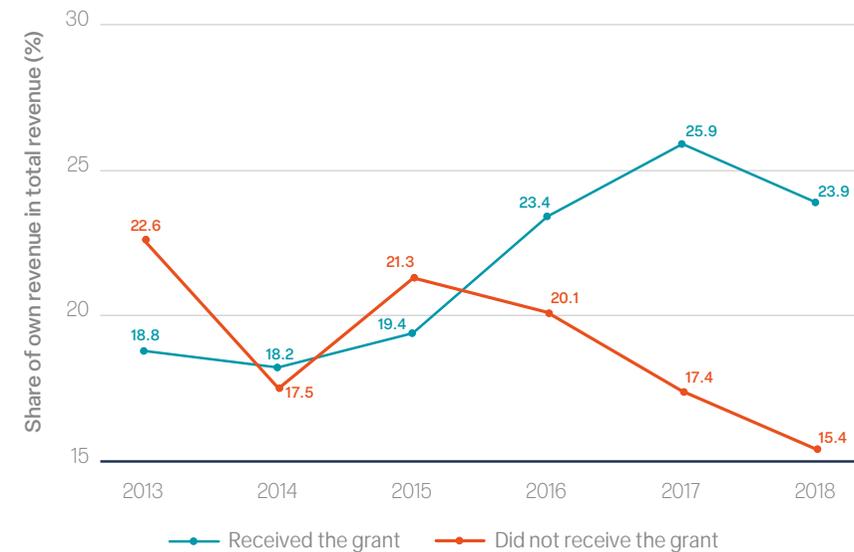
Box 3.2. Impact of UPG on Own-Source Revenue Collection in Mozambique

A recent study by Erman, Uehara, and Beaudet (2021) evaluated the impact on local revenue collection in Mozambique of an urban performance grant financed under the Cities and Climate Change program. Between 2013 and 2018, the program provided half of the country's municipalities (that is, cities and towns) with annual transfers of over US\$40,000 and technical assistance in such areas such as fiscal management, urban development, and investment planning.

According to the study, the UPGs provided by the program were successful in providing adequate incentives to municipalities and increasing local revenue collection. Local revenue grew by 114 percent, and its share in total revenue increased from 19 percent in 2013 to 24 percent in 2018, which was more than in nonparticipating municipalities during the same period (see Figure B3.2.1). The positive effect of the UPG was time lagged, which indicated the important role of UPGs in building enabling environments for revenue collection, leading to a gradual increase in the revenue in the following years.

Another important finding was the significant impact of UPGs on revenue collection when combined with technical assistance, implying that capacity-building support and technical assistance are key to the success of a performance-based grant program, especially in a low-capacity country. When combined with technical assistance, local revenue increased by 10–11 meticaïs (Mozambique currency) per capita in cities and 24–60 meticaïs per capita in towns for every grant of 10 meticaïs per capita. The larger effect of the UPGs on local revenue collection in towns than in cities may have been due to the stronger incentive provided by the grants to the towns, where they constituted a larger share of the total budgets than in the cities.

Figure B3.2.1. Impacts of UPGs on ORS Collection in Mozambique



Source: Erman, Uehara, and Beaudet 2021.

service maintenance indicators also showed improvement under the subsequent UPG program (GSCSP)—for example, the pedestrian network maintenance score increased by 48 percent during the program period.

PFM was enhanced substantially in all of the nine UPG programs. PFM was a key performance measurement area across most of the programs. In Uganda (USMID), Tanzania (ULGSP), Ghana (LGCSP), and Ethiopia (ULGDP II), the APA scores on PFM increased by 67, 50, 47, and 46 percent, respectively, during the program periods. The indicators measured included clean audit statements, timely reporting, commitment controls, cash flow, and internal control, among others. Among other examples were the following:

- **Ethiopia:** The number of local governments with clean audits increased from 25 to 56 out of the 117 participating in UIIDP during the first two years of its implementation. All of the participating local governments conducted timely audits, which was a major achievement, considering previous challenges in this area.
- **Ghana:** The share of local governments submitting financial accounts in a timely manner for audits increased from 13 percent to 100 percent under LGCSP.
- **India-West Bengal:** The share of local governments without an adverse or disclaimed audit was more than 98 percent throughout the program.
- **Kenya:** The APA score on monthly financial reporting improved by 13 percent, and performance on the internal audit trended upward by 26 percent.

Transparency, accountability, and citizen engagement also improved in all nine UPG programs. UPGs reportedly contributed to an increase in the use of citizen charters and public disclosing, as well as to the development of innovative information-sharing tools. In Kenya (KDSP), the number of local governments that incorporated citizen inputs into budgeting increased by 52 percent through the public disclosure of previously unpublished documents. In Ethiopia (ULGDP II), Uganda (USMID), and Tanzania (ULGSP), transparency and accountability were monitored as part of key performance areas, and the resulting scores increased by 82, 56, and 25 percent, respectively, over the project

periods. The transparency and accountability indicators included public disclosing, communication framework and engagement plans in place, and budget forums held.

HR management and local staffing improved in seven out of the nine UPGs. HR management was often measured as an MC. Examples were in Ethiopia (both ULGDP II and UIIDP) and Uganda (USMID), where MCs on HR management were consistently met, although some of these measures were demanding, such as core staff in place with required skills. Where HR was measured among key PM indicators, the UPGs mostly showed improvements in preparing and implementing organizational structures and staffing plans, job descriptions, specifications and competency framework, staff appraisals, and performance management, among others. The average performance score on HR in Kenya (KDSP), for example, increased by 17 percent over the program period. Among the common challenges reported related to HR management were delays in filling in core staffing positions, mostly associated with changes in the governance system (for example, delays in the adoption of new decrees in Tunisia); inadequate incentives to central or provincial governments; and frequent transfers of staff.

In sum, UPG programs generally tended to provide incentive for improvements to core municipal and institutional performance systems by measurably improving OSR generation, O&M of capital infrastructure investments, PFM, transparency, accountability and citizen engagement, and HR management and local staffing. These improvements tended to continue (for example, in Ethiopia, India-West Bengal, and Uganda) when the programs were expanded and with subsequent phases and rollouts.

3.2.3. Infrastructure and service delivery performance and beneficiaries

Investments in urban infrastructure were well executed across the UPGs reviewed. The average annual execution rate of planned infrastructure investments was 88 percent, and it steadily improved over program periods across all UPG programs (Figure 3.7). Most UPG expenditures were also effectively used for infrastructure investments.¹⁹ Evidence from Uganda also indicated that the number of participating local governments that completed investment projects financed by UPGs gradually rose over the life of the program, from 42 in 2017/18 to 125 (out of around 150) in 2021/22, showing a marked increase in the ability of participating local governments to spend UPG funds in a timely manner and pointing to gradual improvement in public investment management. The share of infrastructure investment costs compared to total program expenditures was 83 percent on average, ranging from 64 percent (in Kenya’s KDSP, which was the first UPG program in the country with a more comprehensive focus on capacity building) to 95 percent (in Ethiopia’s ULGDP II).

The UPG programs reviewed financed the rehabilitation or development of substantial capital infrastructure investments and assets for improved service delivery for citizens and businesses. The improvements included, but were not limited to, the following:

- **Mobility and transportation:** 7,000 km of roads; 160 km of bicycle or pedestrian ways; 28 transit facilities (such as bus terminals)
- **Security and public safety:** 8,700 streetlights; 30 security facilities
- **Public or green spaces:** 350 ha of parks; 90 local markets; 15 social facilities (such as community centers)
- **Solid waste management (SWM) and drainage:** 290 waste collection points; over 1,270 km of drainage; 3 dumpsites; 1,300 trashcans
- **Education and health facilities:** 2,000 classrooms; 28 community health planning and service compounds; 14 health clinics; and more, especially after COVID-19

Figure 3.7. Annual Execution Rate of Planned Infrastructure Investments at the Local Level



Source: Team analysis based on relevant program documents and data provided by World Bank task teams for respective UPG programs.

Note: The Y-axis represents the average share of executed capital infrastructure subprojects out of planned infrastructure subprojects (in number) per annual local infrastructure development plan over program periods. One UPG in Ghana (GSCSP) was not included due to data unavailability.

The improved access to infrastructure and services tended to lead to broader impacts, including improved mobility, resilience, and public health. In some cases, for example, improved hygiene through new drainage and roads was found to reduce waterborne diseases and the number of disease-carrying mosquitoes. The construction of urban roads was also associated with increases in land values in areas surrounding investment sites, as seen in Tanzania.

¹⁹ Note that use of funds for eligible investments was often an MC, as well.

Moreover, these UPG-funded infrastructure projects and services contributed to the creation of an estimated 1 million (mostly temporary) employment opportunities, primarily on labor-intensive capital infrastructure works (Table 3.2). While direct and/or indirect employment opportunities created across UPG programs were not systematically tracked, some programs tracked the number of people employed (in person-years of work), mainly on labor-intensive works, such as road construction.

The nine reviewed UPG programs collectively reached almost 150 million target beneficiaries. Of these, over 80 percent benefited from two programs that targeted all local governments in a state or a country; 67 million were under India-West Bengal (ISGPP II) and 54 million under Kenya (KDSP). Other UPG programs targeted specific geographical areas and served fewer beneficiaries, ranging from 3 million in Tanzania to 9.6 million in Ghana. The reviewed UPGs benefited over 4,300 local governments, accounting for 150 million people.

Value for Money (VfM) audits conducted for selected programs found UPG-funded capital infrastructure investments to be cost effective. In Uganda, the audits showed that 91 percent of infrastructure investment projects in the first generation of UPG programs were of high quality, generally functional, and being utilized as intended, pointing to improved efficiency and quality of capital expenditure. The central government had expanded the use of the VfM audit tool outside the program as well. Ongoing investments under the second-generation program (USMID) recorded higher VfM scores and were more cost efficient than similar non-UPG funded investments across the country (Box 3.3). In India-West Bengal (IGSPP II), 98 percent of road construction projects were found to be satisfactory. In general, UPG program funds were used efficiently, and the quality of the infrastructure was satisfactory. This was supported in some cases by the use of VfM results in the APA process to enhance local governments' incentives to deliver these outputs.

Table 3.2. Employment Opportunities Created via Labor-Intensive Public Works in Selected UPG Programs

Projects	Estimated person-years of employment added	Notes
Ethiopia (ULGDP II)	651,583	The program led to a high level of job creation, in the range of about 160,000 jobs per year, through such labor-intensive works as cobblestone roads.
Ethiopia (UIIDP)	306,184	The program led to a high level of job creation, especially for unemployed youth.
Tanzania (ULGSP)	52,402	At least 52,402 jobs were created during construction and through small businesses along upgraded roads, markets, and bus terminals financed under the program.
Ghana (LGCSP)	11,778	In addition to indirect jobs created, 11,778 persons (79 percent males) were directly engaged for the provision of the subprojects, and approximately US\$23,804,360 was paid to workers as wages.

Source: Data provided by World Bank task teams for respective UPG programs.

Note: Not intended as an exhaustive list of employment opportunities created through the reviewed programs.

Thus, despite some limitations, the UPG programs reviewed generally succeeded in improving institutional performance and infrastructure and service delivery outcomes in targeted local governments. Most of the participating local governments successfully complied with minimum conditions for getting access to grants and improving institutional performances, as evidenced in the APA results and various reviews. The programs also had positive impacts on improving urban institutional systems, mainly by improving OSR generation, HR management, O&M, PFM, and accountability, and they disbursed funds

Box 3.3. Value for Money Audit in Uganda

A Value for Money (VfM) audit is a specific type of audit to measure the quality and actual execution (as compared to targets) of investments in urban infrastructure and services. An increasing focus on the quality of infrastructure investments led to factoring the results of VfMs into APA scores and/or disbursement-linked indicators (DLIs). In Uganda (USMID), overall results of the VfMs were incorporated into a specific DLI on the actual delivery of infrastructure against targets; this measure showed a stable increase in the VfM score, even during the expansion from 14 to 18 urban local governments.

These VfMs were designed to measure three “Es”:

- **Economy:** The unit cost of delivery of the infrastructure, as compared to works of similar quality and quantity.
- **Efficiency:** The level of implementation of the works, as compared to the agreed-upon contract-approved work programs and outputs. Indicators included physical progress lag, timeliness in payments, percentage of quality progress reports, and percentage of approved equipment onsite, among others.
- **Effectiveness:** The quality of the works being implemented and the utilization of infrastructure. Indicators included presence of material test results on file, percentage conformance of site works to design drawings and specifications, percentage of conformance of audit test results to specifications, and whether the infrastructure was in use by the intended beneficiaries.

The VfM results demonstrated that the USMID-funded infrastructure investments were more economical, efficient, and effective than non-USMID investments. The USMID-funded projects significantly minimized disparities in unit costs, and they filed detailed qualitative progress reports and minutes of site meetings conducted for all the participating local governments. Materials test results were also on file for all USMID infrastructure investments. Key challenges remaining were delays in contracts and quality control of the infrastructure construction process, especially for non-USMID projects.

Source: Government of Uganda 2019.

effectively relative to non-UPG programs. Key challenges commonly observed among the UPG programs were delays in APA processes and procurement and, in some places, timely deployment of sufficient capacity-building support and technical assistance.

3.2.4. Improving environmental and social standards and systems at the local level

The rigorous APA system seems to be an effective tool to cover cross-cutting issues, especially—based on the review of UPG programs for this report—with regard to improving environmental and social standards and systems among participating local governments and reducing E&S risks. In most cases so far, E&S system improvement and risk mitigation have been addressed, first, by incorporating E&S-focused indicators into MCs or PMs (or both, in some cases) to be measured under the APA; and, second, by providing targeted and comprehensive capacity-building support to participating local governments in these areas (for example, through expanded training modules on E&S issues and by assisting local governments in developing necessary plans). Incorporating E&S-focused indicators into the performance assessment framework has emerged as a good practice because it gives local governments incentive to focus fully on understanding and implementing E&S requirements under country laws and program systems and creates awareness about these pertinent issues. Capacity gaps in addressing E&S issues at the local level, however, persist as a challenge, with inadequate staffing and skills commonly experienced by local governments in most UPG programs. As the next chapter, shows, the provision of financial incentives through grants needs to be supplemented by centrally driven capacity-building support and technical assistance in these areas.

4. Lessons and Best Practices for Urban Performance Grant Programs

This chapter draws upon findings from case studies to present lessons learned and best practices on the three key components that inform successful design and implementation of a UPG program: grant design, grant operationalization, and capacity-building support for the local governments participating in the program.

4.1. Three core components of a successful UPG program

A successful UPG program has three mutually reinforcing core components, each of which needs to be carefully designed and implemented over the course of the program to achieve the desired development impact: grant design, grant operationalization, and capacity-building support for the local governments participating in the program (Figure 4.1). Even before reviewing the lessons and best practices for these three components, however, it is important to note that the first step in scoping and planning a UPG program is to review whether contextual and external factors in the country (including the prevailing institutional environment) are conducive to ensuring such a program can be functional and effective. This initial understanding of the local context then informs the **grant design**, where such key factors as per capita grant size, scale of grant-funded infrastructure projects, and grant allocation formulas are determined. Subsequently, during the **operationalization and implementation** of the grants, the performance of participating local governments is measured, assessed, and verified, the results of which are used as a basis for grant disbursement to the participating local governments. Finally, targeted **capacity-building support** is crucial for all levels of governments to maximize and sustain the impacts of UPGs. The subsequent sections of this chapter discuss lessons and best practices for each of these components.

Figure 4.1. Mutually Strengthening Core Components of a UPG Program



4.1.1 The critical role of contextual and external factors

The presence of an enabling institutional environment, such as a decentralization agenda and related initiatives, is central to the success of UPG programs. Among the major nonconducive conditions that impede their effective design and implementation are centralizing policies that limit the mandates and functions of local governments (including and especially pertaining to OSRs), fragmentation in local government systems, and human resource constraints, as well as insufficient support from central to local levels in capacity building, development of guidelines, and other areas. A recent example is provided by Tanzania, where property tax collection was centralized in 2016 and, thus, all property tax-related indicators had to be taken out of the performance measurement metrics for the UPG program (ULGSP), with the result that the general level of discretionary formula-based development funds decreased.

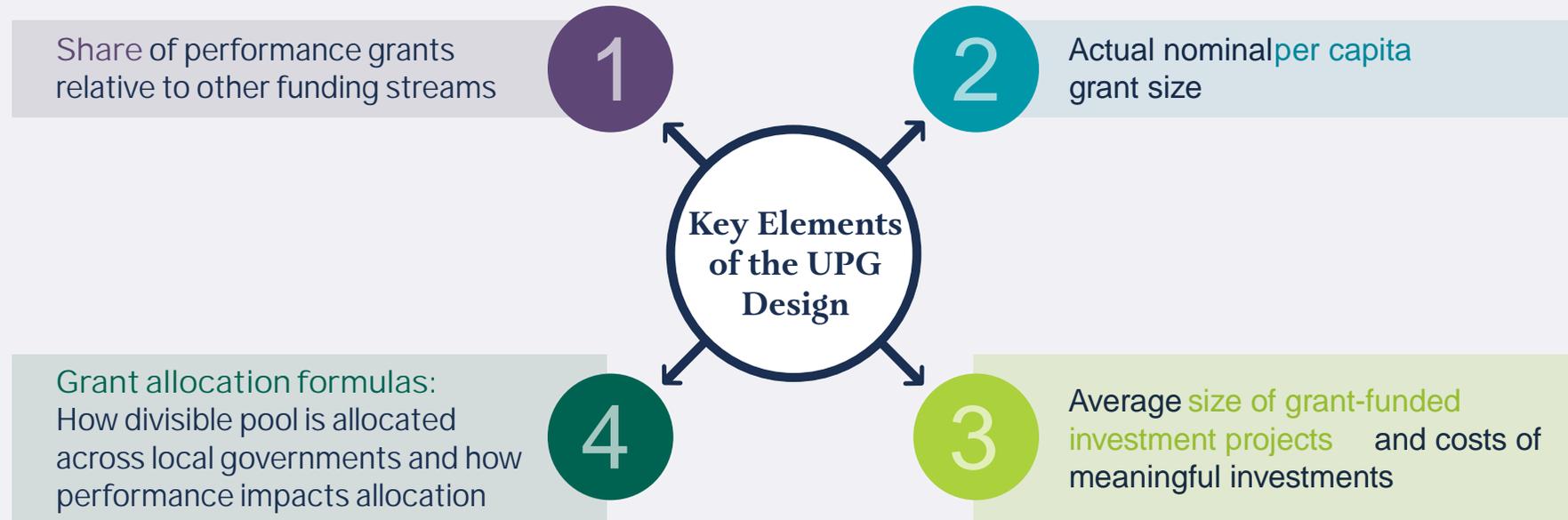
Unexpected external shocks can also negatively affect the design and implementation of UPG programs. Most of the programs reviewed reported that the COVID-19 pandemic changed the policy priorities of client countries, and program preparation and implementation processes were significantly delayed. The design of some UPGs was also altered to support the emergency responses of the affected countries and to focus more on improving health aspects. A UPG program in Tunisia (PDUGL), for example, was restructured in response to COVID-19 to adapt activities and targets to sanitary conditions and support the economic recovery of local governments in the medium term.

4.2. Lessons and good practices on key design factors for urban performance grants

Adequate design of a UPG program is important to ensure strong incentives for local governments and to enable the implementation of meaningful investments and expenditures for improved service delivery. According to best practice, the design of UPGs should consider the following four key elements (see [Figure 4.2](#)):

- 1. The share of performance-based grants relative to other funding streams and budgetary resources of local governments:** UPG funding needs to constitute a substantial enough share of the total funding available to local governments to provide a sufficient incentive for them to undertake actions to gain access to these funds.
- 2. The nominal monetary size of performance grants for which local governments are eligible once the relative size is sufficiently substantial:** Once the size of the grant established is substantial relative to the total budgets of the local governments, a nominally higher grant size will provide them with stronger incentive to improve their performance to gain access to the funding, all else being equal. This is especially true for urban local governments catering to larger populations and/or service delivery needs.
- 3. The average size of the grant-funded capital infrastructure investments to be executed by the local governments:** Larger investment projects executed by local governments lead to more efficient utilization of grant funds and reduced likelihood of diffused impact.
- 4. The grant allocation formulas—how the divisible pool of grants is allocated across local governments—and how the performance of local governments affects grant allocation:** These formulas also contribute to establishing the incentive structure, as an improvement in performance by a participating local government should lead to a corresponding increase in access to funding; otherwise, the incentive and impact of the PBG scheme are diluted.

Figure 4.2. Four Key Elements of the Urban Performance Grant Design



In addition to these elements, at an overarching level UPG programs should ideally be embedded into existing intergovernmental fiscal transfer (IGFT) systems to leverage these systems for fund transfer and oversight. This often entails a flow of funds from a central agency²⁰ to participating local governments. With the program embedded in it, oversight of the IGFT system would typically be entrusted to a national or provincial agency in charge of finance, local governments, or planning. Utilizing IGFTs also avoids incurring transaction costs associated with the development and management of parallel systems and increases

the likelihood of stronger coordination and timely flow of funds. It also helps develop the capacity of local governments and central government entities to manage these types of fiscal incentives and reinforces local governments' accountability to higher tiers of government.²¹ The UPG programs reviewed in Ghana, for example (LGCSP and GCSCP), were closely linked with the existing national performance grant system (the District Development Fund, or DDF). The Bank-supported program specifically used the results of the DDF as the minimum criteria for grant eligibility.

²⁰ Such agencies may include a ministry of finance or of local government or urban affairs or a provincial agency.

²¹ For further discussion on these points, also see UNCDF 2010.

4.2.1. Share of PBG relative to other funding streams and budgetary resources of local governments

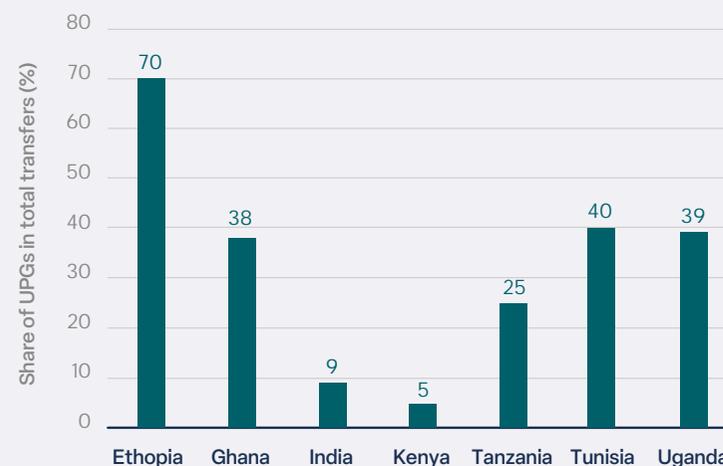
UPG funding needs to constitute a substantial enough share of total funding available to local governments to provide a sufficient incentive for them to undertake actions to gain access to these funds.

In six out of the nine programs reviewed, UPG funding accounted for a sizeable share (ranging from 25 percent to as much as 70 percent) of the total intergovernmental fiscal transfers to local governments (Figure 4.3). UPG funding in these programs also constituted an overwhelming majority of total *development and capital* grants to local governments (that is, total fiscal transfers less recurrent grants), ranging from around 70 to 90 percent across these six programs. It was also observed that the two cases with the lowest UPG shares had the lowest rates of compliance with MCs, as shown in chapter 3 (Table 3.1). Although the wide variation in the share, depending on local context, makes it impossible to provide categorical advice on this issue, the experience suggests UPGs need to constitute at least 20 percent of the total discretionary development and capital grant budget available to local governments to have their intended incentive effects.

The presence of other substantial fiscal transfer streams in parallel to a UPG scheme can also reduce the financial incentives for local governments to benefit fully from UPGs. This was found to be the case with the UPG program in India-West Bengal. The share of UPG funding in total fiscal transfers to participating local governments in the state fell from around 20 percent at the program design stage to only 9 percent by 2020, due to an increase in the share of non-performance-based grants from the central government through Central Financial Commission (CFC) funds.²² This substantial shift toward non-performance-based grants changed the financial incentives for local governments and reduced the effectiveness of the qualitative performance measures applied by the program.

²² Only 10 percent of the CFC funds were in the form of performance-based grants.

Figure 4.3. Share of UPGs in Total Fiscal Transfers to Participating Local Governments



Source: Team analysis based on data provided by World Bank task teams for respective UPG programs.

Note: The bars represent the share of UPGs in total fiscal transfers, including capital and recurrent transfers to participating local governments, in the UPG programs reviewed in each country. Data are from latest FY figures for most cases or figures at the program design stage.

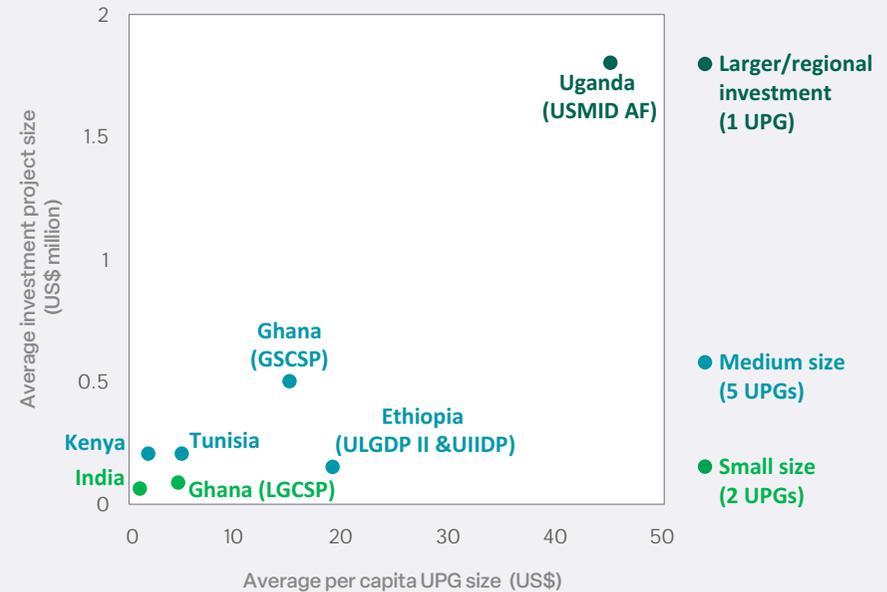
The presence of other substantial fiscal transfer streams also affects the absorptive capacity of the receiving local governments to spend all these fiscal resources in an appropriate, timely, and efficient manner. Absorptive capacity refers to the ability (and capacity) of local governments to plan for and spend the financing available to them for capital investment needs. Weak absorptive capacity hinders higher infrastructure investment overall, regardless of the source of the funds. This is a common issue in several contexts where such programs operate, including with respect to local governments and contexts that are relatively advanced. A recent Bank report, for example, has shown this to be case even for local governments in large and economically

prosperous cities in India. These governments have been receiving increasing levels of fiscal transfers for capital investment in recent years, but constraints on absorptive and project design and implementation capacity have prevented them from utilizing these increased resources fully (see Athar, White, and Goyal 2022).

4.2.2. Monetary size of performance grants and capital infrastructure investments financed by these grants

Best practice shows the importance of ensuring annual UPGs are substantial in size in per capita terms and of allowing local governments to undertake large capital investments so they have adequate incentive to achieve performance targets and make effective service delivery improvements. In practice, large variations are apparent in the size of the grants on a per capita basis and in the average infrastructure investments undertaken by the local governments utilizing them, depending on the context. As Figure 4.4 shows, for example, annual grants in the cases reviewed ranged from US\$1 per capita (for programs in India-West Bengal and Kenya) to US\$45 per capita in one case (Uganda), while the average project size for grant-funded capital infrastructure investments ranged from US\$60,000 (for programs in India-West Bengal and Ghana) to as much as US\$1.8 million (in Uganda). The case studies indicated that a sufficiently large grant tends to enable local governments to undertake capital investments in strategic infrastructure and services at a larger scale in complex urban settings. UPG programs with an average annual grant of more than US\$5 per capita, for instance, tended to invest in larger investment projects (between US\$200,000 and 1 million) than those with grants of less than US\$5 per capita. When the per capita size of grants to typical local governments was less than US\$5–10, especially in urban areas (the figure might have been lower for smaller rural local governments such as village councils), the Bank staff providing implementation support to these programs generally perceived this to be too low to provide substantial improvements in service delivery, and the investment projects in such programs were smaller on average (under US\$200,000).

Figure 4.4. Relationship between Average Sizes of UPGs per Capita and Capital Investment Projects



Source: Based on data provided by World Bank task teams for respective UPG programs.

Note: The X-axis represents average UPG size per capita. The Y-axis refers to average monetary size of investment subprojects under each UPG program. One UPG program in Tanzania is not included due to data unavailability.

Broadly speaking, the experiences reviewed for this report suggest that annual performance grants for recipient urban local governments should be larger than US\$5–10 per capita and should finance capital investment projects of a meaningful size (at least US\$200,000 per project, on average). This observation needs to be qualified, however, in that absolute amounts obviously need to be considered relative to broader local government budgets and to the institutional size and functional mandates (expenditure assignments) of the participating local governments. A grant of US\$1–2 per capita to a small rural Gram

Panchayat (village council) in West Bengal state in India, responsible for limited functions and with a population of around 20,000, means something quite different than a grant in the same amount to a medium-size city in Uganda responsible for delivering networked urban infrastructure systems.

In Ghana, the first UPG program in the country (LGCSP) was designed to provide relatively small grants to local governments (less than US\$5 per capita) and to spread them across multiple sectors to over four hundred small-scale investment projects, including health clinics, schools, toilet facilities, security facilities, and roads.

The small (in per capita terms) grant size and the large number of diffused infrastructure projects caused fragmentation of investments and reduced the efficiency of procurement processes. As a result, the program gradually moved toward fewer, medium-size investments. Reflecting the lessons learned from it, Ghana's second UPG program (GSCSP) was designed with higher annual grants for local governments in per capita terms (up to US\$15 per capita) and was focused on larger capital investments of over US\$500,000.

The prevailing institutional context often determines the average grant size per capita in such programs, with several countries choosing to extend access to performance grants to all local governments. This necessarily reduces the grant size by diffusing the total volume of program funding across more local governments. Examples include the UPG programs reviewed in India-West Bengal, Kenya, and Tunisia. Within a limited amount of total available financing, prioritizing wider geographical coverage will likely reduce the average grant size per local government and, if reduced too much, may distort financial incentives for those participating. Hence, the implications of reducing the average grant size should be clearly communicated to all stakeholders at the design stage (see also [Box 4.1](#) for a discussion on improving the equity of grant allocations among local governments).

Box 4.1. Lessons on Improving the Equity of Performance Grant Allocations among Local Governments

Generally speaking, UPG programs are not designed for the equitable distribution of funds among local governments. Equitable distribution is generally covered by equalization factors in the non-performance-based aspects of intergovernmental fiscal transfers before the impact of performance is considered. Performance metrics under UPG programs tend to focus more on local government "institutional efforts." In the reviewed UPG programs, fiscal incentives were often stronger for smaller local governments and those with relatively weak fiscal positions, who were often able to compete successfully with the larger local governments for access to funds. The UPG programs were designed with the objective that performance measures would provide an equal playing field. In some cases (for example, in Ethiopia and India-West Bengal), some phasing-in of more advanced conditions was done for newly enrolled local governments. Some performance indicators can be designed to measure progressive improvements in performance regardless of the size or capacity of the local governments. These may include, for example, measuring percentage increases in OSR annually instead of in nominal amounts, and measuring the execution rates of local governments' respective capital investment budgets.

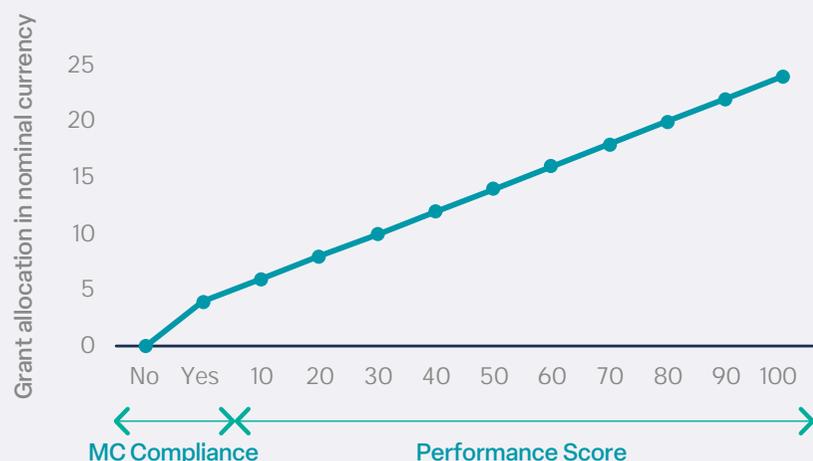
It is generally recommended that UPG programs focus on performance aspects and not attempt to change the prevailing basic distribution of fiscal transfers to local governments, except when it comes to their performance. The impact of performance on fiscal allocations can be weighted with the basic allocation to ensure adequate incentives for all types of local governments. In addition, it is important to ensure that performance measures reflect the efforts of these governments and are fully under their attribution and scope, giving them the authority to achieve these measures. Local governments that are unfamiliar with such programs and are being introduced to them in a phased manner can have transitional arrangements, especially in the first year of the program, to acquaint them with the performance process. Finally, it is important to ensure the coordinated provision by the central government of substantial capacity-building support, especially for the weaker local governments, to enable them to perform better.

Generally, there will be a tradeoff between designing the program with fewer local governments to ensure the provision of strong financial incentives focused on performance versus spreading the incentives over more local governments with consequently smaller grant amounts for each.

4.2.3. Grant allocation formulas and how local government performance affects grant allocation

The grant allocation formulas—how grants are allocated across local governments—and how the performance of local governments affects grant allocation also contribute to establishing the incentive structure, as an improvement in performance by a participating local government should generally lead to a corresponding increase in access to funding; otherwise, the incentive and impact of the PBG scheme are diluted. A typical allocation formula has a linear relationship between performance and grant allocations (Figure 4.5 shows a typical model) until a grant amount reaches a monetary ceiling for a particular local government, as determined by the program.

Figure 4.5. Typical Linear Relationship between Local Government Performance and Grant Allocation



When the overall size of a performance grant—that is, on a per capita basis; on the basis of the average capital investment size to be financed by these grants; and/or relative to the total fiscal transfers received by the local governments—is considered insufficient to create meaningful impacts and incentives for these governments, innovative mitigating design measures may be adopted. One possible solution currently being used in some countries is to design the grant allocation formula to increase exponentially the impact of local governments’ performances on the actual monetary allocation to provide them with stronger incentives. The UPG program reviewed in Kenya (KDSP) is a representative case; there, the average annual grant for local governments was found to be less than US\$2 per capita and to constitute only 5 percent of the total fiscal transfers for local governments, but an “exponential” allocation formula was applied to maximize the impact of the UPG program and improve incentives (see Box 4.2 for details). This led to substantial performance improvements across participating local governments.

4.2.4. Summary of key design factors for urban performance grants

The key lessons on design factors for successful UPG programs based on lessons learned are summarized in Figure 4.6. It should be noted, however, that the various factors interact and are mutually influencing.

Box 4.2. An Example of Exponential Grant Allocation Design in Kenya

In general, the monetary size of a UPG provided to a local government is linearly proportional to that government's measured performance, but the Kenya Devolution Support Program (KDSP) introduced a new allocation approach to achieve institutional performance improvements by increasing the UPGs' incentive effect. Given the much smaller average annual grant per capita relative to other UPG programs, the grant size was designed to vary exponentially with performance scores. This means a marginal improvement in the performance score of a given local government significantly increased its eligible grant amount, providing a stronger incentive effect.

As Figure B4.2.1 illustrates, the variation in grant size for a local government under such an "exponential" model can be much larger in either direction (that is, higher or lower) than under the "linear" model. According to the simulation presented in the figure, the exponential approach would provide the best-performing local governments with grants up to 300 percent (or four times) more than those for the lowest performers, while under the linear model this difference would be only about 50 percent. The grant allocation formula is based on key factors in addition to the performance scores, such as population, poverty, equal shares, land area, and others.

In Kenya, the resulting grant amounts in absolute monetary terms under this program ranged from US\$400,000 to US\$600,000 for very small, low-performing local governments to US\$6 million to US\$8 million for well-performing ones. This led to consistently improved institutional performances across the participating governments during the implementation stage. The way the formula was developed, as well as the publicity and awareness surrounding it, generated incentives for them to rally to the top level.

More broadly, this approach can be used in cases where the total funding envelope (divisible pool) is small relative to needs or other fiscal resources, or where the program covers a very large number of local governments (which in turn reduces the funding per government). This is because it has the advantage of amplifying the performance of each local government (through the nonlinear allocation) and thus can mitigate against the smaller program envelope that would otherwise lead to diluted financial incentives. The approach also has a clear tradeoff, however. Local governments that are on the lower end in terms of performance will receive proportionally many fewer grants relative to a linear allocation model, which may also in theory have a disincentive effect and may not provide them with sufficient fiscal resources. This will certainly affect the overall efficacy of the program, with some local governments having access to far more funds than others.

Figure B4.2.1. Difference in Grant Size for a Local Government between Linear and Exponential Models

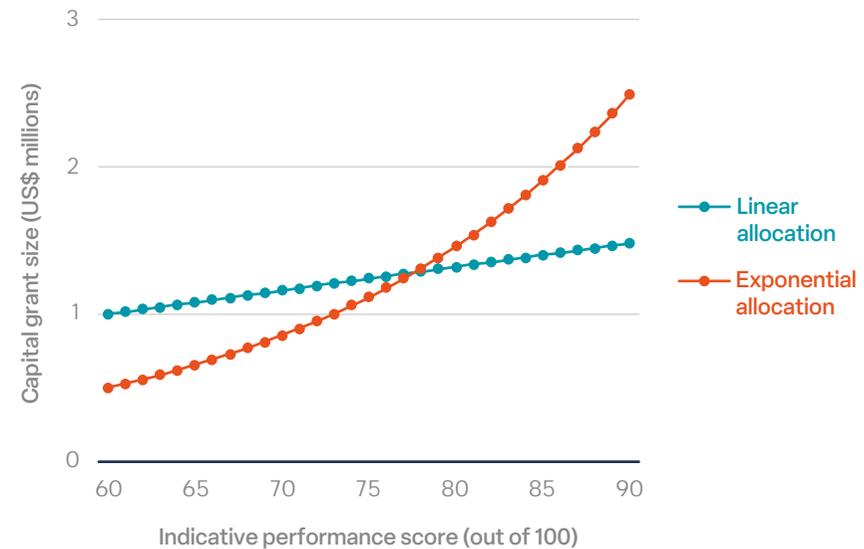


Figure 4.6. Summary of Lessons and Good Practices on Key Design Factors for Urban Performance Grants



4.3. Lessons on implementation of urban performance grants

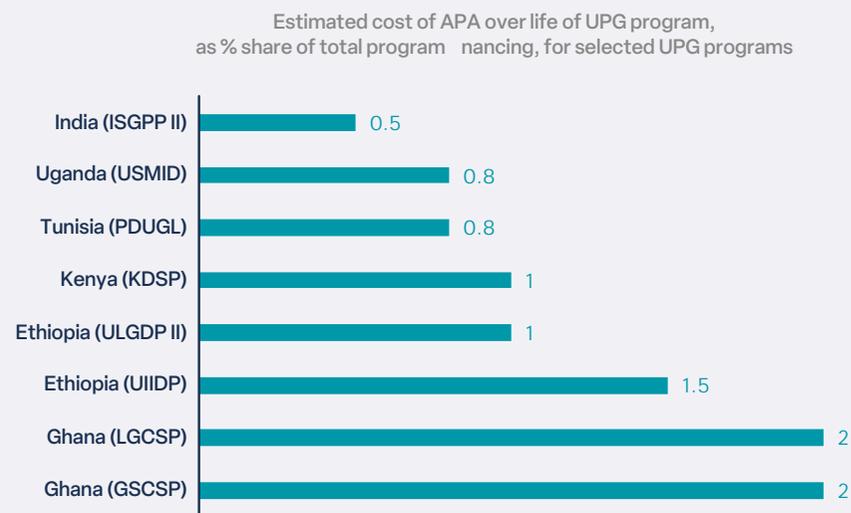
As with grant design, it is important to develop a performance measurement and assessment process that is rigorous, credible, and objective enough to build trust among stakeholders and provide adequate incentives to local governments. This generally includes the process of collecting and reporting accurate data on the results of participating local governments relative to the established targets and milestones and the allocation of UPG funding to the governments eligible based on those results. UPG programs make use of an annual performance assessment (APA) system to measure and verify the results of participating local governments on the performance indicators (generally the MCs and PMs). This APA process has been frequently utilized and substantially strengthened over the evolution of UPGs over the past two decades.

4.3.1. Importance of reliable APAs to ensure credibility and transparency

Implementation experience, especially from the UPG programs reviewed here, has shown that the APA process is best conducted by an independent external party to make it more objective and neutral. This approach has tended to reduce conflicts of interest and increase the quality of the assessment. Such a party is usually hired and paid for by the national or provincial ministry or agency managing the program. The key is to try to keep the assessment process separate from the rest of the grant administration machinery, especially from the agents in charge of the program and the delivery of capacity-building support. Contracting a third party assessor who is not involved in the UPG disbursement process is, therefore, fundamental to ensuring the independence of the APA process, enhancing the division of responsibilities, providing adequate incentive to conduct it in a timely and efficient manner.²³ Although government often considers it costly, the benefits of a robust APA process outweigh the costs of managing and implementing it, which, for all the cases reviewed, proved to be generally less than 2 percent of the total UPG program cost (see Figure 4.7).

²³ For further discussion on this aspect, see also UNCDF 2010 and Salhab et al. 2022.

Figure 4.7. Share of the Cost of Conducting APAs out of Total UPG Program Financing



Note: Cost estimated by World Bank task teams.

An independent APA is the recommended approach to assessing performance-based fiscal programs. Other approaches can have inherent conflicts of interest and have, therefore, not been highly successful, especially when such programs are novel in a specific context. These alternatives may be considered in more sophisticated settings where the programs have an implementation history, subject to adequate measures for quality assurance and efforts to reduce conflicts of interest. In such cases, an independent party should still be hired to perform sample quality assurance checks and/or audits of the assessment.

One alternative is to have the APA conducted by a dedicated central government entity; this might contribute to strengthening the performance management system of the government entity involved,

which can promote the long-term adoption of such systems. Such an entity may, however, lack the necessary capacity for the desired rigor, which may reduce the effectiveness of the assessment, and it may be subject to political incentives that reward the disbursement of funds, which can dilute the overall reliability of the assessment process. During the first generation of UPG programs supported by the Bank, some APAs were conducted internally by government entities and/or without adequate quality assurance processes, resulting in reduced robustness of the APA process over time. In Tanzania and Uganda, for example, where central local government agencies conducted APAs in some earlier phases of the UPG programs, the programs faced important challenges, such as outside observers' skepticism of assessment objectivity, limited checks and balances, greater instances of conflicts of interest, and lack of standardization.²⁴ Such issues ultimately led to deteriorating quality in these systems, which were addressed in their second generation.

Indeed, most second-generation UPG programs put into place two key processes to improve the credibility of the APA system:

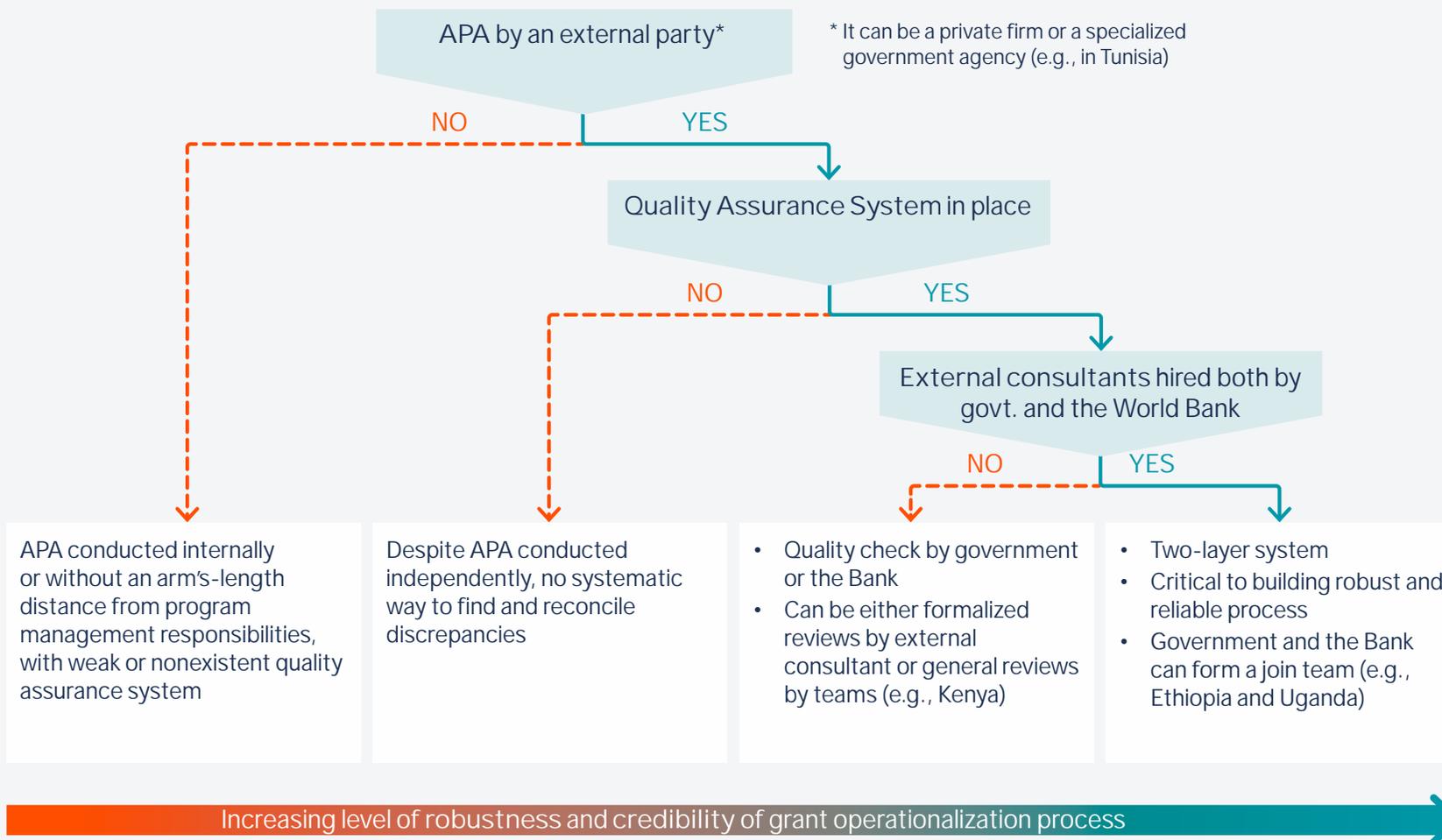
- They contracted out the assessments to **external entities**, who also shared the findings with stakeholders, including higher-tier governments (as discussed above).
- They instituted **robust quality assurance systems**, whereby the results of the APAs would be thoroughly reviewed both by an external consultant contracted by the program unit or government and by the World Bank quality assurance team, often consisting of Bank staff and a hired specialized consultant, who would conduct either sample-based field reviews or desk-based reviews.

Implementation experience has shown the importance of putting into place a quality assurance and review system for verifying the accuracy of the assessment results submitted by the government agency managing a UPG program. Since the program rests on the independent and credible conduct of an APA of the participating local governments—usually done by a contracted third party—central government agencies and World Bank implementation support teams often undertake a

thorough quality assurance review of the assessment on a sample basis. Discrepancies identified from this review are discussed and resolved with the government agency before the assessment is finalized and forms the basis of results achievement and fiscal allocation. This review provides all stakeholders with a high degree of confidence in the reported results achieved and thus functions as an effective risk management measure. [Figure 4.8](#) shows there is a set of choices available to program designers (and the Bank and other development partners supporting these programs) along a spectrum, which will determine the credibility of the performance assessment.

²⁴ For further discussion on this aspect, see also UNCDF 2010.

Figure 4.8. Spectrum of Options to Improve Credibility of the Performance Assessment



The Bank has provided substantial technical assistance to implementing agencies for institutionalizing such a robust system for UPGs. In Uganda, some phases of the countrywide PBG program relied heavily on a countrywide APA system, wherein the central government inspection staff engaged some external consultants only for quality assurance reviews. The second-generation UPG program (USMID), though, successfully strengthened its APA system by contracting out APAs to an external firm, supplemented by the World Bank's quality assurance team and a reconciliation system between the firm and the implementing entity (and development partners) in case of discrepancies. In India-West Bengal (IGSPP II), the government hired external consultants only to conduct quality assurance reviews during the first year of implementation. From the second year, however, the program followed a “two-layer” quality assurance approach, and the Bank team hired specialized consultants as well to help improve the process. Similarly, in Ethiopia, the quality assurance system was strengthened from the first-generation (ULGDP I) to the second-generation (ULGDP II and UIIDP).

The completion of the APA ideally is followed by a process in which the performance results are certified and reported. In most such programs, assessment results are certified by the central government ministry or agency in charge of disbursing resources or the program's steering committee (when applicable). To promote transparency, recommended good practices include the following:

- **Preparing the participating local governments for the APA:** The necessary resources need to be invested in the APA process and in awareness raising for the local governments, with prior internal assessments and learning conducted to establish a baseline of performance.
- **Defining a process by which parties can attest to the results:** Even with a robust, objective, and neutral assessment process, stakeholders—especially participating local governments—should be provided an opportunity to dispute or question results if they believe their performance has been incorrectly assessed (if, for example, mistakes have been made in the assessment process).

- **Publicly sharing results:** Making results publicly available promotes transparency, builds the credibility of the system, raises overall awareness of the UPG program, allows participating local governments to compare their performances with those of their peers, and bolsters accountability.
- **Ensuring timely and prompt processes for results sharing and dispute resolution:** Timely sharing and prompt dispute resolution allows the program to comply with established schedules, which is essential for participating local governments to plan and execute the grant funding allocations.

4.3.2. Importance of timely completion of APAs and alignment with government budgetary process

Synchronizing the APA cycle with the intergovernmental annual budget planning cycle is critically important to ensure grant funding allocations are reflected in the participating local governments' annual budgets on time. In a typical UPG program, each APA reviews the performance of the participating local governments at the end of the fiscal year and determines the UPG allocations for the subsequent fiscal year. Thus, to be effective, it is important that the APA timeline is well synchronized with the annual budget cycle and is launched at an appropriate time during the fiscal year, and the external entity (often a private firm) that will conduct the APA needs to be procured in due time to launch activities.

A challenge commonly reported among the UPG programs reviewed was repeated delays in completing APAs. Seven of the nine UPGs experienced critical delays in APA processes, citing several primary reasons:

- Prolonged government procurement processes
- Mismatched timing of a program launch (that is, the start of the program in the middle of the fiscal year) and approval steps, including negotiations and approvals by parliaments
- Logistical challenges in assessing the results of a large number of local governments
- Time-consuming reconciliation processes

Ideally, an APA cycle should be completed before the start of the new fiscal year so the APA results can correctly determine the size of the grants for each local government, the resulting funds can be disbursed on time, and the local governments can develop their investment plans accordingly (see [Figure 4.9](#) for a typical APA cycle during a fiscal year).

Figure 4.9. Typical APA Cycle during a Fiscal Year
Spanning January 1 to December 31



The conduct of the APA process and determination of grant funding under a UPG program may be completed in a timely manner by considering the following recommendations based on implementation lessons:

- The external entity (often a private firm) that will conduct the APA needs to be procured in due time to launch activities. Multiyear contracting for APA firms is encouraged to raise interest from high-quality vendors and provide them with stronger incentive to

participate in the process. This will also reduce procurement-related administrative transaction costs for the government coordinating agency.

- New technology and data tools can be substituted for several tasks that previously required in-person field verification by the assessment entity. This can reduce the time and cost of the assessment. While the traditional APA processes are not costly relative to the total program financing (as seen in the previous section), innovative solutions, such as remote implementation support tools and online reporting systems, can help further improve the efficiency of APA processes.
- As noted earlier, a careful start of project launch and linkages with the local government budget cycle should be ensured.

Once a set of performance indicators is designed, programs should consider keeping these metrics relatively stable, avoiding frequent and/or large-scale changes over the implementation period. If a change to the indicators is inevitable, it should be communicated to participating local governments in time for them to respond to it. A solution to potential negative effects of measurement changes is to conduct a pilot assessment, using the APA tool with a sample of local governments before any alterations to the indicators are in effect. In India-West Bengal (ISGPP II), performance indicators were significantly adjusted in the middle of implementation to improve fiscal incentives for local governments, timing that, in part, made it difficult for them to respond to the revised assessment system. Reportedly, more than 3,000 participating local governments were insufficiently aware of the changes made and were thus unable to keep their performance levels up to where they were prior to the change.

4.3.3. Summary of lessons for credible performance assessments and program operationalization

The key lessons on recommendations for effective and credible performance assessments and program operationalization are summarized in [Figure 4.10](#).

Figure 4.10. Summary of Lessons and Good Practices for Effective and Credible Performance Assessments



Launch of APA

Synchronize program launch with local government budget cycle

- Well-designed performance indicators**
 - Align APA thematic areas with objectives of UPG program
 - Select indicators that are under local government control
 - Balance between comprehensiveness and impacts
- Neutral and objective APA protocols**
 - Conduct through third party
 - Can be seen as similar with systems of external audit
- Robust verification and quality assurance system**
 - External, “two-layer” quality assurance system is recommended for credibility
- Clear and transparent reconciliation system**
 - Systematically reconcile any discrepancies found in APA results
 - Close collaboration between World Bank and government
- Value for Money (VfM) Audits**
 - Utilize VfM audit findings into APA indicators where feasible
 - VfM costs need to be affordable relative to grant size (more relevant for larger urban projects)
- Reflections of APA results**
 - Disseminate & publicize APA results for transparency & accountability
 - Use APA results as input to capacity building support focusing on weak performance areas
 - Incorporate APA results into overall program monitoring system

4.4. Importance of capacity building to support program implementation and sustainability

The review of the case-study UPG programs demonstrated that capacity-building support plays a central role in strengthening the institutional performance of local governments and improving urban infrastructure and service delivery. Over the course of rolling out and expanding the UPG programs in Ethiopia, India-West Bengal, and Uganda, the substantial capacity-building support that was provided enabled the local governments new to these programs to catch up quickly with those that had participated in a precedent program (see Box 4.3 for how this was rolled out in West Bengal state in India). A recent empirical study on a UPG project in Mozambique also showed that technical assistance and capacity-building support provided by the central government had a significant impact on OSR improvements across program local governments—in fact, the effect of the OSR improvement was stronger for those governments that benefited from capacity-building support (see Erman, Uehara, and Beaudet 2021). Well-designed capacity-building support also targets specific performance areas that present institutional barriers for local governments working to improve their performances. Most such support provided to the UPG programs reviewed addressed the institutional weaknesses that were identified from APA results and baseline assessments. This targeted support effectively helped prepare the local governments to gain access to grants by achieving planned APA results and to improve their performances, especially during the early years of implementation.

Most of the UPG programs reviewed adopted a balanced capacity-building strategy by combining supply- and demand-driven activities. Supply-side capacity-building activities included support from central and/or regional teams to local governments, such as mentoring, training, and system development. Well-designed incentives for the central and regional governments proved central to the successful delivery of the planned activities. In Ethiopia, for example, where disbursement-linked indicators provided incentive for team mobilization and regional support to the local governments, the result was the effective provision of customized technical assistance and capacity-building support focused

on addressing bottlenecks identified from the APAs. On the other hand, a UPG program in Tanzania (ULGSP) included a DLI on completion of annual capacity-building activities executed by the central government, but the plans the central government prepared did not sufficiently respond to local capacity-building needs, and zonal teams were unable to find qualified key staff for the activities. As a result, the program faced challenges in implementing the capacity-building plans, and a disbursement under a DLI on completion of annual capacity-building activities by the central government was dropped and reallocated.

Demand-driven capacity-building activities have often been supported through a separate and smaller funding allocation to local governments, often called a capacity-building grant. In general, UPGs require the achievement both of more elaborate MCs to get access to the grants and PMs that determine their size. Capacity-building grants, however, offer local governments easier access conditions than typical UPGs. Their disbursement can be triggered when local governments comply with the MCs that focus only on the preparation, planning, and execution of capacity-building activities. Programs in Kenya and Uganda, for example, had capacity-building grants. In Ethiopia, Ghana, and Tanzania, a slightly different model was applied. Instead of creating a separate funding window for capacity-building activities, the programs allowed participating local governments to spend up to 5 percent of UPG funding on them. Typical demand-driven capacity-building activities were based on multiyear and/or annual plans prepared by the local governments and included formal, classroom-style training from prequalified local institutions; consultancy support; and IT systems and equipment.

Box 4.3. Impacts of a Strategic Capacity-Building Approach on Local Governments in West Bengal State, India

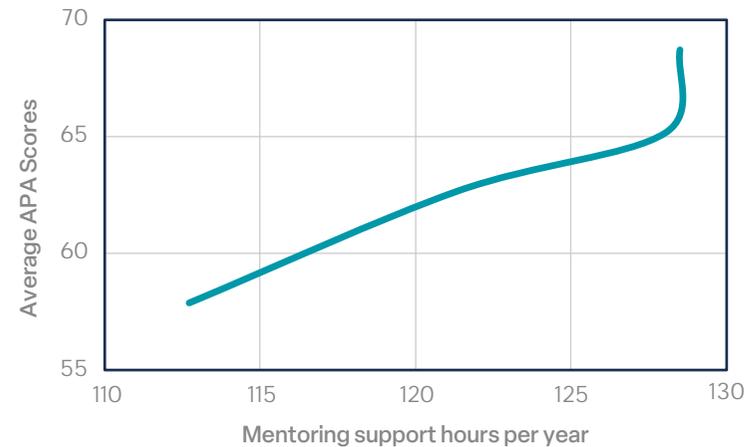
In West Bengal state in India, UPG programs have been scaled up across two generations. A first-generation program, called the Institutional Strengthening of Gram Panchayats Project (Phase I, 2010–16), targeted 1,000 village-level local governments in the state; this was expanded to include all village-level local governments in the state (3,342 in total) under the second-generation program (Phase II).

The deployment of mentors to local governments as part of the capacity-building support provided to these programs was recognized as one of the most successful aspects of the first phase, and it was further expanded under the second. Over 400 specialized mentors were deployed to all local governments with access to regular, on-the-job backstopping and advice. The midterm review of Phase II observed that the intensity of the mentoring support had a positive relationship with the institutional performances of the local governments, as shown in Figure B4.3.1.

An interesting feature of the Phase II capacity-building support was the employment of different strategies for two local government groups: the 1,000 Phase I local governments, who had previously received program support, and the 2,342 Phase II local governments, who had received no support before that program phase. The program gradually reduced the intensity of the mentoring for the Phase I local governments while providing consistently strong support to those in Phase II. This was to ensure the program provided equitable support to all the local governments, given the different levels of understanding of UPG systems between the two groups.

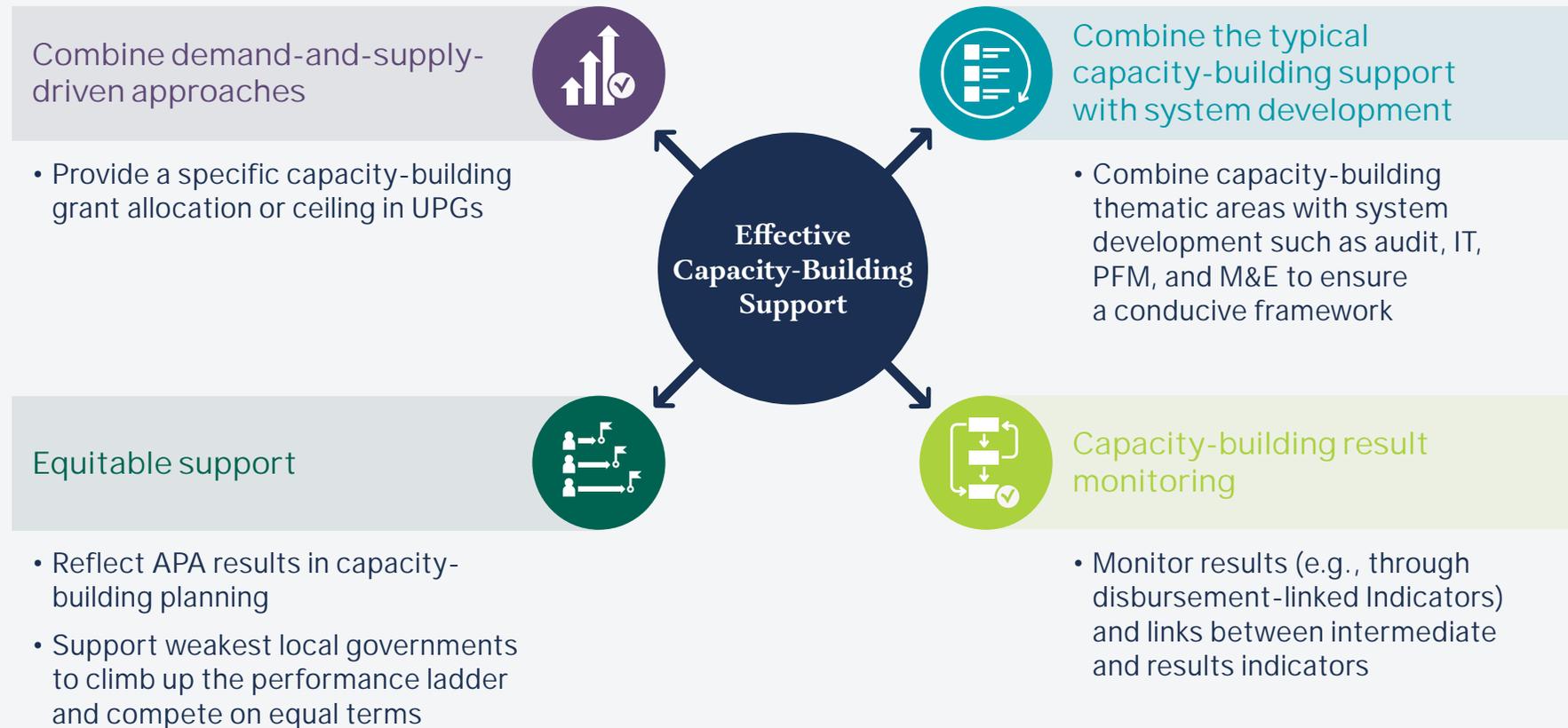
A comparison of the performances of the two local government groups made by the midterm review, however, highlighted a decline in the performance of the Phase I local governments, partially because of the reduction in the mentoring they received. The Phase II local governments, for example, increased their compliance rates on the basic minimum (level one) conditions from 2016 to 2018 by 56 percent, whereas the Phase I governments decreased their compliance by 11 percent. A possible interpretation of this result is that the focused capacity-building support provided during Phase I helped the participating local governments maintain their performance levels in the first year of the Phase II program, but the lessening of mentoring intensity gradually resulted in a decline in the number of qualified Phase I local governments in the following years. The capacity-building support strategy was adjusted to address this gap between the two groups, recognizing the importance of continued capacity-building support to all local governments to achieve the long-term objectives of the UPGs and the need to incorporate this support into the financial incentives for local governments.

Figure B4.3.1. Positive Relationship between Mentoring Support and Local Government Institutional Performances in India-West Bengal



Note: Based on data provided in the midterm review of Phase II (2020).

Figure 4.11. Recommendations for Effective Capacity-Building Support



4.5. Summary of lessons and good practices for urban performance grant programs

This review has provided evidence and lessons learned on key design features and implementation drivers of UPG programs, along with innovations to address increasingly complex urban challenges. These lessons are also broadly applicable to all other types of PBGs targeting local and other subnational governments. Successful UPG programs combine strong financial incentives provided through adequate grant design parameters with operationalization modalities (particularly APA systems) that are rigorous, credible, transparent, and fully integrated with the government's budget cycle and systems and with the coordinated delivery of capacity- building support and technical assistance to local governments to improve performance.

First among the lessons learned is that ensuring UPGs are substantial in size is vital to provide local governments with adequate incentive to achieve performance targets and make infrastructure investments effective. Based on global experiences with UPGs, the per capita size of grants for urban local governments should typically be not less than about US\$5–10;²⁵ should enable infrastructure investments of at least US\$150,000–200,000 per project; and should represent more than 20 percent of the total development grants allocated to the participating local governments. Among the external contexts that often caused the UPGs to be smaller in the reviewed countries were policies pursuing equitable access to grants for all local governments, irrespective of the total amount of funds available. In such cases, determining the optimal grant size in accordance with program objectives and local contexts requires clearly communicating to stakeholders the consequences of making the grants small. If the grants are, indeed, considered too small to create meaningful impacts, adopting innovative mitigating design measures can help. These could include, for example, the application of exponential allocation formulas; a stronger focus on awareness raising and publication; and acknowledgment of well-performing urban local governments.

As with grant design, it is important to develop a performance measurement and assessment process that is rigorous, credible, and objective enough to build trust among stakeholders and provide adequate incentive to local governments. The APA is an effective tool for enhancing general institutional performances, and it contributes as well to the World Bank's corporate commitments, including environmental and social (E&S) safeguards and climate actions. A well-designed APA can be made *objective* by contracting it out to an external entity, *credible* by using a two-layered verification system, and *rigorous* by selecting adequate and targeted performance indicators. While such systems often require extensive handholding support to local governments participating in a UPG program, they have been effective in providing adequate incentives to them and in leading to a gradual scaling up of the program's impacts. To motivate the governments to complete the APA, the performance indicators selected need to be specific, measurable, achievable, realistic, and time-bound. Also essential to a good APA is to ensure predictability and timeliness in the announcement and disbursement of grants by synchronizing the assessment cycle with the project launch and the IGFT annual budget cycle in the country.

Lastly, capacity-building support is central to strengthening institutional performances and improving urban infrastructure and service delivery. Well-designed capacity-building support targets specific performance areas for improvement that present institutional barriers for local governments and helps low-performing ones climb the performance ladder. Most of the UPG programs reviewed adopted a balanced capacity-building strategy, combining supply- and demand-driven activities through a separate funding window. Another important element of effective capacity-building support is integrating the results of these activities into the performance measurement system to enable the results to form a clear basis for grant allocations and the local governments' capacity-building plans in subsequent years.

²⁵ There will be exceptions to this, however, especially where local governments are not in charge of major urban infrastructure projects, where the system is highly centralized in terms of funding, and/or where the governments have rural and less cost-intensive functions, as well.

5. The Way Forward and Emerging Issues for Urban Performance Grant Programs

This concluding chapter of Part I discusses several issues that will likely affect the design and implementation of the next generation of UPG programs. Building on the rich lessons and implementation experiences documented in previous chapters, it reviews ongoing discussions and provides recommendations on several emerging issues. It starts by discussing the sustainability experiences of UPG programs within country systems and how sustainability can be improved through long-term engagements that incrementally embed UPG programs into intergovernmental transfer (IGFT) systems. It discusses how the next generation of UPG programs can gradually move from providing incentives for achieving results in institutional processes to improving service delivery outcomes, the challenges associated with this transition, and possible approaches to addressing these challenges in the context of multisectoral as well as sector-specific UPG programs. Finally, it explores how UPG programs can promote local climate change action by providing financial incentives to local governments.

5.1. Ensuring the sustainability of UPG programs within government systems

A key question for UPG programs is how to sustain their impacts beyond the period of financing provided by development partners and embed the grant systems into the intergovernmental fiscal framework. Sustainability is fundamental to a successful decentralization process as well as to institutional improvement and the empowerment of local governments in the long run. It is an especially important issue for development programs of this kind because their ultimate objective is to introduce durable changes in government systems. Thus, the real test of their success is whether the interventions they introduce are retained once they close. This question can be answered by looking at three interrelated dimensions on which their sustainability can be measured:

- Whether the UPG system implemented is retained and continues to be financed by the higher levels of governments in some form after the program closes
- Whether the institutional improvements achieved under the program—both at the level of individual local governments and of the overall local government system in the country—are maintained
- Whether the program-financed capital investments made by the local governments are maintained in subsequent years

Some evidence is emerging of the sustainability of UPG interventions within government systems after program close, but with caveats.

Several programs financed by the Bank and other development partners have not closed yet and are continuing in their next iterations (see [Figure 2.5](#), above, for examples of long-term engagements). In most of the cases reviewed, the governments retained, replicated, or even scaled up some features of the UPG programs after they had closed. Specific aspects of the programs, including processes for the institutional strengthening of local governments, also became part of the countries' IGFT systems.

Beyond the reviewed cases, other prominent examples exist of governments successfully sustaining performance-based financing for local governments. One is the government of **Bangladesh (GoB)**, with which the Bank has been working for more than fifteen years to

implement a PBG system for the lowest tier of local governments in the country (targeting over 4,500 rural local governments), which has now been embedded into government systems as an intergovernmental fiscal transfer. The successive programs incrementally increased in sophistication over this period, and several reforms were formally adopted by GoB. Grants to local governments, for example, are now being fully funded from GoB resources rather than external partner financing, and these allocations are on-budget and reflected in the GoB medium-term budgetary framework. This case emphasizes the importance of a long-term engagement in sustaining the impacts of such programs, with decentralization and the institutional strengthening of local governments requiring a long-term commitment by the government and its development partners. (See [Box 5.1](#) for more details on this long-term engagement in Bangladesh.) Another example is provided by the **Solomon Islands**, where the central government continued the PBG system for several years once development partner financing lapsed, before such financing was subsequently reintroduced.

Box 5.1. Building Sustainability through a Long-Term Engagement in Bangladesh

The successive programs in Bangladesh consistently known since 2006 as the “Local Governance Support Project” (LGSP) targeted union parishads, the lowest tier of local governments in rural areas of the country. Part of a PBG system that the World Bank worked with the government of Bangladesh (GoB) for the past decade and a half to implement, the programs incrementally increased in sophistication over this period. The union parishads would receive block grant funds based on satisfactory annual financial audit reports (often undertaken by auditors hired from the private sector to supplement public sector capacity), with more PBGs provided as a top-up to the block grants upon the local governments’ meeting additional performance criteria. The third and most recent iteration of LGSP began in 2017/18, with the objective of ensuring sustainability by institutionalizing program reforms and interventions within the government systems for supporting rural local governments.

Several of these reforms were formally adopted by GoB, including as follows:

- Block grants to the union parishads are now fully funded from the GoB budget rather than other sources. GoB’s share of financing for block grants has consistently increased over time, from 50 percent in FY2011/12, to 60 percent in FY2016/17, to full funding now.
- GoB allocations to these grants are on-budget and reflected in the relevant ministries’ three-year medium-term budgetary frameworks and their annual development plans.
- GoB has developed and officially adopted guidelines for “Union Parishad Development Assistance” as its framework for program management for PBGs to rural local governments, incorporating most LGSP interventions, including, among others, annual financial audits, grant allocations based on satisfactory audits, and direct disbursements to local government treasury accounts instead of disbursement through intermediary agencies.

These actions have ensured that the successive set of interventions implemented over the past decade and a half under LGSP will be sustained, as they are now integrated into GoB’s programmatic support for the lowest tier of local governments. This emphasizes the importance of a long-term engagement in this area, with decentralization requiring a long-term commitment by both the government and its development partners to bring about a gradual transformation in long-held governance arrangements. Stakeholders in the country have gradually come to see LGSP reforms as regular practice, with union parishads officials now expecting grants to be disbursed from GoB based on LGSP procedures and ministry officials now expecting the union parishads will be audited annually and satisfactory audits will trigger grant allocations. One important factor for success has been the scale of the program: since inception it has been nationwide in scope, covering the entire universe of over 4,500 union parishads in the country. To that extent, LGSP has become the national “norm” for union parishad grants and grant administration.

Sources: World Bank task team and World Bank IEG (2018).

An indicator of strong government commitment to a UPG program is its share of co-financing in the program’s total cost, which can hint at continuing government financing once the program concludes.

While seven of the nine UPG programs reviewed for this report (some of which are still under implementation) were co-financed by central governments, the share of this co-financing varied greatly, from over two-thirds of total program cost (in India-West Bengal and in Ghana in its second program) to less than 10 percent (in Uganda) to none (in Tanzania and the first Ghana program; see Table 5.1). Despite the high share of co-financing and the gradual expansion and scaling-up of several of these programs, however, in some cases they were not sustained. In Tanzania, for example, the government’s broader recentralization initiatives, such as the centralizing of property tax collection and the reduction of fiscal and operational support to local governments, diminished the scope of the local governments’ mandates nationwide and discouraged continued efforts to improve fiscal systems at the local level. The UPG program was substantially curtailed following the closure of Bank financing in the country. It is worth noting that, in the future, governments in other countries may also choose not to finance UPG programs with their own resources once the externally financed program closes. Further evidence will emerge in coming years.

Table 5.1. Share of Government Co-Financing of UPG Programs in Selected Countries

Country (UPG program)	Government co-financing share
Ethiopia (UIIDP)	30%
Ethiopia (UIIDP)	32%
Ghana (LGCSPP)	0%
Ghana (GSCSP)	62%
India-West Bengal state (IGSPP-II)	65%
Kenya (KDSP)	34%
Tanzania (ULGSP)	0%
Tunisia (PDUGL and AF)	17% and 0%
Uganda (USMID and USMID AF)	6% and 11%

Source: Team analysis based on data provided by World Bank task teams for respective programs.

Note: The government co-financing share represents the co-financing from the recipient country government for the total cost of the World Bank-financed program over the full duration of the program. In some cases (for example, in Ethiopia), the co-financing was also contributed by the participating local governments.

Strong evidence has been emerging on how UPG programs have contributed to policy dialogues on fiscal decentralization and strengthened local institutions, and governments have continued or expanded these improvements to institutional systems. In Kenya, for example, the government showed consistent commitment to promoting devolution during the implementation of KDSP, the first large-scale devolution support program in the country. Kenya’s government cascaded lessons from KDSP to other World Bank-supported projects promoting devolved services, including, among others, the Kenya Urban Support Program, the Climate Smart Agriculture Project, and the Water and Sanitation Improvement Project. The ministry mandated with promoting devolution advanced this agenda among development partners, other ministries, and county governments.²⁶

²⁶ See World Bank 2022a.

In another example of a country's continuing or expanding improvements to institutional systems resulting in part from UPG programs, the central government in **India** is exploring the introduction at the national level of performance-based metrics for the provision of grants to urban local governments, aligned with the principles of UPGs discussed in this report. The 15th Finance Commission, which the government of India established in 2017 to advise on the devolution of taxes to states and local governments and other fiscal matters, recommended linking the devolution of fiscal transfers to local governments to verified improvements in OSR metrics and fiduciary measures, such as the conduct and disclosure of independent audits of annual accounts. The central government is considering adopting these recommendations as eligibility criteria for fiscal transfers and as possible entry-level conditions for local governments in future flagship urban development programs. At the state level, the UPG system has been embedded in **West Bengal's** IGFT scheme—the State Fiscal Commission (SFC) grants—and expanded to the entire state, leading to institutional improvements in M&E systems, grievance handling mechanisms, and accounting and PFM systems.

In **Uganda**, the UPG program (USMID) was linked with and affected the countrywide APA system for local governments and several other related reforms, including VfM concepts adopted by the Office of Auditor General, which are now used in multiple other programs; and, in **Ethiopia**, the UPG system developed under two consecutive programs was increasingly replicated across nonparticipating regions in the country and linked with a countrywide rollout of financial and E&S audits for local governments and at the regional level. Ethiopia's central government was also exploring how top-performing local governments, which were showing strong evidence of sustained institutional improvement, could either be phased out of the program or made subject to a more sophisticated set of performance metrics for getting access to UPG funding, while a new set of local governments that had previously not participated in the program could be brought into it.

In sum, the evidence emerging from these examples shows that institutional improvements brought by UPG programs have led to the development of needed systems and capacities from which local governments have continued to benefit beyond the programs' end. Central governments have generally continued with and expanded the improved institutional systems. That said, in some cases the APAs being implemented by UPG programs may not continue to take place after those programs close, and complete evaluations in these cases may no longer be possible without specific performance benchmarks and improvement measures provided at the level of individual local governments.

The strong results of the UPG programs reviewed have, however, had a clear demonstration effect, leading to their considerable geographical expansion within these countries over time and indicating strong government interest in their outcomes. In Ethiopia, the ongoing UPG program (UIIDP) covered 117 local governments at the time of this review, up from 18 under the first program (ULGDP I) and 44 under the second (ULGDP II). The second phase of the program in India-West Bengal (ISGPP II) covered all of the more than 3,000 local governments in West Bengal state, 30 percent of which had been part of the first phase since 2011. In Ghana, the first program (LGCSF) targeted 46 large urban local governments, while the second shifted its focus to 25 secondary cities, complemented by a general countrywide performance-based grants system.

The impact of UPG programs can likely also continue to be increased and sustained by actions falling into two broad categories: those focusing on improving existing government systems for local governments and those ensuring strong intergovernmental coordination and incentives for all stakeholders involved in the programs. [Figure 5.1](#) provides specific areas of action under these categories.

Figure 5.1. Increasing and Sustaining Impact of UPG Programs



In conclusion, World Bank support to UPG-based intergovernmental fiscal transfers should be considered in terms of long-term partnerships with governments, potentially providing them with the fiscal space for an evolving and incrementally improving UPG system over a 15- to 20-year time horizon. This extended involvement is more likely to move the needle toward improved institutional performance that enhances urban service delivery. Without continued support, institutional gains in smaller and weaker local governments can diminish, given their limited resources and capacity and, in many cases, high staff turnover. Evidence shows that local government systems seem to respond relatively quickly to incentives if those incentives are combined with capacity-building support and sustained. Such support and incentives will need to be sharpened toward service delivery outcomes, as discussed in sections 5.2 and, especially, 5.3, in more detail.

5.1. From institutional processes to service delivery outcomes: The next generation of programs

The next-generation UPG programs will need to continue taking heed of lessons learned in the first generation and to innovate further as new issues emerge that affect their design and implementation. More direct incentives are needed, for instance, for improving service delivery outcomes, in addition to improving institutional performance, at the local level. UPG programs also must determine how to promote local climate change action through financial incentives to local governments. Sections 5.2 and 5.3, respectively, discuss these issues.

5.2.1. Improved institutional processes as a channel for better service delivery outcomes

Most UPG programs aim to resolve institutional bottlenecks for service delivery and provide incentives to improve local governments' core processes and systems, especially in contexts with very low capacity. These core processes have typically included capital investment planning and execution, PFM, procurement, OSR, citizen engagement, municipal asset management, environmental and social systems, HR management, and so on—the basic building blocks of local government performance, accountability, and effectiveness in delivering services. The programs' focus on improving these processes also reflects the contexts in which they have been implemented, where local governments are generally characterized by institutional weaknesses that need to be addressed before more advanced interventions can be introduced. The approach also aims to improve incrementally the capabilities of the targeted local governments.

Ultimately, the goal of UPG programs is improved service delivery, pursued through an instrument that recognizes the low-capacity and governance-challenged institutional environments in which they operate. In a highly capable municipality in a higher-income country, an explicit focus on institutional strengthening to improve service delivery may not be necessary, as the baseline performance may already be strong. Instead, the grant can focus on providing direct incentives for improvements, as PBGs in developed countries—such as the “No Child Left Behind” program in the United States—have often done. But not having core systems in place while focusing solely on service delivery outputs or outcomes may result in poor sustainability of these interventions, or they may get delivered in a highly inefficient manner. In short, improving the institutional foundations of local institutions, if not a sufficient condition for improved local service delivery, is certainly a necessary one.

Evidence is emerging that among the important drivers for better service delivery are improved institutional processes for public investment management (PIM). A recent study by the International Monetary Fund (IMF) has linked the strengthening of PIM institutions and processes with the efficiency of public investment. It finds that countries with stronger PIM processes²⁷ have more efficient public investments even after controlling for their per capita income levels. A comparison between the value of public investment capital (input) and measures of infrastructure coverage and quality (output) across a sample of 25 countries revealed an “efficiency gap” in public investment of around 30 percent for the average country²⁸ and found that strengthening PIM practices (in this case, adopting the practices of the best-performing country in the sample) could reduce this efficiency gap by around two-thirds in the average country. The largest payoffs occurred in countries emerging markets and low-income countries.²⁹ Section 3.2 of this report has also shown positive results of institutional improvements and service delivery outcomes occurring in the various UPG country cases. VfM audits conducted in Uganda, for example, showed that UPG-funded capital infrastructure investments were cost effective and of higher quality than similar investments in the country that were not funded by the program. They also noted that most UPG-financed capital investments were executed in accordance with procurement and PFM guidelines, with costs within budgets and minimal defects. Such findings indicate a high degree of efficiency of public investment expenditure for local service delivery.

27 As measured by the IMF's Public Investment Management Assessment, which evaluates processes for the planning, allocation, and implementation of public investments (IMF 2015).

28 This efficiency gap is measured as the distance between the average country and a “public investment efficiency frontier” (calculated by the authors) for a given level of public capital stock and GDP per capita (IMF 2015).

29 These findings come with two important caveats. First, the sample is relatively small (only 25 countries), introducing a degree of uncertainty as to whether the results also hold for a larger set of countries. Second, because a robust causal relationship is difficult to establish, only correlations between institutional processes and service delivery are reported.

Given this level of success, stakeholders have continued to demand direct fiscal incentives for and measurement of improvements in service delivery outcomes at the local level and the tying of UPG funding to demonstrated service delivery improvements. Funding may, for example, be tied to specific results achieved in municipal water and sanitation services, transportation, or other areas. The emergence of this demand has been especially notable in long-running programs where local governments have received UPG funding for several years and where stakeholders expect the governments' strengthened institutional performance to translate into better delivery of services. As a result, UPG programs may start focusing fiscal incentives more directly on service delivery outcomes, and moving in this direction where possible is certainly necessary. Doing so presents important limitations, however, that merit discussion.

5.2.2. Challenges to providing direct fiscal incentives for local service delivery

Fiscal incentives to local governments based on direct measurement of service delivery outcomes may be suitable for sector-specific UPG programs, where funds are tied to use in specific predefined sectors. These may include programs dedicated to water and sanitation, roads, solid waste management, public health, education, or other such results-based financing; see again the typology of PBG programs in figure 2.1. A predefined list of sectors (or eligible expenditure categories) enables comparison of performances and results across local governments, which then allows the determination of grant allocations. The number of water supply connections provided by various local governments or utilities can be compared, for example, if the program provides incentive for this result. When local governments have discretion to spend funds across multiple sectors within their remits, however (as is generally the case in most UPG programs that, by design, provide local governments with this discretion), and where external factors influence results, comparing performance across local governments in one particular sector over another is generally not feasible, as the sectors different local governments will choose for investment is not known a priori. It is not feasible, for instance, to compare the quality

or output of roads developed by one local government with improved solid waste management (SWM) developed by another, as various local governments may have different expenditure priorities based on their needs. Thus, the assessment process in such cases becomes fraught with practical difficulties.

Besides such obstacles to comparability, several other challenges to direct assessment of performance on service delivery outcomes can pose a risk of distorting incentives for local governments. They are as follows:

- **Equity among local governments and control over achieving results:** Local governments often claim that achieving service delivery outcomes may not be under their full control but may be influenced by such external factors as support from line ministries or the level of resources available. If not carefully selected, indicators for assessment could penalize those local governments whose prior resources and capacity are lower than those of well-resourced local governments that can secure grant allocations without significant effort. Some local governments or areas may also require more inputs to achieve similar results due to various contextual factors, such as geography, levels of poverty, and so on.
- **Lack of flexibility and discretion:** In the case of multisectoral programs, performance measurement based on outcome indicators may tend to distort the incentives of the program by rewarding sector-specific, short-term investments rather than longer-term investments made in a coordinated manner across the local government. This is mainly because it is difficult to incorporate different characteristics of various sectors (in terms of costs, timeframe, and capacities required) into one common assessment system. The difficulties can, in turn, limit the flexibility of local governments in multisectoral grants in which they are meant to have discretion over the selection of investments, and they end up being guided (or indirectly forced) to focus more on sectors where spending is easier to plan and execute.
- **Time lag between input and results:** Service delivery outcomes, especially those pertaining to investments in capital infrastructure, may not be achieved in time for the annual assessment and budgeting cycle within which most PBG programs operate. Investments financed

by a local government, for example, may not be complete by the next round of annual assessment simply because they are large and bulky. In such cases, it is important to find alternative performance indicators, especially for the first few years of the program, when investments are not finished.

- **Feasibility of results assessment:** Also extremely challenging is the undertaking of annual surveys of outcome indicators across all participating local governments, because such surveys generally require a complex and expensive assessment process with significant fieldwork on a regular basis. This may lead to delays in the assessment process and increase associated costs, which is already an issue in some countries.
- **Tradeoff between broad institutional system strengthening and achieving specific outputs:** UPG programs have focused strongly on building the longer-term capacity and institutional performance of local governments as entities and corporate bodies with the capacity to spend larger sums of public funding and provide the systems and procedures to do this efficiently. A focus on short-term, specific outputs may dilute this core objective.

5.2.3. Potential approaches going forward

How can better incentives be provided to improve and measure outcomes in local service delivery? Several UPG programs are overcoming this challenge—especially in multisectoral programs—by using proxy-type indicators to measure the efficiency and quality of expenditure from grant funds. These include, for example, results from VfM audits of grant funds and capital expenditure execution rates of infrastructure investments. The use of such indicators to measure improved service delivery outcomes is especially useful where funds are utilized for multisectoral interventions, which is common where local governments have broad mandates, because they measure the efficiency, effectiveness, economies, and quality of the governments' capital expenditure. In multisectoral UPG programs where local governments are not limited to spending grant funding in a specific sector but instead can prioritize spending across their remits, it is important to provide incentive for and measure the efficient and timely use of the funds across areas—an objective for which proxy indicators are well suited.

Assessing the quality and timely completion of projects is a strong metric, as it ensures the local government has effectively spent funds within its remit for local service delivery. It improves the investment planning and expenditure capacity of the governments, which, in turn, improves their effectiveness, even beyond the UPG program.

Such indicators generally provided strong results in the UPG programs reviewed, as noted in section 3.2, which highlights results from various VfM audits that show investments in urban infrastructure were well executed across these programs. Notably, while the programs generally had a large set of institutional and process indicators on which local governments were assessed and became eligible to receive funds, the funds were expended on local service delivery and infrastructure, which was demonstrably carried out economically and efficiently, with high-quality results.

The use of well-designed VfM audits (and similar performance metrics) to inform the allocation of grants can be valuable in focusing the incentives of local governments on the timely and efficient delivery of infrastructure. These audits should measure such parameters as *economy* of expenditure (that is, cost, especially relative to other similar investments), *efficiency* (such as expenditure execution rates and timeliness), and *effectiveness* (whether the objectives were achieved and whether the services are delivered as planned and being utilized by end-beneficiaries); see [Box 3.3](#), above, for a good-practice example of their use. Efficiency is measured in terms of the use of resources by local governments, with results that can be readily compared across them and utilized to inform future grant allocations. The audits also focus on the actual quality and end-use of the infrastructure delivered.

In contexts where local governments have built strong processes, UPG programs can aim to move them up the value chain with more sophisticated metrics or by targeting process and output indicators for specific municipal services or sectors. Entire programs can be designed that target sector-specific institutional performance factors closer to the point of service delivery and alleviate critical constraints on delivery outcomes. Several promising recent examples include

providing incentives for and promoting local climate change action through UPGs (see next section); a new Bank-financed UPG program supporting metropolitan-level coordination (and increased access to infrastructure and services) targeting all local governments in Uganda's Greater Kampala metropolitan region; and another recent Bank-financed project to improve municipal SWM services by providing UPGs for improved SWM-related metrics to all urban local governments in the Indian state of Kerala (see [Box 5.2](#) for a summary of these examples, which can be replicated in other contexts to achieve specific sectoral objectives).

Finally, it is important to acknowledge that in many contexts where baseline capacity and institutional performance are weak, due time is needed to bring local governments up to a level where investments can be sustainably made. Service delivery outcomes likely will not appreciably improve in the early years of such programs, and a longer-term commitment is needed to observe meaningful change. This is clearly an evolving topic and requires continued exploration to capture emerging trends and lessons.

Box 5.2. Recent Sector-Specific UPGs in Kampala, Uganda, and Kerala, India

Recent examples of sector-specific UPG programs include the Greater Kampala Metropolitan Area Urban Development Program (Uganda) and the Kerala Solid Waste Management Project (India).

The goal of the Greater Kampala Metropolitan Area Urban Development Program is to improve institutional capacity for metropolitan coordination and management and increase access to improved infrastructure and services. It will provide performance-based grants to all nine urban local governments in the metropolitan region, using a mixture of performance measures (PMs, or eligibility criteria) to provide grants based on achieving targets for institutional processes, as well as on the completion of specific types of investments. Under one PM, for example, a certain share of investments made by all local governments in the metropolitan area in a preceding year need to have been “multijurisdictional” in nature—that is, coordinated and co-implemented by various local governments in the area—to promote the integration of metropolitan-level planning and the delivery of infrastructure investments, thus addressing a common problem in the management of metropolitan areas. In another, a certain share of investments made by each local government in the metropolitan area need to be for climate-resilient infrastructure that is completed and to contribute to climate change mitigation and adaptation (for example, through the rehabilitation of stormwater drainage; the preparation of SWM strategies and the promotion of waste segregation and sorting that help reduce drainage clogging; and so on).

The Kerala Solid Waste Management Project covers the entire universe of urban local governments in the state of Kerala, India, providing UPG financing to them upon the achievement of metrics specifically targeted toward building their institutional systems for planning, implementing, and managing SWM infrastructure and services. These metrics include key institutional results and technical readiness activities pertaining to the SWM sector, identified based on technical assessments during project preparation. A key feature of this project—representing a departure from other UPG programs—is that the eligibility criteria for grants comprise one-time activities to be completed by local governments, rather than full annual assessments. This enables the governments to confirm up front their entire grant allocation ceilings for the whole duration of the project, which, in turn, allows them to undertake multiyear investment planning to prepare citywide five-year SWM investment plans, to be gradually implemented over the project duration using project funds. The actual disbursement of grants to local governments still follows an annual cycle—in line with the government annual budgeting and planning cycle—based on the achievement of annual triggers to ensure continued compliance.

Sources: World Bank 2021b; 2022b.

5.3. Promoting climate change action at the local level through UPGs

Attention is increasing on promoting local climate actions through financial incentives under UPG systems. In many cases, the United Nations Capital Development Fund (UNCDF) has been taking the lead in this area through its Local Climate Adaptive Living Facility (LoCAL), which provides performance-based climate resilience grants in several countries.³⁰ LoCAL increases awareness and capacities to respond to climate change at the local level, integrating climate change adaptation into government planning and budgeting systems in a participatory manner. A targeted cross-sectoral grant, it attaches conditions to the use of its funding for climate change adaptation and has a menu defining eligible investments for local governments. Climate-related performance metrics used under the program include the use of climate information (local data on climate change, climate risk assessments, and vulnerability assessments); the mainstreaming of adaptation in local planning, budgeting, procurement and contracting, and execution; compliance with technical specifications for incorporating climate-related aspects in infrastructure; and the effective use of funds. It also includes a set of indicators that promote inclusive local governance to strengthen community resilience through participatory local planning processes and the implementation of climate adaptation measures. The carefully defined menu of eligible investments encourages capital investment in local climate adaptation needs.³¹

Globally, PBG programs increasingly are being utilized to sharpen the focus on climate change mitigation and adaptation at the local level, either through standalone, performance-based climate resilience grants or integrated into existing multisectoral grants as top-up with increased focus on climate. These initiatives are linked with a targeted performance assessment system and capacity-building support for local governments for climate risk resilience.

The Bank has also started piloting climate-focused UPG programs in some countries. Among the countries where Bank-financed UPG programs were reviewed, Ethiopia was found to incorporate urban climate resilience indicators in its annual performance assessment. More significantly, a new PBG program in Kenya—the [Financing Locally-Led Climate Action Program](#) (World Bank 2021a)—will support community-identified and locally led climate resilience projects at the county level and strengthen their climate finance and governance systems, with the grants providing the performance incentive. Emerging experiences in such programs is showing that local governments are responding to financial incentives in this area, pointing to a need for further use of these types of programs. Climate change action will become a substantial area of focus.

While most climate-focused UPG programs have generally focused on climate change adaptation, incentives are also needed for local actions for climate change mitigation. This can be an area of focus for the next generation of UPG programs. The key tool for providing incentive to motivate mitigation actions under such programs is the menu of eligible capital investments available to local governments for the use of grant funds. Capital investments that reduce greenhouse gas emissions should be among these. They may include, for example, investments to encourage switching from private to public (and/or nonmotorized) modes of transportation; investments in SWM to reduce methane emissions, especially from landfills; and investments in green public spaces, among others.

³⁰LoCAL has applied this concept in 17 countries already, with almost as many new country programs being planned. It is generally developed as a supplement to the existing PBGs in a country (see UNCDF 2020).

³¹For discussions on LoCAL program, see UNCDF 2020 and 2022.

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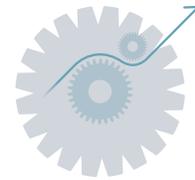
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Part II

Case Studies from Selected Countries

Part II will showcase key findings from the in-depth case studies of nine UPG programs conducted for this report.

The reviewed programs cover seven countries across four regions:

- 6. Ethiopia:** Second Urban Local Government Development Program (ULGDP II) and Urban Institutional and Infrastructure Development Program (UIIDP)
- 7. Ghana:** Local Government Capacity Support Project (LGCSP) and Ghana Secondary Cities Support Program (GSCSP)
- 8. India:** West Bengal Institutional Strengthening of Gram Panchayats Program (ISGPP II)
- 9. Kenya:** Kenya Devolution Support Program (KDSP)
- 10. Tanzania:** Urban Local Government Strengthening Program (ULGSP)
- 11. Tunisia:** Urban Development and Local Governance and AF (PDUGL)
- 12. Uganda:** Uganda Support to Municipal Infrastructure Development Program (USMID and USMID AF)

These programs represent the standard typology of a UPG program, such as targeting multiple municipalities, conducive environments in countries (that is, decentralization initiative), and refined grant designs drawing upon accumulated experiences. Each case was analyzed based on desk reviews of key project documents³² and virtual internal interviews with respective World Bank task teams.

³² See section 1.4 for the detailed list of key project documents reviewed.

6. Ethiopia: Second Urban Local Government Development Program and Urban Institutional and Infrastructure Program

1. Background

Ethiopia is among the countries that have successfully scaled up UPG programs across two generations. Based on lessons learned from Phase I of the Urban Local Government Development Program (ULGDP I),³³ the program was rolled out to 44 large urban local governments under ULGDP II and, subsequently, to 117 medium and smaller ones under UIIDP. The three consecutive programs (ULGDP I, ULGDP II, and UIIDP) made a significant contribution to shaping the various local development systems. Throughout them, the major components and principles of the UPG system were retained, with few refinements. To meet the changing demands, however, different types of investment instruments were applied, building upon the lessons learned from each phase: ULGDP I applied Investment Project Financing (IPF); ULGDP II featured a Program for Results (PforR) operation; and UIIDP used a hybrid option to strengthen capacity-building systems through a focused IPF window. The thematic focus areas were expanded, as well. UIIDP, for example, focused on emerging cross-cutting urban agendas, such as local economic development, climate resilience, and gender. [Table 6.1](#) summarizes key facts of the two of Ethiopia’s UPG programs reviewed for this study.

Table 6.1. Factsheet for the Case UPG Programs in Ethiopia

Program title	The second Urban Local Government Development Program (ULGDP II)	Urban Institutional and Infrastructure Program (UIIDP)
Financing instrument	PforR	Hybrid
Financing amount (Financier)	IDA: US\$380 million Borrower: US\$176 million	IDA: US\$600 million Borrower: US\$248.7 million Agence Française de Développement: US\$10.8 million
Duration (Board approval to closing)	May 2014 to December 2019	May 2018 to July 2023
Geographical coverage	44 urban local governments	117 urban local governments
Project development objective	To assist the Recipient in enhancing the institutional performance of the participating urban local governments in developing and sustaining urban infrastructure and services	To enhance Institutional performance of participating urban local governments to develop and sustain urban infrastructure, services, and economic development

³³ The Urban Local Government Development Project (ULGDP) (2008–13), implemented by the Federal Government of Ethiopia Ministry of Urban Development, Housing, and Construction, was a US\$208 million program financed by the World Bank to improve the institutional capacities of 18 urban local governments to meet their infrastructure requirements through discretionary funds provided as specific-purpose grants. The program was in line with the country’s efforts to meet infrastructure requirements for basic services in city administrations while empowering the local governments to undertake capital investments, build institutional systems, and take ownership of resource mobilization.

2. Key performances

The review found the achievements of the second and third UPG programs in Ethiopia (ULGDP II and UIIDP) to be good overall, consistently exceeding the planned program targets. Under ULGDP II, compliance with the minimum conditions (MCs) was continuous throughout the program period, and the average performance measure (PM) score of all the participating local governments increased by 30 percent over the four years. Despite the rapid scaling-up process, all 117 local governments under UIIDP also managed to comply with the MCs from the first year of implementation, with the average PM score increasing by 6 percent from the first to the second annual performance assessment (APA). The positive results indicate the local governments were able to respond fast and effectively to the financial incentives provided by the UPG programs.

Institutional performance also significantly improved in the following areas (Table 6.2):

- **OSR.** The share of the 44 local governments under ULGDP II with annual improvement of more than 10 percent in OSR increased from 20 percent to 84 percent. Under UIIDP, 76 percent of the 117 local governments had OSR exceeding 10 percent. The nominal amount of OSR collected also significantly increased, by 48 percent, under ULGDP II.
- **Human resource management.** Measured as an MC under both programs, HR management met the minimum requirement consistently throughout implementation.
- **Asset management.** The local governments became capable of operation and maintenance (O&M) planning according to standards, executing over 80 percent of the planned budget.
- **Clean auditing.** Progress for the audit status under the two programs was stable. While only 25 local governments had clean audits at the beginning of UIIDP, after three years of implementation 66 out of the 117 local governments did, and the rest had qualified audit reports. All the participating local governments conducted timely audits, which, together with other performance improvements in PFM, was a major achievement.

Table 6.2. Key Performances of the Case UPG Programs in Ethiopia

Key performance areas		Improvement	Details (changes over the program period)
General performance	MC compliance rate (%)	Consistently met under both	100% of local governments met MCs through both programs.
	Average APA performance score	Yes for both	Increased from 71 to 90 (ULGDP II); from 83 to 95 (UIIDP).
Key urban variables	OSR	Yes for both	OSR collected increased from US\$33.6 million to US\$49.8 million (48%) under ULGDP II; the number of local governments with more than 10% OSR improvement per year continuously increased, from 20% to 76% throughout the two programs.
	Human resource management	Yes for both	HR was a minimum condition under both programs and was consistently met.
	Asset management / O&M	Yes for both	Share of local governments executing over 80% of the planned O&M budget increased from 20% to 80% (ULGDP II) and from 23% to 68% (UIIDP).
	PFM	Yes (ULGDP II) NA (UIIDP)	PM score on PFM increased from 9 to 13 out of 15 maximum points; local governments with clean audits increased from 11% to 57% under ULGDP II. UIIDP saw a decrease from 57% to 49% but mainly because in the first year only 44 local governments were assessed, while in the third year all 117 local governments were assessed, and the score reached 14 out of a possible 15.

Implementation of infrastructure and service delivery showed continuous progress over the ULGDP II and UIIDP program periods. The participating local governments were able to execute infrastructure investments as planned in a timely and effective manner. The implementation ratio of planned local infrastructure investments was 72 percent in the first year of ULGDP II, increasing to 94 percent in the last year, and it continued to be very high during the rollout of the program under UIIDP, at 94 percent in the second year. Most of the funds were spent effectively on investments in infrastructure and service delivery—95 percent and 80 percent under ULGDP II and UIIDP, respectively. As a result, infrastructure outputs from the two programs surpassed the targets, including 1,299 km of cobblestone roads (against the target of 600 km), and 620 km of drainage, 192 bridges, and 284 ha of parks, benefiting over 10 million people in all. The quality of the provided infrastructure was satisfactory, according to Value for Money (VfM) audit results. The programs also contributed to a high level of temporary employment creation, amounting to about 160,000 person-years of employment under ULGDP II and 270,000 per year under UIIDP. Given the pressing nature of the unemployment problem in Ethiopia, labor-intensive techniques and job creation were to be a high priority in UPG programs in the country and needed to be further integrated into the programs.

3. Operational design

Grant design. The size of the grants under the two programs was substantial, at about US\$19–20 per capita for both. The UPGs also constituted the only block (specific-purpose) grant from the federal to local levels (city administrations), accounting for 70 percent of the entire funding streams to urban local governments, on average. The grants were typically used for smaller and medium-size investments with an average size of US\$150,000, which was appropriate, given the limited functional mandates of the urban local governments. The per capita allocation formula, however, left smaller urban local governments with relatively lower budget allocations, while the larger ones tended to receive more funding. Some of the participating urban local governments raised equity issues related to the allocation formula.

Performance assessment system. The APA was designed based on overall lessons learned from the first-generation program (ULGDPI), field testing of the local governments' performance capacities, and detailed technical assessment covering a comprehensive range of performance areas. Performance indicators were relatively comprehensive, with a set of 50 to 60 indicators, covering the entire PFM cycle from planning to auditing, as well as cross-cutting areas such as climate resilience, Local Economic Development, gender, and governance. It functioned well in addressing the performance of all tiers of government, from local governments and regions to the federal level, and informed targeted technical assistance and capacity-building support from the upper tiers. In addition, disbursement-linked indicators (DLIs) were embedded in the APA indicators for the improvement of institutional performances, such as PFM, OSR, safeguards, and capacity-building activities. Among the challenges at the upper levels were delays in the timely completion of APAs, but this did not significantly affect the actual budget execution at the local government level. Although the feasibility of continuing to conduct comprehensive APAs was sometimes questioned, the actual costs of the entire APA process were about only 1 percent of the total annual UPG.

Quality assurance. A strong system for quality enhancement review rendered the APA results highly credible and provided adequate incentive for local governments to strive for continued high-level performances. Quality assurance teams, both from the government and the World Bank, conducted field visits to a sample of about 15 percent of the participating local governments to spot-check the accuracy of the APA results, and detailed desk reviews of the reports covered all the local governments.

Capacity building. The capacity-building system was designed to target the identified capacity gaps of local governments, with a combination of demand-driven support, incentives for support from the regions, and backstopping support from the federal mobile team. The ULGDP II was a Program-for-Results (PforR) with one DLI on capacity-building activities, while the UIIDP used an Investment Project Financing (IPF) window for a selected set of these activities. While capacity-building activities at the local level were retained in the PforR modality under both programs, some of the central and regional activities were shifted from PforR (under ULGDP II) to IPF (under UIIDP) modalities to reduce the risks for undertaking federal-level actions, such as analytical works, assessments, the provision of additional teams for capacity-building activities, and others. Both programs allowed local governments to spend up to 5 percent of the UPGs on capacity-building activities.

Sustainability. The review found the impacts of the UPG programs on institutional performances and system development highly likely to be sustained beyond the program period for three reasons:

- Several nonparticipating regions had adopted similar UPG schemes for their own grants to local governments, suggesting the programs would have future impacts on the overall fiscal decentralization framework.
- The development of and enhancements to institutions accomplished during the program were likely to be sustained after its closing.
- A high level of co-funding from government indicated ownership and a willingness to continue and expand the approach.

In response to a number of local governments having “plateaued” in their improvements to the core institutional performance areas, the federal government discussed a potential exit strategy by which high-performing local governments could opt to phase out from the UPG programs. An alternative view was that those local governments could go on to develop innovative ways to enhance their competitiveness through continued and advanced support from the programs.

Environmental and social management. The review found that the programs effectively addressed E&S issues through the incentives they provided in the performance measures, through the incentives in the DLIs on regional governments’ timely review of local safeguards compliance, and through the incentives for central governments to provide targeted and comprehensive technical assistance and capacity-building support to local governments on E&S issues. The programs also significantly improved their grievance redressal management systems.

7. Ghana: Local Government Capacity Support Project and Ghana Secondary Cities Support Program

1. Background

In 2008, in line with the National Decentralization Policy Framework in Ghana, a countrywide performance-based grant system known as the District Development Fund (DDF) was started with support from the government of Ghana and its development partners. When, in 2011, the World Bank started its first UPG program in Ghana, the Local Government Capacity Support Project (LGCSP), it based the design of this IPF operation on the lessons learned from the DDF. The Ghana Secondary Cities Support Program (GSCSP), launched in 2018, further entrenched the UPG culture and strengthened the country’s intergovernmental fiscal transfer (IGFT) system. GSCSP, a Program-for-Results (PforR), strategically catered to the specific needs of secondary cities, with the objective of easing the development pressure on the primary cities. GSCSP focused more strongly than LGCSP on core urban performance improvement, offering substantially larger grants and investment projects. [Table 7.1](#) shows key facts of the two UPG programs reviewed here.

Table 7.1. Factsheet for the Case UPG Programs in Ghana

Program title	Local Government Capacity Support Project (LGCSP)	Ghana Secondary Cities Support Program (GSCSP)
Financing instrument	IPF	PforR
Financing amount (Financier)	IDA: US\$175 million	IDA: US\$100 million Borrower: US\$161 million
Duration (Board approval to closing)	March 2011 to June 2018	September 2018 to June 2024
Geographical coverage	46 local governments (metropolitan and municipal assemblies)	25 local governments with total population of 100,000–250,000 (secondary cities) and at least 60% urban population.
Project development objective	To strengthen the intergovernmental fiscal framework; to strengthen local PFM and accountability for improved infrastructure and services in urban assemblies; and to improve citizens’ engagement with urban assemblies and their perceptions of urban management.	To improve urban management and basic urban services in participating municipal assemblies.

2. Key performances

Overall, both LGCSP and GSCSP were successful in achieving key performance areas. At the closing of LGCSP, the program exceeded the targets set at the design stage; the MC compliance rate increased by 37 percent and the average PM score by 19 percent over the project period. GSCSP was also on track to achieve its planned performance targets, although its quantitative results were still limited, given that program had been running for only two years at the time of the review. All the local governments under GSCSP were in full compliance with MCs, and the average PM score increased by 10.7 percent from the first to the second annual performance assessment (APA). The institutional performance significantly improved in the following key result areas (Table 7.2):

- **OSR.** The amount of OSR collected under LGCSP increased by 148 percent during the project period, and 91 percent of the participating local governments had achieved annual increases of more than 5 percent in OSR collection at program closing.
- **Asset management.** Operation and maintenance were monitored as a key result area in the APAs; the average score on O&M increased by 14.8 percent over the project period of LGCSP and by 20 percent over the two years of GSCSP implementation.
- **Timeliness of reporting and quality of auditing.** Under LGCSP, the share of local governments that submitted financial statements on time and had clean audits reached 100 percent in both respects in the fourth and fifth APAs. The APA score for PFM increased by 47 percent.
- **Budget credibility and social accountability.** Performance on budget credibility and social accountability improved significantly under LGCSP. Almost all participating local governments disclosed annual fee-fixing resolutions during the project period, and all had institutionalized town hall meetings by program closure.

While the task team believed GSCSP had also been effective in institutional performance enhancement at the time of the review, supportive quantitative evidence was as yet insufficient. This is mainly because, first, the program focused more on urban infrastructure

Table 7.2. Key Performances of the Case UPG Programs in Ghana

Key performance areas		Improvement	Details (changes over the program period)
General performance	MC compliance rate (%)	Yes for both	Increased from 65% to 89% under LGCSP and was consistently 100% under GSCSP.
	Average APA performance score	Yes for both	Increased from 64 to 94 (LGCSP) and from 57 to 63 (GSCSP).
Key urban variables	OSR	Yes for LGCSP	OSR collected in 46 local governments increased from ₵75.8 billion in 2011 to ₵188 billion in 2017 (148%) under LGCSP; OSR collected in 25 local governments increased from ₵35.8 million to ₵43.6 million (21.8%) between 2018 and 2020 under GSCSP.
	Accountability	Yes for LGCSP	Share of local governments achieving social accountability performance indicator in APAs increased from 76% to 100% under LGCSP; this indicator was not monitored under the GSCSP results framework but was embedded in the DPAT. ^a
	Asset management / O&M	Yes for both	Average PM score on asset management increased by 15% (LGCSP); average PM score on sustainable urban systems (including indicators on property rate administration and enforcement and on maintenance of road, drain, and pedestrian networks) increased by 19% (GSCSP).
	PFM	Yes for LGCSP	Average PM score on asset management increased by 15% (LGCSP); average PM score on sustainable urban systems (including indicators on property rate administration and enforcement and on maintenance of road, drain, and pedestrian networks) increased by 19% (GSCSP).

a. District Assembly Performance Assessment Tool.

and service outcome indicators than on intermediate process and system indicators; and, second, it was designed to avoid duplication of indicators, such as HR management, transparency and accountability, and financial management, that were already being measured as part of the national performance measurement system. The program instead incorporated the results of the national assessments into its MCs, which requires local governments to obtain higher scores than the national-level average performance score to access the grants.

While LGCSP invested in a fairly wide range of asset classes, including education, health, and social facilities, the focus of GSCSP was narrowed down to core urban infrastructure for connectivity, stormwater drainage, and competitiveness. At the closing of LGCSP, all the planned infrastructure had been delivered, including 120 km of rehabilitated roads, 2,215 school classrooms, 69 markets, 4 health clinics, 18 police stations, and 93 toilet facilities. In total, approximately 6.6 million citizens benefited from the program, exceeding the target of 2 million. The results of VfM audits showed good cost effectiveness. In addition, about 12,000 temporary employment opportunities were created for investment projects, and approximately US\$24 million was paid to workers as wages.

Under the ongoing GSCSP, despite the significant delays in implementation caused by the advent of the COVID-19 pandemic, 17 km of roads, 7.49 km of pedestrian walkways, 8.94 km of storm drains, 7 pieces of economic infrastructure, and 1,892 streetlights had been constructed or rehabilitated as of February 2022, and more were under construction. The shares of infrastructure investment costs out of total UPG expenditures for LGCSP and GSCSP were 79 percent and 87 percent, respectively.

3. Operational design

Grant design. To scale up the impacts of the UPGs, the grant design was enhanced across the two programs. The grants under LGCSP were relatively small, at US\$4.56 per capita, on average. During the program implementation, this was deemed inadequate for many of the investment projects envisaged in annual local development plans. As a result, the program gradually reduced the number of investment projects in its last years of implementation to avoid fragmentation of the investments and to make the procurement processes more efficient. The lessons learned from LGCSP in this regard were reflected in the design of GSCSP, whose grants were significantly larger, at approximately US\$15 per capita. The grants were to be used for a selected set of urban assets and to target a larger scale of investment projects (over US\$500,000). The technical complexities of the larger investments, however, in addition to the impact of the COVID pandemic, led to some delays in project execution during the first years of implementation, limiting the infrastructure and service delivery results found by this study.

Performance assessment system. Neither program made significant changes to its APA system, which both integrated with a national performance assessment system called the Functional and Organisational Assessment Tool (FOAT), later changed to the District Assembly Performance Assessment Tool (DPAT). As LGCSP utilized the existing FOAT as its APA tool, additional testing was not necessary before the launch of the program. GSCSP also integrated DPAT assessments into its APA system by requiring local governments seeking UPGs to exceed national average performance scores from the DPAT assessments as minimum conditions. Some of the challenges observed with other UPG programs were repeated in both LGCSP and GSCSP, especially belated completion of APAs as a result of contract delays and limitations in planning and implementation capacities at the local level.

Quality assurance. The APA results under the two programs were subject to robust quality assurance. Instead of hiring an independent firm, LGCSP effectively made use of the existing quality assurance system of the DDF, comprising experts from the DDF secretariat,

consultants, and development partners who jointly reviewed the assessment results. In particular, the DDF secretariat was responsible for overall quality assurance, including contracting with companies, reviewing the results, and coordinating with a review committee. Under GSCSP, the World Bank team recognized that the quality of the APAs was heavily dependent on the capacities of a hired consulting firm and so provided substantial handholding support and guidance to the firm at the beginning of the process to ensure the credibility of the results. The contract for the consulting firm lasted two years, and the handholding efforts were found to have improved the capacity of the firm in the second year. A system was also in place to reconcile the firm's results with those of a quality assurance review team hired by the World Bank. The ensured robustness of APAs generated adequate incentives for participating local governments to improve their performances in the targeted areas.

Capacity building. Capacity-building support was provided by LGCSP mainly through a specific fund through which local governments could apply for targeted capacity support in five PFM areas, according to their specific needs. The fund complemented other capacity-building support channels, such as grants for the purpose from the DDF. It was found, however, that the fund under LGCSP (an IPF) did not provide sufficient incentive to the local governments to undertake planned capacity-building activities because it was disbursed against *inputs* (capacity-building proposals by the governments), instead of *outputs* (actual capacity-building activities undertaken). Thus, GSCSP changed its approach to a performance-based capacity-building grant—called the Capacity Support Grant—which would make resources available upon achievement of DLIs to strengthen the demand-driven aspects of the support and the local governments' ownership of their performance enhancement. One of the MCs a local government needed to meet to get access to the Capacity Support Grant was preparation of a three-year Urban Development Action Plan, providing a strategy for capital investment to address key urban development challenges. In addition, compliance with the MCs to apply for the grant was included under GSCSP as a disbursement-linked indicator. This design of the capacity-

building grant helped enable participating local governments to adopt and implement integrated urban development plans with a better understanding of their own urban agendas. The review found that the Capacity Support Grant had contributed to the procurement of office equipment, spatial information system development, improvement in revenue generation, and disaster risk management.

Sustainability. The impacts of UPGs in Ghana were highly likely to be sustained beyond the program period, for four reasons:

- The UPG programs were well-aligned with and further upgraded the country's existing IGFT system (the Responsiveness Factor Grant).
- Regions increasingly employed UPG approaches, which was expected to have comprehensive impacts on the country's overall fiscal decentralization framework.
- Ownership was strong at all levels of government, with the governments providing a high level of co-funding.
- Core urban systems developed under the programs, such as a spatial planning database and asset management tools, were likely to be retained beyond the program period.

Environmental and social management. E&S management generally functioned well under LGCSP. As the program was an IPF, the World Bank's safeguards policies supplemented the existing national procedures (that is, the Environmental Protection Agency's environmental assessment procedures), which local governments found challenging to adhere to fully. Most of the local governments, however, successfully managed to screen UPG-funded infrastructure projects early enough to comply with the E&S management rules. Also, the provision of capacity-building support focused on E&S management, and the development of a system to monitor E&S issues contributed to improving the overall effectiveness of the governments in addressing these issues. Among the challenges noted during the design stage were displacement and compensation issues due to the lack of a land tenure and property ownership database.

8. India: Institutional Strengthening of Gram Panchayats Project Phase II

3. Background

In support of India's devolution process, the Institutional Strengthening of Gram Panchayats Project (ISGPP) was designed and implemented from 2011 to 2016 as the first UPG program in the state of West Bengal. After the successful completion of Phase I of the program directly targeting 1,000 selected local governments, Phase II (IGSPP II) was initiated in 2017 at the request of the state and the local governments (called Gram Panchayats) to scale up the program's initial impacts and expand the support to all the local governments in West Bengal in line with its decentralization and local development agenda. ISGPP II retained and refined most of the aspects of Phase I, including alignment with a statewide performance grant system (called the State Fiscal Commission, or SFC) and the deployment of mentoring support and system development components. ISGPP II was also unique in that it was designed to address the contextual differences among local governments, such as differences in demographic factors, location, overall capacity, and the level of support they had received for institutional strengthening in previous years. The case study that follows categorizes the local governments into two groups: those that had received support under the Phase I (hereafter Phase I local governments) and those that newly joined in Phase II and were less familiar with the UPG system (Phase II local governments). [Table 8.1](#) shows key facts of the UPG program reviewed.

Table 8.1. Factsheet for the Case UPG Programs in India

Program title	Institutional Strengthening of Gram Panchayats Program II (ISGPP II)
Financing instrument	PforR
Financing amount (Financier)	IBRD: US\$210 million India: US\$384 million
Duration (Board approval to closing)	March 2017 to December 2022
Geographical coverage	3,229 local governments (all Gram Panchayats in the state of West Bengal)
Project development objective	To strengthen further the institutional and financial capacities of the Gram Panchayats across the state.

2. Key performances

In general, and despite some challenges, IGSP II achieved satisfactory results relative to overall objectives and performance targets. In fact, performance trends were difficult to analyze because substantial changes were made to the performance measurement indicators during implementation of the program. While the MC compliance rate of local governments overall improved from 52 to 75 percent, the average PM score decreased slightly, by 31 percent. The scores did not decline because the local governments' performance had worsened over time but rather because the performance bar had been raised significantly (that is, the requirements of the indicators had been strengthened), and a number of external factors had had effects. The changes to the PM indicators also resulted in mixed results in several performance areas (Table 8.2):

- **OSR** increased significantly (by 68 percent) over the program period, as a continuation of improvements from Phase I.
- **Transparency and accountability** remained stable, as indicated by the APA score in the accountability thematic area. The program also focused on developing digital platforms to improve information sharing. A statewide e-governance system, for example (called the Gram Panchayat Management System), was developed and implemented under the program, and adequate training and handholding support in the use of such IT systems were provided to local governments.
- **PFM** showed mixed results. Although the overall PFM score (including planning, budgeting, accounting, financial reporting, and audit) improved over the years, performance in the planning and budgeting thematic areas remained static. On the other hand, local government performance in financial reporting, audit, and accounting improved significantly. Also, the share of local governments without adverse or disclaimed audits was more than 98 percent throughout the program.
- **Human resource management** also showed improvement, with the program making rapid progress in hiring core staff and achieving a relevant DLI for the first three years of implementation. Because of a state-level policy freezing the recruitment of new staff, however, the hiring of local staff stalled, and the DLI had to be adjusted, resulting in staff and capacity shortages among the local governments.

Table 8.2. Key Performances of the Case UPG Programs in India

Key performance areas		Improvement	Details (changes over the program period)
General performance	MC compliance rate (%)	Yes	Increased from 52% to 75%.
	Average APA performance score	Not available	Decreased from 84 to 58, but the results are not comparable due to changes to indicator targets which were increased or strengthened during implementation
Key urban variables	OSR	Yes	OSR collected increased from US\$28 million to US\$47 million (68%)
	Accountability	Partially yes (stable)	The scores under the accountability and transparency thematic area remained largely the same over the years.
	PFM	Yes	The overall PFM score of local governments improved significantly, but planning and budgeting performance remained static over the years.
	Human resource management	Partially yes	No quantitative data, but staff recruitment reportedly improved during the first three years and then was put on hold due to state policy.
	Asset management / O&M	N/A	O&M was not monitored during implementation.

Access to infrastructure and service delivery also significantly improved over the program period. The program provided more than 5,000 km of roads and 250 km of drainage, and the implementation ratio of planned infrastructure projects increased from 67 to 85 percent. The lower rate of execution during the first years of implementation was the result of delays in and limited oversight of procurement processes.³⁴ The majority (88 percent) of the UPG financing was spent on infrastructure and services and benefited all local governments in the state.

3. Operational design

Grant design. The program was designed to provide small grants amounting to about US\$1 per capita (US\$20,000 per local government, on average), partly because of the drastic geographical expansion to cover 3,000 local governments. Despite their small per capita size, the UPGs were expected to be sufficient to create meaningful impacts. This was because a statewide performance-based grants system, which was a combination of an SFC grant and the World Bank UPGs, constituted a substantial share (about 19–23 percent) of the overall development grants to the local governments at the design stage. A substantial increase in the Central Financial Commission (CFC) grant, however (a centrally disbursed nonperformance grant), during implementation reduced performance-based grants as a share of total development grants allocated to local governments to only 9 percent in 2019/20. This contributed, in turn, to a reduction of the UPGs' impacts in improving the governments' performances and shifted the focus of the grants to smaller-scale infrastructure investments, at about US\$5,700 per project.

Despite concerns raised by the smallness of the grants, covering all the local governments in the state was deemed vital to achieving the program objective of developing an integrated and harmonized performance-based grant system that would not exclude any of them.

³⁴ During the first three years of Phase II implementation, the World Bank's procurement system was applied, as the practice of the Phase I, which was an IPF, was carried over. Given that Phase II was a PforR, however, which required using the existing system in the country, the result was confusion and blind spots in state scrutiny as well as in Bank oversight, leading to a major challenge to the program. This issue was assessed during the midterm review and was shifted to the state systems for the remainder of the program implementation.

The system was designed to pool available funds and then disburse them to different sets of local governments—that is, the funds from the World Bank (IBRD) were disbursed to Phase II local governments, while SFC and CFC funds supported the remaining Phase I governments.

Performance assessment system. An APA system developed under the program was effectively institutionalized in the SFC grant system. The APA processes were contracted out to an independent verification agent (IVA) to ensure their credibility and to address local governments' key challenges, as identified from preparation diagnostics and Phase I experiences. All the SFC grants then began replicating the newly created APA system from the UPG and gradually adopted overall performance-based grant systems. This, in turn, created a (healthy) competitive environment among the local governments and nurtured the development of several key systems at the local level. The APAs were found to be cost effective, with the total costs of this comprehensive, effective assessment exercise accounting for only 0.54 percent of the annual UPG amount.

On the other hand, the adjustment of the indicators during the course of the program without sufficient communication with local governments made it difficult for them to comprehend and respond to the updated APA system. The delays in executing the APAs, which were, as mentioned, mainly due to contract holdups and the COVID-19 pandemic, also negatively affected the important role of the assessment results as financial incentives for local governments. Another challenge related to the APAs was that the local governments' efforts were mostly limited to complying with the MCs, with less emphasis on achieving the more qualitative PM targets. This was deemed to be in part because of low awareness of UPG systems and the small size of the grants.

Quality assurance. The program employed the “two-layer” quality assurance review system to ensure the robustness of the APA results. A third-party verification team hired by the government to review a sample of 100 local governments was complemented by a quality assurance team hired by the World Bank, which reviewed a sample of 10 Gram Panchayats. Most recently, the government-side verification team

and the Bank team reviewed the same sample of local governments to ensure strong checks and balances. This multilayered quality assurance system, together with the reconciliation and approval of results by a steering committee, provided incentive to the participating local governments to strive for stable performance enhancement and build overall trust in the system among stakeholders.

Capacity building. Based on capacity gaps identified in Phase I, the program came up with a unique design for capacity-building activities that enabled it to remain flexible and ensured the local governments would have multiple avenues to express their capacity needs on an annual and day-to-day basis. A key feature was the mentor deployment program, which assigned over 400 specialized mentors to local governments to provide day-to-day handholding support for issues related to the IT system, planning and budgeting, financial management systems, service delivery, and procurement activities, among others. The mentor program was one of the most successful aspects of Phase I and was retained and refined under Phase II. In addition, conventional annual training programs were provided, including training needs assessments involving participation of the local governments and the district offices. Annually, 15,000–25,000 officials were trained.

In view of the benefit derived by the Phase I local governments from mentoring support, Phase II was designed to provide more intensive mentoring support to the Phase II governments. The ratios of mentoring teams to government staff were 1/40 for Phase I and 1/20 for Phase II. It was observed, however, that the performance of Phase I local governments showed a decline compared to Phase II local governments. This result implied the importance of continued and balanced capacity-building support for sustaining local performance enhancement and integrating technical assistance and capacity-building components into financial incentives for local governments. To resolve the issue, the ratio and intensity of mentoring support for the Phase I local governments was adjusted to target all local governments equally and to pay more attention to the weaker local governments in both groups.

Sustainability. The review found that UPGs in India were highly likely to be able to sustain their impacts on institutional performances and system development beyond the program period, for three reasons:

- The UPG system had been fully embedded in the statewide IGFT system, and it also had impacts on the grant system at the central level.
- The core systems developed under the program in the areas of PFM, reporting, grievance handling, and accountability were likely to be continued beyond the program phase.
- The state government provided a high level of co-funding, contributing 65 percent of the program costs, as well as pooling of funds from the World Bank and the SFC grants; this indicated strong government ownership.

In addition, an APA was in the process of being designed using data available in a transparent, objective, and timely manner from the now established and operational e-governance system. The objective was to enable the government to continue with the APA using its own systems after the program closed.

Environmental and social management. Overall, ISGPP improved its E&S management by incorporating E&S issues into APAs and providing targeted capacity-building support in these areas. The program facilitated the universal application of the Earth System Modeling Framework across the state and implemented an online updating system of land records containing information on all the private lands utilized to implement infrastructure works under the program. Local capacity and HR gaps continued to persist, however. A new grievance redressal management system developed under the program, although representing the first important steps in bringing about such an apparatus that was fully operational, was not fully utilized for registering complaints because of lack of awareness of the system and the existence of parallel state platforms (in particular, the chief minister's grievance redressal management system).

9. Kenya: Kenya Devolution Support Program

1. Background

In alignment with such national decentralization initiatives as the National Capacity Building Framework, the Kenya Devolution Support Program-for-Results (KDSP) was introduced as the first PforR UPG operation in the country to strengthen the capacity of national and county institutions and improve delivery of devolved services at the local level. At the time of this review, KDSP was augmenting the government's equitable share grant, which distributed a minimum of 15 percent of national revenues (US\$2.5 billion) to local governments³⁵ through a progressive formula to benefit historically marginalized local governments and enhance the capacity of all local governments in the country. Capacity-building activities at the center of the program design were to address capacity weaknesses observed throughout the devolution process. To sustain and scale up the impacts of KDSP over the years, a subsequent program was under preparation per request from the central, county, and local governments. The design and implementation experiences under KDSP had also informed other ongoing UPG programs, such as the Kenya Urban Support Program and a program focused on climate resilience, called Financing Locally Led Climate Action. [Table 9.1](#) shows key facts of the UPG program reviewed in this study.

Table 9.1. Factsheet for the Case UPG Programs in Kenya

Program title	Kenya Devolution Support Program-for-Results (KDSP)
Financing instrument	PforR
Financing amount (Financier)	IDA: US\$200 million Kenya: US\$68.9 million
Duration (Board approval to closing)	March 2016 to September 2021
Geographical coverage	All 47 local governments (counties)
Project development objective	To strengthen capacity of core national and county institutions to improve delivery of devolved services at the county level.

³⁵ In the case of Kenya, "local governments" refers to county governments.

2. Key performances

At the time of the review, the UPGs under KDSP (called capacity and performance grants) had, overall, successfully motivated the participating local governments and the national government to achieve the targeted areas. Two funding windows comprised level 1 grants for capacity-building support and level 2 grants for local development (see the grant design section, below, for more details). All participating local governments (counties) complied with the MCs for level 1 grants, and the rate of compliance with MCs for level 2 grants increased by 53 percentage points over the program period. The average PM score increased by 69 percent for all the local governments during the same period, and the scores of 83 percent of the governments consistently improved on a year by year basis. KDSP made good progress overall across the following key result areas (Table 9.2):

- **OSR** increased by 66 percent in nominal figures.
- **Asset management** showed relatively slow progress. On the sufficiency of O&M budgets to ensure the sustainability of infrastructure (that is, on having at least 5 percent of capital budgets allocated for O&M), the local government scores improved, on average, from 0.1 points to 2.2 points out of a maximum of 4 points. Forty percent of the governments, however, still scored zero under this indicator.
- **PFM** improved in various aspects. According to the APAs, scores on monthly financial reporting improved by 13 percent, and the counties' performance on the internal audit trended upward by 26 percent.
- **Accountability** improved, with scores on communication framework and engagement rising by 30 percent and on public participation (budget forums held and publication of bills) by 19 percent.
- **HR management** scores increased on average by 16.8 percent over the program period. Achievements recorded included improvements in review of organizational structures and staffing patterns and in planning for staff recruitment and development, and strengthened systems for recruitment, promotions, and appointment of staff.

Table 9.2. Key Performances of the Case UPG Programs in Kenya

Key performance areas		Improvement	Details (changes over the program period)
General performance	MC compliance rate (%)	Yes	Increased from 28% to 81%.
	Average APA performance score	Yes	Increased from 42 to 71.
Key urban variables	OSR	Yes	OSR collected increased by 66% in nominal figures.
	Asset management / O&M	Yes	APA score on O&M budget increased from 0.1 points to 2.2 points out of a maximum of 4 points.
	PFM	Yes	Average APA score on PFM increased from 43% to 71%; quality of financial statements improved by 18% and financial reporting by 13%; and the counties' performance on the internal audit showed an upward trend of 26%.
	Accountability	Yes	Average APA score on accountability increased by 64%; score on communication framework and engagement improved by 30%; and score on public participation (e.g., budget forums held, publication of bills) increased by 19%.
	Human resource management	Yes	Average APA score on HR management increased from 35 to 69 out of a maximum of 100 points.

The implementation of infrastructure and service delivery improved significantly, as well. Although execution rates took a couple of years to be on target, they continued to improve, and almost all the planned infrastructure projects in the local development plans were being implemented, according to the latest APA results. At the program closing, 171 subprojects had been implemented in the areas of health (comprising 44 percent of the total subprojects), water (19 percent), trade, including rural markets (9 percent), agriculture (6 percent), education (4 percent), and rural roads (6 percent). During the COVID-19 pandemic, KDSP investments in health facilities provided a huge boost for the counties, with the refurbishment and equipping of highly specialized hospitals benefiting over 1.2 million people.

3. Operational design

Grant design. KDSP grants were generally smaller than other UPGs. While the grant size across local governments varied exponentially with performance, a rough estimation put them at approximately US\$1.80 per capita on average—far smaller than the grants under other UPG programs.³⁶ The UPG share of the total grants allocated to local governments was also small, at only 5 percent.

For the limited grants to provide adequate incentives to local governments, several mitigation measures were adopted. First, two different sets of grants were introduced: level 1 grants allocated approximately US\$300,000 per local government for compliance with basic MCs, and level 2 grants allocated US\$1.5 million per local government annually for infrastructure projects for compliance with extended MCs. The rationale for applying the two funding windows with different sets of MCs was to provide strong incentives to well-performing local governments through level 2 grants while ensuring all the governments would have easy access through level 1 grants to a fixed share of the money to serve as startup funding for addressing core performance gaps. In addition, the level 2 grants were uniquely designed to provide exponential incentives to well-performing local governments, ranging

in size from US\$400,000 to \$600,000 for very small, low-performing governments to US\$5 million for well-performing ones, based on the results both of an equitable share formula³⁷ and the PMs. Given that the best-performing local governments could earn reward grants of up to 300 percent of the lowest performers' development grants (or fourfold), the overall grant size was appropriate. The participating local governments were able to invest mostly in medium-scale infrastructure projects (US\$200,000 on average) through the level 2 grants.

Performance assessment system. In accordance with the grant design discussed above, the APA consisted of three sets of measurement indicators: basic MCs for level 1 grants on the preparation and execution of capacity-building activities; extended MCs for level 2 grants on the status of core systems in place (for example, PFM, E&S management, and complaints handling); and PMs focused on qualitative aspects of the core systems, including OSR, asset management, audits, planning, HR management, and accountability. The APAs were formulated to address the identified weaknesses and bottlenecks impeding effective service delivery by local governments, as well as insufficient systems and procedures at the national level in terms of supporting these governments. The APA system performed well in operationalizing the grant design as envisaged at the design stage, despite recurrent delays, as observed in other cases.

Quality assurance. The results of the APAs were verified both by the national government and the World Bank. The reviews by the Bank team, however, were mainly carried out through desk reviews without hiring a specialized external consultant. Although this is considered less rigorous than a systematic approach entailing field visits by specialized consultants to randomly selected sample local governments, the Bank task team reported no critical discrepancies in the submitted results. In fact, however, there were some disagreements early on among stakeholders with regard to the measurements and results of certain safeguards performance measures, which could have been avoided with

³⁶ Based on an average investment grant of about \$1.8 million per county, with the counties having about 1 million people on average.

³⁷ The equitable share formula was based on population, poverty, equal shares, land area, and a fiscal component.

a predefined systematic review process. During the midterm review, a focus on E&S safeguards and a grievance redressal management system was strengthened as part of the APA.

Capacity building. The KDPS level 1 grant was introduced as a new, systematic approach to capacity-building support. The grant combined national-level support (such as guideline development and peer-to-peer learning) with demand-driven support informed by APA results and comprehensive annual capacity-building plans. It was also well-aligned with other initiatives under Kenya's devolution capacity-building systems, especially under the National Capacity Building Framework, and was complemented by analytical and technical assistance funded by the Kenya Accountable Devolution Program, a multidonor trust fund. The packaged approach performed well over the program period, with the quality of capacity-building plans significantly improved and the overall coordination of the capacity-building support provided to local governments strengthened.

Sustainability. The overall impact of the program was found highly likely to continue beyond the project period. The program established a new framework for performance-based grants and tested the use of treasury functions for the routing of funding from development partners. In addition, it paved the way to include devolved UPG systems in the government's Division of Revenue Act and the County Allocation and Revenue Act by directly influencing national budgeting processes and the equitable allocation formula for horizontal resource sharing among local governments. It also laid the foundation for a coordinated framework for interministerial program implementation, in close coordination with the Council of Governors, the National Treasury, the Ministry of Devolution and Arid and Semi-Arid Lands, and other line ministries. To continue the momentum of its successful implementation, a second phase of KDSP was being planned.

Environmental and social management. General improvements were observed in local E&S management throughout the program period. The incorporation of E&S performance measures in APA systems led to an increase of 15 percent in the number of local governments preparing annual environmental and social audits or reports. In addition, 90 percent of the local governments had E&S management plans, according to the latest results. A grievance redressal management system was also put into place in all 47 local governments. Among the challenges noted during implementation was the recruitment of qualified safeguards officers and the raising of awareness of the issues at the local level.

10. Tanzania: Urban Local Government Strengthening Program

1. Background

In Tanzania, a decentralization reform initiative known as Decentralization by Devolution has been a key pillar of the country's national growth and poverty reduction strategies, together with fiscal transfer programs, including the Local Government Development Grant. The World Bank has supported the country's grant through the Local Government Support Project (US\$98 million), which became effective in 2004, and, since 2012, the Urban Local Government Strengthening Program (ULGSP). As one of the pioneering UPG programs, ULGSP introduced the first multisectoral performance-based grant using the new lending instrument, Program-for-Results (PforR), at the Bank, as well as the first grant introducing a urban window in the country. The new instrument was also innovative in terms of directing the DLIs toward addressing core central and local government capacity gaps. The successful ULGSP model has been replicated and customized in numerous other countries. At the time of this case study, a follow-on project, the Tanzania Cities Transforming Infrastructure and Competitiveness Project (TACTIC), was under preparation to complement and continue to advance the impact of ULGSP. [Table 10.1](#) shows key facts of the UPG program reviewed in this study.

Table 10.1. Factsheet for the Case UPG Programs in Tanzania

Program title	Programme de Développement Urbain et de Gouvernance Locale, PDUGL
Financing instrument	PforR
Financing amount (Financier)	US\$255 million
Duration (Board approval to closing)	October 2012 to December 2020
Geographical coverage	18 urban local governments (70% of all urban local governments in Tanzania)
Project development objective	To improve institutional performance for urban service delivery in program urban local government authorities.

2. Key performances

Overall, the ULGSP showed good achievements throughout the program period. The compliance rate with the MCs reached 100 percent of the participating local governments, starting from 83 percent, and the average PM scores increased by 21 percent. Institutional performances in the following key result areas improved, despite some structural challenges (Table 10.2):

- **OSR improvement** was a key achievement of ULGSP. Increased revenue from property tax was measured by DLIs as one of the five key performance areas. The absolute amount of OSR collected increased by 163 percent during the program period. Since property tax valuation and collection had been centralized since 2016, however, the indicators corresponding to property tax under ULGSP were dropped at that time.
- **Asset management** was enhanced. In 2017, 94 percent of local governments became able to spend more than 70 percent of their annual O&M budgets, although the funding allocated for O&M was still less than adequate, especially for roads.
- **Financial management** in local governments steadily improved during implementation. The local governments' average scores on fiduciary system efficiency increased by 51 percent. The procurement compliance rate reached 87.2 percent in fiscal year 2019, surpassing the target level of 80 percent.
- **Staffing**, especially at the regional level, was insufficient relative to what was envisaged at the design stage, because of delays in processing recruitments.
- **Accountability and oversight** improved, as well. The APA score on accountability increased by 86 percent over the program period.

Table 10.2. Key Performances of the Case UPG Programs in Tanzania

Key performance areas		Improvement	Details (changes over the program period)
General performance	MC compliance rate (%)	Yes	Increased from 83% to 100%.
	Average APA performance score	Yes	Increased from 60 to 80 points out of 100.
Key urban variables	OSR	Partially yes	OSR collected increased by 163% in local currency for the first five years of implementation, but the indicator dropped beginning in 2017 due to the government's centralization initiatives.
	Accountability	Yes	Accountability score of local governments increased by 86%.
	Asset management / O&M	Yes	Share of local governments that spent more than 70% of their annual O&M budgets on O&M increased from 0% to 94%.
	PFM	Yes	Local governments' average scores on efficient fiduciary systems have increased from 12.8 to 19.3 out of a max score of 25.
	Human resource management	Yes	Insufficient staffing at the regional level.

The program contributed significantly to the provision of urban infrastructure and service delivery, as well. The completed infrastructure under ULGSP included 179.3 km of roads with solar streetlights and roadside drains; 6.1 km of standalone stormwater drains; 10 bus terminals constructed; 2 lorry parking facilities constructed; 4 modern markets constructed; 3 dumpsites rehabilitated; and 290 waste collection points installed. Successful implementation of infrastructure projects larger than before also indicated improved institutional performance at the local level. Moreover, the construction of urban roads was associated with an increase in land values in areas surrounding ULGSP-funded project sites by around 100–300 percent across local governments. At least 52,402 jobs were created during construction and through small businesses along upgraded roads, markets, and bus terminals financed under the program.

3. Operational design

Grant design. The grant as designed was adequate in size, at around US\$15–20 per capita, and during implementation it was actually US\$10.31 on average. The UPG-funded infrastructure projects across all 18 participating local governments were medium size on average, at around US\$650,000 per project, falling in the range of US\$0.5 million–\$1 million as designed. The UPGs also accounted for a sizeable share of total grants to local governments, comprising 24.7 percent of total funding streams and 76.8 percent of development grants. The allocation formula under the program was conventional, in that the size of the grant varied linearly with the annual PM score achieved by each local government.

Performance assessment system. Building upon UPG experiences in the country and the Africa region, the program's APA system was well designed. No substantial changes were made to indicators throughout implementation, which made the system predictable and stable. For the first three years, the central government procured an independent verification agent (IVA) in a timely manner through a single contract, which reduced transaction costs and made the procurement and mobilization of APAs more efficient. From the fourth year, however,

the protracted procurement of a new IVA firm delayed the fourth APA and affected the assessment and disbursement cycle for the following year. The key performance areas of the APA comprised the following five:

- Improved urban planning systems
- Increased revenues from property tax
- More efficient fiduciary systems
- Improved infrastructure, implementation, and Operation & Maintenance (O&M)
- Strengthened accountability and oversight systems

These indicators were also monitored through a DLI.

Quality assurance. In addition to the government's review of APA results, the World Bank carried out an independent review in a timely manner to enhance the effectiveness of the assessment process and the robustness of its results. The Bank review team prepared a report based on a draft APA submitted by an IVA firm, on the basis of which the assessments by the Bank and the government were reconciled. Once agreement was reached on the results, a final synthesis APA report was published.

Capacity building. At the design stage, the program envisaged three forms of capacity-building support:

- Activities implemented by the local governments, using up to 5 percent of the UPG funds
- Support from the central government to the local governments on preparation of required annual capacity-building plans
- Ongoing capacity-building support through mentoring and issue-specific zonal response teams

During the first years of the implementation, intensive capacity-building support for the local governments was rendered both by the central and regional governments. Later, however, these efforts did not provide the anticipated level of support to the local governments, nor did they adequately target the skills and systems they needed to deliver urban infrastructure services. As a result, the fifth

disbursement under a DLI on completion of annual capacity-building activities by the central government was dropped and reallocated.

Sustainability. Overall, the program successfully contributed to improving institutional performance and system development that could be sustained beyond the program period. It was well aligned with the existing government grant system in the country. Strong government ownership and high visibility of the UPG system led to the preparation of a follow-on project. The continuation of the UPG system was put at risk, however, when the central government centralized property tax collection and gradually reduced fiscal and operational support to local governments. Although the responsibility for property tax collection was returned to the local governments in 2021, such temporary policy changes revealed the vulnerability of UPG systems to external factors.

Environmental and social management. The program effectively addressed E&S issues by incorporating E&S indicators in both APAs and DLIs, as well as by providing targeted capacity-building support in these areas. Local governments were asked, for example, to report on E&S issues every year during annual workshops, leading to consistent compliance with MCs on these issues and the inclusion of E&S management plans in construction contracts. The relevant E&S scores in APAs improved steadily, despite some notable lapses in health and safety standards in site-specific E&S management plans.

11. Tunisia: Urban Development and Local Governance Program

1. Background

Urban Development and Local Governance (Programme de Développement Urbain et de Gouvernance Locale, or PDUGL) is a Program-for-Results (PforR) operation with a strategic focus on supporting the country’s ongoing reform of capital grants (the Municipal Development Fund [Caisse des Prêts et de Soutien des Collectivités Locales, or CPSCL])³⁸ and associated capacity-building assistance. The program began in 2014, covering all 264 local governments and their 7 million urban residents (two-thirds of Tunisia’s total population). In 2018, additional financing was approved to accommodate an increased population, which had risen to 9.8 million as a result of communal border extensions, and to strengthen administrative transparency, accountability, and HR capacity by further aligning the intergovernmental fiscal transfer (IGFT) system with the government’s decentralization framework. In July 2020, in its response to the COVID-19 pandemic, the program was restructured to adapt activities and targets to the sanitary context and support municipalities’ economic recovery in the medium term. [Table 11.1](#) shows key facts of the UPG program reviewed in this study.

Table 11.1. Factsheet for the Case UPG Programs in Tunisia

Program title	Programme de Développement Urbain et de Gouvernance Locale, PDUGL
Financing instrument	PforR
Financing amount (Financier)	IBRD: US\$300 million Tunisia: US\$63 million IBRD additional financing: US\$130 million
Duration (Board approval to closing)	July 2014 to December 31, 2019 Extended to June 30, 2023
Geographical coverage	All 264 local governments in the country
Project development objective	(a) Strengthen local governments’ performance to deliver municipal infrastructure; and (b) improve access to services in targeted disadvantaged neighborhoods.

³⁸ CPSCL is primarily accountable to the Ministry of Interior and the Ministry of Finance, as a separate entity providing local governments with access to credit as well as to central government funding to finance municipal investments.

2. Key performances

The review found PDUGL generally on track in terms of improved performance in the targeted areas. The MC compliance rate of the local governments in the first year of implementation was 89 percent, which was a drastic increase from 40 percent at the time of the pilot carried out before the program launch. The score consistently exceeded planned targets over the program period. The average PM score of all the local governments also significantly increased, by 41 percent, between the first and fourth APAs, and 76 percent of the local governments met the PM minimum score in 2017, exceeding the program’s end target of 70 percent.

Although quantitative data were relatively limited in some areas because of challenges to data collection and to the M&E system, the program reportedly showed achievements in the following performance areas (Table 11.2):

- **Asset management** improved over time. The percentage of local governments that allocated more than 12 percent of their O&M budgets increased from around 65 percent in the first year to 90 percent in the fourth APA. In addition, almost all (98 percent) executed over 10 percent of their O&M budgets in the fourth year. An asset accounting model was also developed and at the time of the review was being used by six pilot local governments, with results to be fed into the assets and inventory management procedures manual to be published at the end of the program.
- **Accountability** was enhanced. The share of local governments reaching the maximum score on access to information and complaints management exceeded 90 percent according to the latest APA result—an increase of 52 percentage points from the first year.
- **OSR management** improved, but the absolute amount of the increase was unknown. According to the APAs, the share of local governments that prepared OSR collection plans increased to 97 percent, and 84 percent of the governments were able to collect 70 percent of envisaged OSR, according to the fourth APA. It was noted, however, that collecting data on increased OSR amounts in nominal figures across the local governments was challenging, mainly because of the

Table 11.2. Key Performances of the Case UPG Programs in Tunisia

Key performance areas		Improvement	Details (changes over the program period)
General performance	MC compliance rate (%)	Yes	Increased from 89% to 97%.
	Average APA performance score	Yes	Increased from 58 to 82.
Key urban variables	OSR	Partially yes	Share of local governments preparing OSR collection plans increased from 87% to 97%; 84% of the local governments were able to collect 70% of envisaged OSR. Nominal figure of OSR collection is unknown.
	Human resource management	Partially yes	PM scores of local governments on preparation and implementation of human resource management plans increased from 62 to 98 out of 100 in 2018, but standing level was limited.
	O&M	Yes	Share of local governments allocating more than 12% of their O&M budgets increased from around 65% in the first year to 90% in the fourth APA; almost all the local governments (98%) executed over 10% of O&M budgets in the fourth year.
	PFM (timely reporting and auditing)	Yes	A DLI on financing management and reporting was achieved. While financial reporting was almost nonexistent at the local level prior to the program, it was integrated into local governments’ modus operandi during the program period.
	Accountability	Yes	Share of local governments that reached the maximum score on access to information and complaints management increased from 40% to 93%.

lack of a centralized monitoring system in the country and the limited authority and capacity of local governments to collect OSR. The central government's new decree on decentralization was expected to contribute, however, to improving the local governments' capacity and authority to collect and monitor local taxes.

- **Timeliness of reporting** and the quality of auditing improved. A DLI on financing management and reporting was met, and, while financial reporting was almost nonexistent at the local level prior to the program, it was integrated into the local governments' modus operandi during implementation. To assure the quality of reporting, in 2019 the central government (through CPSCL) asked the program to provide local governments with grants in two installments per year, with the second subject to the quality of the local governments' reporting.
- **Human resource management** overall showed mixed results under the program. HR management was monitored as part of the APA thematic areas focusing on the preparation and implementation of general HR plans, which showed a significant improvement over the program period. Recognizing that HR staffing levels and competencies had been relatively poor, however, the additional financing further strengthened the focus on HR management. It included a new DLI on providing incentive for the improved staffing of key functions and structural reform toward an ICT/data-driven HR approach, with, for example, development of an online job market and management system.

The program significantly improved access to infrastructure and service delivery in all the local governments. As of April 2021, 89 percent of the planned investment projects under the program had been completed, including 515 km of roads and streets rehabilitated or constructed, along with 5,400 streetlights installed. The delivery of the planned investments was also effective. Approximately 95 percent of the UPGs were directly spent on infrastructure investments. The execution level improved from 36 to 64 percent during the program period, although the levels were hard to compare over time, as the performance bar of the related DLI

was lowered in 2019.³⁹ A multiyear approach to investment planning instead of annual planning and allocations was adopted to improve efficiency and scale up impacts. A VfM audit report in 2020, however, suggested a number of areas for improvement to ensure the quality and efficiency of the provided infrastructure and services; these included budgeting, contracting, timeliness, and participatory processes.

3. Operational design

Grant design. The grants were roughly US\$5 per capita, which was smaller than those from other UPG programs. While initially designed to be larger, at around US\$25 per capita, during implementation the size was reduced, especially after the additional financing extended the duration of the program and increased the number of targeted beneficiaries to 9.8 million. It is the task team's view that, while increasing the per capita grant size might have been beneficial by strengthening the incentives and impacts, keeping it small was a strategic decision to ensure all the local governments and population would have equitable access to the grants in a countrywide system and to introduce and operationalize overall nationwide capital grant reforms. The limited per capita grant size was complemented by the substantial share (40 percent) represented by UPGs of the total grants flowing to local governments on average. The share was even higher for the smaller local governments, providing them with stronger incentives to improve their performances. The UPGs focused on medium-size infrastructure projects, amounting to roughly US\$200,000 per project, although this varied greatly across local governments.

³⁹Initially, a DLI was designed as the percentage of local governments that had executed at least 70 percent of the expenditures involved in their annual investment plans. Because of their recurrent difficulties in reaching these targets, however, it was agreed to lower it to at least 30 percent of their annual plans.

In addition to the conventional UPG that provided unconditional capital grants to all local governments, the PDUGL program had another funding window: conditional grants for disadvantaged neighborhoods in selected local governments. This was a vehicle to support the government's policy priorities with regard to upgrading service levels in historically disadvantaged neighborhoods. Through intensive regional consultations, 229 neighborhoods across 144 local governments were selected, and they prepared potential investment menus to be funded by the grants. The application of the APA system to this conditional grant was limited to MCs on a one-time basis, when the construction of the approved investment plans was projected to commence.

Performance assessment system. The program's APA system was introduced progressively, with a manual developed in 2015 and a full-scale dry run successfully implemented in 2016 before the APA became fully operational in 2017. The APA focused on three thematic areas: governance (participatory planning and budgeting, transparency, and procurement, among others); sustainability (asset inventory, financial recovery plans, OSR collection plans, and so on); and management. The APAs were carried out by a government agency external to the program (the Controller General of Public Services), following a common practice in the Middle East and North Africa region. Another government agency (CPSCL) was responsible for the assessment of MCs, however, which resulted in increased transaction costs and confusion, as well as delays in the release of the grants.⁴⁰ It was the task team's view that the MC and PM processes needed to be combined and conducted by the same agency, the Controller General of Public Services, to improve the efficiency of the APA process. During the midterm review in 2017, APA indicators were switched from being process based to more results based, with a new focus on HR included. The new set of indicators was supposed to kick in from 2020, but this had not taken place at the time of the review due to COVID-19.

Quality assurance. The APA results were verified by an external IVA, who was hired initially by the World Bank but, after the additional financing, by the government. The Bank team continued to assess the quality of the APAs through implementation support missions. The Bank team also supported a reconciliation of inconsistencies between the IVA and the Controller General of Public Services, with no critical fiduciary issues

Capacity building. The provision of capacity-building support was based on an annual local capacity-building plan prepared by each local government to cater to the varying demand from all. Support was also provided to the central institutions and systems with significant roles in the effective operation of the local governments. The capacity-building activities were funded from the central government budget line, amounting to a total of US\$10 million, without a specific capacity-building grant allocated. While less attention was paid to capacity building at the beginning of the program due to a lack of interest on the part of the client in adding this component, the final program design incorporated the execution of such activities in both APAs and DLIs to provide strong incentives for this support. The result was the improved capacity of the municipal staff to implement capacity-building plans and provide technical assistance and trainings; in 2019, 84 percent of the local governments received at least 70 percent of the training actions requested in their annual capacity-building plans.

Sustainability. The program was introduced as the first PforR in the country to address challenges in sustaining the impacts of previous infrastructure-focused projects financed by the Bank and to provide better support for the country's policy priorities, such as decentralization and the empowerment of local governments and governance. As envisaged, the program had impacts on the development of core urban systems, such as a capacity-building support system, an asset management system, and a performance-based grant system, all of which became the de facto modus operandi of local governments. The central government's performance was also satisfactory in leading the implementation of this new type of instrument as part of operating

⁴⁰The two agencies also assessed PMs and MCs at different times. That is, PMs were assessed in September of the calendar year and MCs between January and February of the next calendar year.

its own IGFT system and in looking into additional ways to increase financing for local governments, indicating a high level of ownership.

Environmental and social management. The program effectively improved E&S management in APAs; the share of local governments achieving a maximum score in this area increased from 65.7 to 93.4 percent over the program period. The program also gave the central government incentive to provide capacity-building support to local governments in this area and provided targeted trainings to local governments on E&S issues, influencing the country's E&S-related legal framework and guidelines.

12. Uganda: Uganda Support to Municipal Infrastructure Development Program

1. Background

Uganda was one of the first countries to apply performance-based grants in their IGFT systems. In 1997, the country piloted such grants in five districts with support from the United Nations Capital Development Fund (UNCDF). They were subsequently scaled up with the World Bank's first UPG program, the Local Government Development Program I & II (2000–2007), followed by the Local Government Management and Service Delivery Program (2007–13). Based on the lessons learned from the three programs, the Urban Support to Municipal Infrastructure Development Program (USMID) was launched in 2013 with the new lending instrument, Program-for-Results (PforR), for urban local governments. Having been successful in improving institutional performances and urban service delivery in large urban local governments, USMID was scaled up in 2018 with additional financing. Given the substantial changes made to overall UPG design during the additional financing, this study assessed the results of USMID and the additional financing program (USMID AF) separately. [Table 12.1](#) shows key facts of both reviews.

Table 12.1. Factsheet for the Case UPG Programs in Uganda

Program title	Urban Support to Municipal Infrastructure Development Program (USMID)	USMID Additional Financing Program (USMID AF)
Financing instrument	PforR	PforR
Financing amount (Financier)	IDA: US\$150 million Uganda: US\$10 million	IDA: US\$310 million Uganda: US\$40 million Host community and refugee sub-window: US\$50 million
Duration (Board approval to closing)	March 2013 to May 2018	May 2018 to December 2023
Geographical coverage	14 urban local governments	22 urban local governments and 8 selected (refugee-hosting) districts
Project development objective	To enhance institutional performance of program local governments to improve urban service delivery.	

2. Key performances

While USMID showed significant improvements over the five years of its implementation, USMID AF had mixed results in some performance areas. Under USMID, all of the participating local governments complied with MCs consistently, and the average PM scores improved by 52 percent over the five years, surpassing the end targets as defined in the initial design. From 2018 under USMID AF, the MC compliance rate continued to show significant progress with all the local governments, but their overall performance did not improve. This is mainly because the geographical coverage was gradually expanded from 14 to 18 local governments in the first year and then to 22 local governments, and many of those newly added were smaller, less capacitated, and/or in newly constituted urban areas. The geographical expansion was based on technical criteria as well as political economy and regional balance, which made performance improvements more challenging. Moreover, the performance bars of the APA tool were raised significantly, with more demanding indicators and a focus on thematic areas that were harder to improve in the short term.

Key performance results included the following (Table 12.2):

- **OSR** collection increased by 82.5 percent in nominal figures under USMID, and the collection rate of the budgeted OSR amount exceeded 80 percent in 13 out of 14 local governments in 2018. From 2018, however, changes to legislation related to OSR collection and valuation restrained the policy options of local governments to collect urban taxes.
- **Asset management** improved continuously under USMID and USMID AF. The share of local governments complying with 75 percent execution of their O&M budgets increased by 79 percentage points, from 21 to 100 percent under USMID and from 33 to 100 percent under USMID AF.
- **Financial management** scores on APAs increased by 67 percent and 25 percent under USMID and USMID AF, respectively.
- **Human resource management** was measured as an MC, which was consistently met under USMID and USMID AF.

Table 12.2. Key Performances of the Case UPG Programs in Uganda

Key performance areas		Improvement	Details (changes over the program period)
General performance	MC compliance rate (%)	Yes for both	Consistently 100% under USMID; increased from 78% to 100% under AF.
	Average APA performance score	Yes for USMID only	Increased from 61 to 92 under USMID; decreased from 71 to 69 under AF, mainly due to the increased number of urban local governments.
Key urban variables	OSR	Yes for USMID only	Amount of OSR collection increased by 83% (USMID); not applicable under AF.
	Human resource management	Yes for both	Measured as an MC, which was consistently met under USMID and AF.
	O&M	Yes for both	Share of local governments executing 75% of their O&M budgets increased from 21% to 100% under USMID and from 33% to 100% under AF.
	PFM	Yes Yes for both	APA scores on the PFM thematic area increased by 67% under USMID and by 25% under AF.
	Transparency and Accountability	Yes for USMID only	APA scores on accountability and transparency improved from 8.9 to 11.2 points out of maximum of 13 points (USMID).

- **Transparency and accountability** improved, as evidenced by a 26 percent increase in APA scores in this area over the program period. The program also enhanced access to information through development of an online information-sharing system.

USMID enhanced both the quantity and quality of infrastructure and services across local governments. The completed infrastructure included 78 km of roads, 46 km of bicycle lanes, 111 km of paved pedestrian walkways, 2,738 streetlights, and 56,400 square meters of green areas, benefiting over 1.3 million people. According to VfM audit reports, the USMID-funded infrastructure projects recorded higher VfM scores and were more cost efficient than other non-USMID investments in similar sectors (Government of Uganda 2019). The program also enabled integrated approaches to the design and implementation of larger infrastructure projects across local governments through enhanced procurement systems and close cooperation among the governments. Associated challenges were some delays in the execution of large projects and limited capacities of contractors, but these were effectively addressed by close procurement and contract implementation support, technical assistance, and improved guidelines, among others.

3. Operational design

Grant design. The program's per capita grant size was one of the highest in the world among multisectoral performance-based grants. It was increased systematically from US\$20 to US\$45 per capita under USMID AF, which was significantly higher than the US\$2 per capita provided under the previous programs (LGDP I & II) and the US\$1–2 per capita for other performance-grant schemes in the country. The grants comprised a major share of the total grants and development grants provided to local governments (39 percent and 92 percent, respectively). This significant grant size allowed local governments to invest in integrated infrastructure projects larger than US\$1 million, often with multiyear implementation plans. Also important to note is that the UPGs under the program were the only multisectoral development grants available to local governments, whereas other grants comprised a type of earmarked sector funding.

Performance assessment system. The program's APA tool was firmly anchored in lessons learned from previous World Bank operations, as well as performance weaknesses identified from field testing with a large number of local governments before the program launch. APAs were conducted by an independent verification agent (IVA) and further strengthened to focus more on key urban management challenges under the additional financing. A set of DLIs was effective in supporting local governments in institutional improvements and in their gaining access to the grants. As often observed in other UPG programs, however, repeated delays in the APAs hampered allocation planning and predictability, as well as synchronization with the country's budget cycle. To address this issue, the program sought to improve the effectiveness and timeliness of the APA processes by integrating them with a new online reporting system, such as the Online Performance Assessment and Monitoring System (OPAMS).⁴¹

Quality assurance. A specialized consultant recruited by the Bank reviewed the results of the APAs to ensure quality, objectivity, and fairness to all local governments. The government worked closely with the Bank team and carried out dry runs prior to formal APA assessments. The results were further scrutinized and approved by a program technical committee comprising different ministries, departments, and agencies. The APAs, together with quality assurance, provided a credible review process throughout both USMID and USMID AF.

Capacity building. The program provided targeted capacity-building support to less capacitated local governments, focusing on such aspects of overall institutional strengthening as the enhancement of working environments, career development, and local planning capacities. The capacity-building support contributed to a higher retention rate and positively affected the nationwide capacity-building support system. Capacity-building activities at the local level on HR development and operating system enhancement were supported through a specific

⁴¹ This OPAMS framework was supported by another WB operation supporting the countrywide application of performance grants, including multisectoral and sector grants under the Uganda Intergovernmental Fiscal Transfer Reform Program, with support from the government of the United Kingdom and implementation support from the Overseas Development Institute.

capacity-building grant, amounting to approximately 6 percent of total UPGs, with fewer access conditions than development grants. The local governments could receive these grants if they had capacity-building plans in place and had executed such activities utilizing previous capacity-building grants within agreed-on parameters.

Sustainability. In addition to the physical infrastructure provided, the program supported the development of core systems and procedures that were likely to be long lasting:

- It developed systems of VfM audits that were applied for other infrastructure investments.
- Its APA system positively affected the country's performance assessment reform in 2018 and was replicated in a nationwide performance assessment manual with strong political support.
- It improved procurement procedures for larger-scale infrastructure projects (for example, the clustering of cWcts across local governments).
- It promoted interministerial collaboration.

USMID also influenced overall the urban roads design manual to include such issues as incorporating nonmotorized transportation and associated infrastructure. The program developed the Integrated Revenue Administration System, an automated system for tax assessment and collection, which was adopted by other development partners and was being rolled out to other local governments even outside the program. Some constraining factors were present, too, however; these included changes to the legal framework for OSR, HR capacity gaps, and changes in the administrative boundaries and status of local governments (including increasing fragmentation of the overall structure).

Environmental and social management. E&S management was one of the most substantially improved performance areas under the program, with PM scores on E&S thematic areas increasing from 8.6 to 14.3 points out of a maximum of 15. The program also provided targeted capacity-building support in E&S areas, both at the central and local levels, and incorporated the program's E&S system into the country's procurement framework and guidelines.