

Reflections on the issues covered during the workshop- and lessons learned

Quality Assurance Workshop on Performance Based Budget Support in two SDC funded Municipal Development Programs in the Western Balkans

November 19th to 20th in Skopje, Macedonia

co-hosted by NALAS (Network of Associations of Local Authorities in South East Europe) and Swiss Cooperation

Issues derived from the working groups on PBGS and reflections

In design and operations of PBGS it is important to consider the following:

Re. overall design

- Consistency and predictability is important
- The link between performance and equity should be considered, e.g. in selection of indicators (indicators where all can perform), in the basic allocation formula, and very importantly with a targeted capacity building component to support willing but yet underdeveloped municipalities to increase their performance, too etc. Rewording good/best performance should not be promoted on the expense of equity!

Re. scoring

- Better to have a graduate/calibrated scoring system than bands with fixed categories – a system developed [for a PBGS on the Solomon Islands] was demonstrated on how this could be done, through a weighted performance-based model.

Re. performance criteria

- Performance criteria should be clear, simple, quantifiable and achievable; (SMART); if the data is publicly available to measure the indicators, this helps to increase credibility of the PBGS;
- Experience has shown: **“What will be measured [through the system of indicators] will be done [even if more of the same no longer needed]!”** – hence important to create the right incentives, and not distort local priorities or promote biased investments
- Often not necessary to select output indicators (which may be problematic, as they are hard to compare), but good (result oriented) *process* indicators in focus can lead to better performance on outputs as well, and may open up for better local priorities in service delivery – strict rules on outputs on specific sectors may diminish the direction of investments towards specific local needs, hence often better to focus on cross-sectoral indicators such as governance, OSR mobilization, PFM or “value for money service delivery” etc., especially for multi-sectoral grants.

Re. links to capacity building support

- PBGS should be closely linked with a strong system for CB support to respond to the incentives, and address the weaker areas identified during the performance assessments. This is pertinent in any PBGS.

Re. sustainability of reforms

- Over the medium term, the pilot experiences should inform the reforms, - it should be considered in the country context whether PBGS should be a separate scheme or integrated with one of the other grant schemes. The associations argued for a special scheme to provide performance and to safeguard the existing [needs based] levels of municipal finance allocations.
- A PBGS can however also make sense as a limited intervention to support drivers of change and co-opt restrainers: if capacities to advance a certain reform are provided to the drivers, and restrainers can be co-opted with the incentive of the grant, also PBGS limited in time have a good potential to advance reforms; it is important that respective performance indicators are systemic, meaning that their improvement cannot only be done on a temporary basis but requires institutional changes that are sustainable;

Other issues discussed, which led to lessons learned

Re. monitoring of impact of PBGS

- Important to compare with baselines and if possible control groups of LG not being supported to document impact of the system

Re. assessment procedures

- The most important is the neutrality, credibility and data reliability of the performance assessments. General M&E systems can be applied to the extent possible, but will in some cases need to be augmented with other indicators, and should in any case undergo a system of quality assurance;
- Systems of QA of indicators is utmost important
- System of decision-making should be clarified and transparent

Coverage of the PBGS versus other systems

- The country context will be important for the issue on whether the systems should be integrated with the general grant system (and which system) and/or whether there should be a separate PBGS scheme. However, it is important that the system does not significantly distort the general need for support of operational and fixed costs
- PBGS are often easier to introduce for capital/development investments and/or if additional funds are available.
- Pilot for future up-scaling is often a feasible approach and has been successful in many countries.

Incentives

- Impact on incentives is related to the size of the PBGS compared to other revenue sources, but is also impacted by other factors such as the extent to which results from the assessments are shared widely, whether there is awareness about the system and performance increments, etc. – many PBGS constitute about 20 % or more of the funds available for development investments (not the total LG budget), and this has been sufficient in many countries to create incentives;
- The indicators should focus on the objectives promoted by the initiative, e.g. if it is OSR, or PFM, this should be the focus.

Focus of the performance measures/indicators

- In multi-sectoral (and discretionary) grants, the focus of the performance measures have been on issues benefitting all sectors such as OSR, PFM, governance etc., whereas sector grants in some cases have included sector output indicators.

- Focus of the indicators should be based on analytical work on where LGs have performance gaps and weaknesses.

Links between Performance-Based Grant Systems (PBGS) and Performance Monitoring Systems (PMS)

- There should be a strong link between the PBGS indicators and the PMS indicators – whereas PBGS is often a sub-set of the PMS, and in some cases with a few additional indicators to ensure that objectives are achieved;
- The PBGS can also work on improving the PMS, and add to the lessons learned from indicators; if the municipal PMS has major flaws, any PBGS building on the PMS has a responsibility to advocate in parallel for the reform of the PMS, as otherwise the PMS undermines the legitimacy of the PBGS;
- The QA of the PBGS performance measures, will also strengthen the PMS data reliability
- Hence important with a dialogue with the agency in charge of the PMS when designs of PBGS is initiated.

Involvement of associations of local authorities in PBGS

- Important to include associations of local authorities in the discussions and deliberations on the selection of indicators, in the system and procedures for the assessment etc, as they have the skills, expertise and stakes in the system;
- In some cases, local government associations would prefer not to be involved in themselves measuring the performance of individual municipalities, e.g. be outside the final decision on assessments and results of the assessments to ensure neutrality vis a vis their members. Associations should however insist for the establishment of an independent and professionally run complaint board where municipalities that feel that their performance has not been assessed adequately can turn to; this can also contribute to trust building between the municipalities and the PBGS as well as the municipal association;
- Associations can have a strong role in advocacy for better performance, better funding systems, and in the CB support rendered to the LGs, including sharing of lessons learned, Peer to Peer Reviews, etc.
- Finally, Associations could advocate for a pooled donor and government co-fund line that is subsequently allocated to municipalities in the frame of a PBGS;

Performance indicators linked with CB support

- The results of the annual performance assessments can be utilized to shape the CB support, if the indicators are well developed
- There should be a mutually strengthening triangle between grants, CB support and incentives

System development

- No system is perfect, and most PBGSs have evolved over time;
- Financial rewards must be sizable in comparison to discretionary funding available to the municipality in order to act as a reform incentive; consequently donors (of for that matter central government if committing to a PBGS) need to provide considerable funding and/or limit the number of partner municipalities, rather than to spread resources too thinly;
- Important to gradually improving on the system, while keeping it stable/predictable and ensure that performance can be tracked over time, and that all are on board in the changes/reforms.

- Having a clear performance assessment manual and guidance on how assessments are taken place are important for credibility of the PBGS;
- Need for clear system or decision-making, handing of appeals and sharing of results;

PBGS and links with overall decentralization /devolution

- Is PBGS controlling LGs and will it reduce autonomy? It may or may not do this depending on the design, but it may also promote further devolution.
- If PBGS is designed and implemented well, it may lead to more trust in LGs, and thereby better sourcing of activities and more autonomy in the medium term. It may also substitute more rigid control procedures such as plan and budget approval, legal control, inspection, interference from central government in LG affairs, etc. and be a more soft instrument for influencing.
- Better performing LGs will strengthen arguments for further decentralization of functions, funding and staff and a justified increase in autonomy, e.g. towards central government;

