DDGLN f2f follow up (2016)

Country Case Studies on SDC support to Transfers

Benin

Expected length of the final document: 4 pages

1. **The objectives and design elements of the supported transfer** *[Descriptive section – ca. half a page]*

In Benin, SDC is supporting the FADeC (*Fonds d'Appui au Développement des Communes*, in English "municipalities development support fund") intergovernmental fiscal transfer since 2008. This fund has been created on the same year by the National Government of Benin in concomitance with the second election of the 77 municipalities, the only level of decentralization in Benin. FADeC is managed by an equally represented commission (CONAFIL – *Commission nationale des Finances Locales* – in English "national Commission for local finance") is formed by 9 members of National Government (NG) and 9 members of subnational governments).

The objectives of this fund are:

1. to mobilize resources for subnational governments (SNGs) and inter-municipalities development;
2. to correct imbalances between subnational governments; and
3. to harmonize regulations for the use and administration of subnational governments resources.

This transfer is funded by the National Government (~35%) and by international donors (~65%). SNGs current expenditures are funded only by the National Government and represent 10% of the global transfer; the remaining 90%, funded by NG and donors, has to be used for investment purposes. Every year, the Central State decides the amount of resources that will be transferred to the SNGs the year n+1.

The investment part of FADeC is split into conditional and unconditional transfers.
The unconditional transfers use formula based allocation criteria: one part is transferred on an equal share basis, the other on a variable share (the weighting of the criteria are: 34% based on population, 34% on poverty index, 15% on surface and 17% on performance in the use of the resources in the year n-1).
For the conditional part of FADeC, 5 pilot decentralization sectors have been selected: health, education, agriculture, water and rural roads. Transfers to SNGs for these specific areas should cover 8.5% of each sectorial national budget and come from the sectorial Ministries.

The fiduciary and performance audits conducted every year by the Finance and Administration General Inspection of the NG (*Inspection Générale des Finances et des Affaires Administratives*) allow a reliable reporting on the amounts spent and service delivery, as well as on the performance of each SNG. Grants and transfers represent in Benin 45% of SNGs revenues and the remaining 55% are own revenues (fiscal, i.e. local development tax and non-fiscal, i.e. market rights and places), so that SNGs are not only accountable to the National Government. Furthermore, social audits are also conducted by civil society organizations and results are spread at both local and national level.

2. **The supported transfer within the intergovernmental fiscal system** *[Descriptive section – ca. half a page]*

With the introduction of FADeC in 2008, the previous transfers put in place for the period 2003-2007 (i.e. VAT and road remittances, grant for personnel costs, equalization grant, intermunicipalities solidarity fund, transfer substituting civic tax) have been unified so that FADeC is nowadays the only intergovernmental transfer existing in Benin.

Other SNGs revenues, aside from the own revenues, are the support funds from the decentralized cooperation. In this case, transfers come especially from SNGs of France, but also Germany and Belgium and a few of Italy, The Netherlands, Switzerland and Slovakia.

While in developing and transition countries, intergovernmental fiscal transfers (IGFT) finance in general about 60% of SNG public expenditures (World Bank 2007, quoted from the F2F in Mozambique), in Benin. As IGFTs represent 45% of global SNGs revenues, we can say that transfer dependence is relative.

3. What are key challenges for implementation of the supported transfer? How are these challenges addressed? *[Discussion of issues --- ca 1.5 pages]*

In the write-up please also say something if and how the issues are being addressed (by government or by SDC or other entities).

One of the key challenges for implementation of FADeC concerns the effective transfers from the sectorial Ministries. The conditional part of the transfer is far from the designed 8.5% of sectorial budgets with a poor average of 1.6% which has been really transferred from 2010 to 2013. We can also say that predictability of NG funds is a challenge, as this transfer is decided every year and not on a multi-year basis.

For all donors supporting FADeC another key challenge is the increasing part of their resources compared to the stability of the Central State part which is far from the 15% of General budget recommended by the UEMOA. For the year 2014 the effective part transferred from the National Government represented just 3.84% of the General budget.

Another key challenge in the execution of FADeC transfer is the delay in the disbursements. In particular the last disbursement came often so late that subnational governments had problems to spend the funds.

The fact that transfers are audited every year and that the reports are regularly published is a major factor of transparency and credibility, but what is it done after the audits recommendations have been made? And which sanctions are taken in case of irregularities?

At the contrary, the design of FADeC doesn't actually seem to be a key challenge. Formula-based allocations are significant in the unconditional part of the transfer and have been accepted by the different actors implicated in the managing commission. The formula is also quite simple (see part 1 of the note) and there aren't at the moment any transparency issues. Transparency in the expenditures doesn't anymore represent a key challenge in Benin, where there's a reliable reporting on the amounts spent by SNGs and the allocation to service delivery areas that are being financed.

All the above mentioned key challenges are being addressed by SDC, other donors and by Government in the policy dialogue. This dialogue is regular, open and fair. A large group, composed by Decentralization Ministry who has the lead, donors and representatives of SNGs, meet every two months with all the sectorial Directors, as well as the Minister staff and the Minister at least twice a year. The challenges are being also addressed directly with the Minister and his/hers staff, as well as with other lead donors of the sectors concerned by Decentralization. A point which still could be improved is the discussion with the sectorial Ministries and the Ministry of Finance where more stress has to be put to reach the expected results.

4. Success elements *[ca. 1 page]*

As said, regular annual audits and reports on the use of resources allocated to SNGs are a major factor of transparency and credibility of FADeC. This point can be therefore considered a success element of this transfer mechanism. In Benin, FADeC is nowadays the only well-functioning and trusted fund so that always more donors support it,unlike general budget support to NG where no audit is done.

Since its creation in 2008, FADeC could prove the effectiveness of its design and internal governance.

Procedures are regularly reviewed: the newest procedure guide has been adopted in spring 2015 by the Commission with technical participation of donors and contain a specific part concerning conditional transfers for agricultural sector.

The managing Commission is well managed, national and sub national actors are equally represented and regularly participate to meetings together with donors who are always involved in major issues and discussions.

Formula based allocation criteria for the variable share of unconditional transfer and, in particular, the performance criteria enable comparisons between SNGs. It is therefore possible to classify SNGs by performance and this element motivates the executive bodies to make better the year after.

5. What is the role of SDC with regards to transfers? *[ca. 1 page]*

Switzerland, decentralization leading donor from 2013 to 2015, was a pioneer in supporting FADeC when this intergovernmental fiscal transfer was created in 2008. In this sense, the involvement in policy dialogue on fiscal decentralization has been very important since the beginning of the transfer.

At that time, a new governance program was starting (ASGoL: *Appui au Secteur de la Gouvernance Locale*, in English "support to local governance") and the objectives of FADeC matched with those of the program. Switzerland started with a small amount of CHF100'000 which increased to reach CHF 800'000 in 2015. A convention is being signed with the Government of Benin covering the period

Switzerland used agreement between Government and donors which statutes that donors will privilege financing transfers via NG (so using FADeC), there's still a part of the yearly ASGoL program budget directly transferred to SNGs. The purpose is to directly finance health and education public services (infrastructures and renovations) in the concentration area of Swiss Development Cooperation (SDC). At the moment, discussions are under way as the second phase of the program is being evaluated and a new program "FADeC" will be launched.

SDC in Benin doesn't have yet an "exit" strategy as the support for transfers is not meant to end. At the contrary, the intention is to increase the budget allocated to FADeC.

As a key lesson, with regards to SDC engagement is the importance of policy dialogue and the necessary harmonization between donors, but also the opportunity of being a small donor that can trust a new instrument even without the support of biggest donors.

Sources of information:

- bibliographical reference: Project document/credit proposal: PC ASGoL; Reports of activities and audits
- Relevant websites: http://conafil.org/;