



Decentralization and Local Governance Network

## Sustainable Municipal Finances – Online Discussion Consolidated Reply

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### Topic: Donor Grants and Fiscal Transfers

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Issue date: 31 March 2011

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**From:** [Bertha Camacho](#), Skat Consulting, St. Gallen, Switzerland

**Posted:** 21 February 2011

After a first week of wonderful and successful exchange, I wanted to thank you all for the great inputs and insights to the discussion. We are learning a lot and we are building the framework that will guide the discussion in Sarajevo. I am in the process of finalizing the summary of our exchange and learning regarding capacity development.

To continue the discussion, I would like to invite all of you to follow the results of the learning project regarding Donor Grants and Fiscal Transfers. An abstract from the [Synthesis Paper](#) is attached and the discussion framework is the following:

The international trend is for donors to provide funds to municipalities without earmarking them. Frequently, funding mechanisms covering entire countries are used. Those mechanisms are often designed by partner Governments and used also for national fiscal and per-equation transfers. Increasingly, performance criteria are applied to provide incentives for municipalities to improve governance, accountability and service quality. SDC has limited experience in supporting nationally defined Performance Based Grant Systems. The case studies suggest that SDC rather funds own and frequently earmarks funds for specific sectors or uses project approval mechanisms to support work carried out by municipalities. The case studies also suggest that SDC has limited experience in providing technical assistance to establish or adjust intergovernmental fiscal transfer systems.

- A) Do you agree that SDC is rather funding own pilots than supporting nationally defined formula based grant systems? Do you know of exceptions to this statement? Please share your experience.
  - B) What are the main reasons why SDC has little experience in supporting Performance Based Grant Systems?
  - C) What are the main reasons why SDC has limited experience in providing technical assistance to establish or adjust intergovernmental fiscal transfer systems?
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### Responses were received from:

1. [Valbona Karakaci](#), Intercooperation, Albania
2. [Norbert Pijls](#), Intercooperation, Kosovo
3. [Cana Saranda](#), SDC, Kosovo
4. [Ibrahim Mehmeti](#), SDC, Macedonia
5. [Annette Kolff](#), Intercooperation, [Parfait Randrianitovina](#), SAHA, Madagascar
6. [Jacques Mérat](#), Intercooperation, Madagascar
7. [Swati Dogra](#), SDC, India
8. [Oksana Garnets](#), DESPRO, Ukraine

9. [Annonciata Ndikumasabo](#), SDC, Burundi
10. [Richard Kohli](#), SDC HQ, Switzerland
11. [Annemarie Sancar](#), SDC HQ, Switzerland
12. [Marc DeTollenaere](#), SDC, Mozambique
13. [Tommaso Tabet](#), SDC, Bangladesh
14. [Adrian Gnägi](#), SDC HQ, Switzerland
15. [Celestine Krösschell](#), Helvetas, Switzerland
16. [Ephrem Tadesse](#), SDC, South Africa
17. [Gérard Lalèyè](#) and [Lea Valaulta](#), SDC, Benin

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[Analytical Summary](#)

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### Analytical Summary

In the final stages of this exchange, the discussion in week two on donor grants and fiscal transfers can be summed up with the following conclusions:

- A) SDC is supporting municipalities financially in many countries, through a great variety of mechanisms and instruments. Within this variety, there are three rather constant elements: support mostly goes to pre-approved municipal projects, support mostly covers only a limited part of a country's municipalities, and the funding mechanism is mostly defined by SDC. SDC mostly works off-system. There are many sound reasons for this approach, among them: technical quality assurance, adherence to typical SDC values (participatory inclusiveness including gender issues, transparency, partnership development between citizens and administration etc.), and donor control of money spent.
- B) Many colleagues agree that funding nationally defined Performance Based Grant Systems (PBGS) might offer important advantages, among them: real empowerment of municipalities; development of own revenue base through demand-led, good and accounted for services, and a strong incentive for the entire (decentralization) system to perform better. There are many sound reasons why SDC up to present not frequently supported PBGS, among them: the small size of our funding envelope; the fact that in many countries both local and national governments are not ready for this type of budget support yet; there often is no nationally defined formula based grant systems.
- C) There is a nuanced understanding that PBGS is the orientation SDC should take. The "nuanced" refers to two sets of conditions: the suitability of the national context for formula based support systems, and the formula itself. If SDC is to support PBGS in the future, we need to make sure our typical SDC values are reflected in the criteria applied to judge "performance".
- D) The thesis put forward in the synthesis paper that SDC has limited experience with fiscal transfer systems is confirmed. This is ironic, since Switzerland is so proud of its own per equation systems.

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## Related Resources

### **From Annemarie Sancar:**

Participatory approaches to budgeting and for tracking municipal budgets: [www.gender-budgets.org](http://www.gender-budgets.org) or [www.sdc-gender-development.net](http://www.sdc-gender-development.net)

### **From Ephrem Tadesse:**

Work of the Centre for Social Accountability (CSA) on Municipal Budgets: [www.psam.org.za](http://www.psam.org.za).

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## Responses in Full

### **Valbona Karakaci, Intercooperation, Albania**

Please find dldp feedback on the topic related to question 1 and 2 based on our experience. We have limited experience regarding the question 3, which proves your statement, but may be the new RDP project starting recently in Albania will be more involved there:

As argued in our paper for the region of Shkodra, the current contribution of the grant funds from donors, implemented directly from the Local Government Units constitutes a small share of the total LGU finances. Therefore, the contribution of SDC funds in a national system would be insignificant. Beyond this reason there are two possible ways through which SDC could contribute to a nationally defined formula based grant system in Albania:

- Supporting the national formula for the distribution of the unconditional transfers, or
- Supporting the Regional Development Fund (earmarked funding mainly for local infrastructure projects).

In the first case, it would increase by a very little margin the amount of money that is redistributed to the local government units, in a formula based on needs rather than performance. In the second case, it would be supporting a scheme which is not consolidated yet technically, where the role of the local and regional actors is not clear and where the funds distribution is not entirely based on technical objective criteria.

For this reason, dldp 2 has setup a process of competition where the motivated LGU-s through the participation in the process, gain significant know-how in accessing the Regional Development Funds projects or other significant funding schemes from multilateral donors (such as EU).

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### **Norbert Pijls, Intercooperation, Kosovo**

- A) Yes, I also think this is better, because it give SDC and the Swiss parliament more control over the use of funds. Just putting it in a national grant system and leaving it up to the host country and its municipalities to see how to use the funds takes away all control over the funds, and makes you as a donor invisible for the wider public.
- B) I think the main reasons for this is because making national grant systems performance based means you have to convince the majority of the municipalities, an association of local governments, a parliament, ministry of finance, ministry of local governance/internal affairs and most likely other big donors too. That would take a lot of resources with a very unlikely outcome. In Kosovo it would have been possible because the country is build from scratch and Switzerland has a lot of leverage. However, that is not the case almost everywhere else.
- C) See above. Another reason could be that the Swiss grant system for local governance is very specific and does not always match with the requirements abroad.

**Cana Saranda, SDC, Kosovo**

A) Yes, I agree. Reason: The relevant ministries in Kosovo (Ministry of Local Governance and Ministry of Finance) were mostly overcrowded with projects and experts of other bigger donors. That is why SDC chose to work directly with a number of partner municipalities in a selected multi-ethnic region of Kosovo. On the other side, SDC gives core support to the Association of Kosovo Municipalities (AKM), which:

- Has a country wide coverage and
- Advocates also on local finance policy issues on behalf of Kosovo municipalities.

B) A fact finding mission in local governance commissioned by the SCO Kosovo in 2009 recommended that municipalities were not yet "mature" for donor grants or budget support, mainly due to: negative audit reports of municipalities, donor financing possible only via the central government accounts, etc. (For i.e. USAID in Kosovo provides performance based Awards to municipalities: through financing of various project proposals to selected municipalities that show good performance in selected monitored fields. However, no funds are transferred to municipalities, but procurement is done by USAID project. It is important to mention that this performance monitoring system - established and used by USAID and the local governance ministry - is somewhat vague).

In the second phase, the LOGOS project was shifted closer to existing municipal systems:

- In phase I: municipal projects co-financed by SDC, municipalities and the community were handled by the project and no CH funding was channelled through partner municipalities.
- In phase II: LOGOS project co-finances selected municipal projects and CH funds are transferred into the municipal budgets.

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**Ibrahim Mehmeti, SDC, Macedonia**

I am sending you our inputs from Macedonia's experience.

- A) Yes, this is correct, but however, in all our activities in the country we strive to ensure that there is demand and that the programme/s or outcomes of those programmes will be integrated in the national system.
- B) In our case we consider that appropriate conditions for such an approach are lacking. With our strategy we are trying to improve conditions which would enable such an approach in the future.
- C) In the case of Macedonia because of the same reasons as described above.

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**Annette Kolff, Intercooperation and Parfait Randrianitovina, SAHA, Madagascar**

From Madagascar when cannot share many experiences with non earmarked grants to municipalities.

The SAHA programme provides financial support to rural municipalities with periodic transfers of the agreed funds to these municipalities, but these funds are based on an action plan which is developed jointly. As such the funds are earmarked and when monitoring/auditing the accounts, the coherence between budget and expenditures is verified for each of the identified budget lines. Performance is monitored at the outcome level using the principles of 'outcome mapping'. Together with the partner municipalities we monitor 'changes in behaviour' (changements de comportement); however the grants are not linked to a performance system.

To my knowledge there does not exist a nationally defined formula based donor grant system as far as support for municipalities is concerned in Madagascar. In other sectors some donor agencies applied financing mechanisms that were conditioned by results. For example the World Bank applied a performance based grant system to finance the implementation of the national programme on

environment (before the political changes in 2009).

A few years ago, the SAHA programme has contributed to the discussions at national level (government, WB) on the development of a 'good governance barometer'. This 'barometer' has been used during a national initiative to assess the performance of municipalities. The best performing municipalities received an award from the national government. Actually the integration of some of these performance indicators in an assessment system of a national Fund for Local Development (Fonds Local de Developpement) is being discussed. SDC is contributing by sharing the experiences gained through the SAHA programme.

#### Jacques Mérat, Intercooperation, Madagascar

I just wanted to add something to Annette's input.

I consider that the SAHA programme has been considerably open regarding the allocation of funds to rural communes, continuing with the demand approach applied earlier with community groups. SAHA has financed capacity building activities and investments according to communes' preferences, the plans of action were always negotiated communes by communes. In this sense the funds were not earmarked (even if their use was controlled periodically), for example exclusively available for building health centres or schools, or exclusively to provide training on accountancy and other predefined topics.

But clearly, above all concerning capacity building, certain choices were promoted because SAHA has capitalised on its experience in implementation and also wanted to encourage communes to engage in activities commonly known to be needed (improving local revenues, improving accountancy, improving participatory planning, for example). Earmarking was perhaps strictly applied only to the extent that SAHA funds were not allowed to be used for financing permanent communal staff, neither could they all be absorbed by investment expenditures without something being allocated to capacity building.

Note however that even the allocation of part of the SAHA fund for financing permanent staff occurred since these funds were paid on municipal accounts and payments delays from the centre led sometimes to a certain degree of tolerance (officers who have not been paid for several months tend to show low levels of motivation to serve the public and serve as partners).

SAHA and SDC participated indeed to a large extent in Madagascar to the discussions around intergovernmental grant system. SDC is for example one of the three donors to the national communal investment fund, a structure established by indigenous decree. Conditions for granting funds to communes were extensively discussed and finally decided by the Malagasy state. The BUCO and SAHA could tell a great deal about them.

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#### Swati Dogra, SDC, India

- A) In India, budget contributions to municipalities, local governments have not been a focus area for SDC or any other donor for that matter. As already explained in the reply to last week's query, in India there are not many instances of unconditional fiscal transfers to urban and rural local governments. And as such performance indicators do not define the flow of funds. In fact local governments have been devolved functions but not corresponding funds to perform those functions. The source of income for local governments is tied grants under pre-designed developmental schemes. And in these conditional transfers made to local areas, there are many instances where the local governments are bypassed. The senior bureaucrats and ministers have discretionary powers to allot funds to local governments but this too is tied money and it does not contribute to a consolidated fund on the basis of which local governments can design an integrated and holistic development plan.
- B) The state itself is not adopting this way of endowing local governments so is not directing projects of this nature for funding to donors. The absence of significant experience of this nature also implies lack of preparedness in term of systems, procedures, strengthening absorptive capacities

being in place. In India, the quantum of resources to contribute to a state led performance based grant system (even where it existed) are beyond the capacity of any single donor even if it were to be piloted in a single province/state of the country.

SDC in India has supported activities which strengthen the absorptive capacities (better planning, implementation and monitoring capacities, piloting untied funds provisioning to local governments) and support advocacy for performance based grant systems (e.g. supporting association of local governments in Kerala to undertake a study and make recommendations to the state finance commission on the devolution of funds)

- C) In India the federal system makes the process of intergovernmental fiscal transfer systems highly political, very complex and requiring technical and financial resources beyond the means of a small donor such as SDC. Even big multilaterals have not as yet entered into this area of support. The closest donors have come to the issue of fiscal decentralization have included support advocacy efforts by NGOs and civil society platforms (including local governments) to build a case for greater fiscal decentralization. It was these efforts which also informed the 13th Finance Commission (2009) which has strongly recommended for performance based grants system to be introduced comprehensively.

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#### [Oksana Garnets, DESPRO, Ukraine](#)

In fact it is rather difficult for me to answer the question why ... The short answer would be – because SDC is trying to spend the limited resources careful, avoid risks and get tangible results.

First and foremost this mechanism of providing donor assistance seems for me rather controversial, after all. Extremely clear and transparent mechanism of monitoring funds, as well as recognized low level of corruption in the country, should be the prerequisite of providing donor funds in such a way. Otherwise, the donor cannot be sure that the money is not misused. Earmarked funds and project approval mechanisms provide necessary control mechanisms in insecure environment. The adequate legal framework should be also in place. For Ukraine it is not easy for donor money to enter a state budget account but it could be even more complicated to use the money.

Speaking about entire countries, there should be a very clear picture of the national development strategies and political programs, as well a vision of consistency and stability of these strategies, their resilience to possible political change etc. to directly “pour” money into the country budget. Besides, countries themselves are supposed to be interested in larger donors putting substantial, comparable, money into their budgets. This type of support definitely would not work for Ukraine right now.

It does not mean that I would discard providing funds to municipalities or their associations at all. The earmarked and project types of support provide more guarantees for the donor the money is spent “properly”. To my opinion, they are an important step towards developing those mechanisms of monitoring accountability etc. that would make it possible to further practice un-earmarked funding. DESPRO is currently starting to explore ways and conditions of providing funds to selected municipalities.

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#### [Annonciata Ndikumamasabo, SDC, Burundi](#)

1. In Burundi, there are no nationally defined formula based grant systems. The pilot SDC programme had among its objectives to assist in introducing this system for the communes to get funds or grants. Today, there is a performance assessment manual that is being experimented and once it is validated, it will provide the basis for defining such formula
2. As far as SDC Programme in Burundi is concerned, this condition was not applicable at the time when it started. It was at the wake of a civil war and all the communes were in a very low position in terms of performance. Instead of having this as a prerequisite to provide municipal support in such a context, development programmes would rather be geared to helping the communes to reset the foundation for good service delivery. This is the case in Burundi.



3. One of the components of SDC programme in Burundi is about strengthening the capacities of the municipal investment fund, which is a government body that has among its missions fiscal adjustment (Péréquation). Practical modalities are under discussion between development partners in the field and the government as this body is suffering from contradicting political powers that prevents it from being professional and thus lose all the confidence any donor may have in it. So for SDC to involve actively on this depends on a number of factors of which the most determining is the political will to put in place trust-worthy mechanism that is likely to lead to effective fiscal transfer.

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**Richard Kohli, SDC, Programme Manager Serbia, Switzerland**

Quite an interesting discussion ongoing out here! First of all I congratulate this learning group for the interesting work done so far. Especially, the synthesis report was in many ways an eye opener to me. For quite a while now I was actually wondering if there is kind of a broadly accepted good practice in support of local governments. Certainly, this learning group is focusing on sustainable municipal finance, hence not covering the whole range of governance relevant issues. However, many governance issues may be attached to vertical and horizontal financial flows. Apparently, similar to the making markets for the poor approach (M4P) which is more and more recognized as international good practice in the field of private sector development, systemic approaches are also emerging in the field of governance programmes which is highly encouraging and which should more and more be used as a reference and also a bench mark for SDC's practice. Without having a complete overview on SDC's governance portfolio worldwide, I tend to believe that formula and performance based systems, embedded in country systems, are by and large outside of SDC's applied practice. There are certainly attempts to move closer to systemic approaches, but based on my experience we still very much adhere to project based approaches and parallel structures. In fact, in many cases I get the impression that we "teach" municipalities to act like projects, neglecting the whole political dimension of working in the governance domain. Many of the reasons for doing so are given in different contributions, lack of frame conditions, lack of capacities, an (exaggerated?) need of control, "in our specific case this is impossible due to this or that reason", etc. But I argue: do we actually know the governance systems we work in sufficiently well? Are systemic analyses (e.g. governance or political economy assessments) available? Don't we easily tend to refer to reasons mentioned above before having had a closer look at things and maybe even dared to explore new avenues?

The reasons for rarely applying approaches as described in the synthesis paper may be manifold: are they rather applied by multilateral organizations or bigger bilateral donors? Is there, maybe, an issue of critical mass? Are we simply too small for adopting this kind of approaches? Or are we simply reluctant to move out of our "comfort zone", repeating things that we have been doing for quite a while and ignoring that there are other approaches with high potential to provide much better results?

Personally I am more and more convinced that as long as we don't manage to move closer to national and sub-national country systems and truly contribute to make (political, economic and social) systems better work for marginalized, excluded and poor people we don't really exhaust the possibilities development agencies potentially have.

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**Annemarie Sancar, SDC HQ, Switzerland**

It is very interesting to read the concluding questions to this discussion and I wonder myself whether these question also have a lot to do with the fact that we could mainly only read about "citizens" without really knowing who they are, how the relations between them are, where the power gaps influence municipal development and what kind of dynamics in a community form the way people understand public finances or not. SDC is committed to gender not by accident but because we are convinced that gender sensitive approaches are eye openers to understand social processes and relations, and therefore I think that we need (interdisciplinary) approaches in the domain of decentralization and municipal development, which explicitly uncover how gender is structuring realities, how women and men are differently affected by interventions and funding, and differently

involved in community building processes, that social, political and economic differences in a given context have to be carefully unpacked to see how strategies to generate revenue could look like. There are enough good examples of participatory budgeting where decentralization processes were backed up and further developed and improved thanks to the spaces and institutions where women and men, elderly and children, minorities etc. would have the direct and indirect possibility to express their needs in a way that local budgets, tax systems, decisions on allocation would become more incidence based!

You can also consult [www.gender-budgets.org](http://www.gender-budgets.org) or [www.sdc-gender-developmentnet](http://www.sdc-gender-developmentnet)

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### **Marc DeTollenaere, SDC, Mozambique**

Here some contributions to the 3 questions of week 2:

- A) In Mozambique a formula was fixed for the first time in 2008, but we have been supporting municipalities since 2000. The formula is used for central transfers to support current expenditures in municipalities, the total equals 1, 5% of fiscal income. Municipalities also get central transfers for investments, but this is entirely arbitrary, there is no formula. In the next phase of our programme part of our grants will be linked to specific objectives and part will be distributed using the same formula as the state. So once there was a formula we used it. The formula uses as sole criteria inhabitants and surface. The majority of the mayors in our programme have always argued in favour of our own formula because that gave advantages to poorer and smaller municipalities. The government formula is proportional, so more beneficial for the larger ones. As SDC we supported the alignment with the Government formula because we don't think that the programme should compensate for perceived deficiencies in the official system. Rather we will aim to weigh on the national system and mobilise the mayors to improve that. By compensating we reduce the incentive for system change.
- B) There is no such system in Mozambique. We introduced a performance dimension in our current programme: municipalities that were performing well (that is spending and reporting on programme objectives) did get an extra the following year. Yet, we noticed that the winners were those who concentrated on a few large procurements. I don't think it is a common feature anyhow in LDCs
- C) This area has been hard to get to, here. It is an issue we will focus on much more the coming years, in collaboration with the World Bank who has a parallel programme for municipal support and is now taking a strong interest in this. As a first step we have invested in analytical work over the past two years to prepare the ground. In our context TA in central government may not be the best strategy to adjust the system. We think we can get better results if we are able to mobilise the municipalities.

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### **Tommaso Tabet, SDC, Bangladesh**

A quick (and late) feedback on the week two query from Bangladesh... Looking forward in further discussions directly in Sarajevo!

- A) Yes, we do agree. SDC as small donor seems to be more risk taker than other donors and more keen in piloting (and monitor) new approaches. The underlying hypothesis is to test on small scale new approaches for a subsequent wider scale replication. A "trap" might be in the medium term the setting up of a "perfect model" in a limited geographical scale and fail on a policy dialogue and scaling up level. Another risk might be that we are promoting HR intensive pilots (in terms of TA for downward accountability mechanisms for example), pilots that are only marginally replicable.
- B) PBGS are mainly based on administrative-bureaucratic criteria, where the priority seems to be vertical accountability systems and good financial management, with little consideration about the quality of the participatory planning process (or quality of democracy). SDC is more interested in





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downward accountability systems, inclusion in decision making processes (voice, women, disadvantaged citizen etc.) and actually the quality of the citizen/state relationship, which is relatively difficult to synthesise in few SMART indicators....

- C) What are the main reasons why SDC has limited experience in providing technical assistance to establish or adjust intergovernmental fiscal transfer systems? Good one! This is what we are asked to do in Bangladesh. The Swiss system seems to be inspirational for the current (and past!) policy makers. Inputs at policy level require often very little financial investments and a lot of SDC staff time. New ways of cooperation are being developed, and Country to Country thematic exchanges is one of this (see LoGin initiative in the south Asia region for example).

#### **Adrian Gnägi, SDC, HQ Switzerland**

Does anybody know of examples where the quality criteria SDC is typically interested in (inclusive participatory processes, development of trust between administration and citizens, transparent downward accountability etc.) have been translated into useful performance criteria for grant systems to municipalities?

#### **Jacques Mérat, Intercooperation, Madagascar**

Dear Adrian,

Perhaps I bring some elements of response from the long experience of Colombia in decentralisation:

1. Fiscal transfers should allow for an effective budget constraint. That is to say their total amount and the calendar of their payment should be known in advance.
2. Only from this condition a meaningful budget process can be developed. Additional grants coming on the top of these transfers can have detrimental effects, most of all if not well integrated in the budget process (additional grants should be voted by the legislative and the whole budget perhaps reorganised).
3. The budget process should be transparent, begin soon enough, and be based on accurate financial statements and performance assessments.
4. Citizens should have full right to address questions to the administration, and the administration be bound to answer within a fixed delay.
5. Human rights should be sufficiently guaranteed and protected. If not, the best budgetary rules and transfer system can be distorted without citizens able to voice their concerns. I consider this issue as being often not considered before assisting a country in public finance.

In the Colombian case 1 and 4 are fully in operation. 2 and 3 are variably realised. 5 remains a concern in rural areas and in some cities.

Colombia has implemented "transparency pacts" that link citizen's budget committees at the local level to the Ministry of Finance (that operates the transfers) and the authorities in charge of fiscal control (that can trigger legal proceedings against officials). It has worked well but it was much more a question of political incentive than one of technical design. The mechanism allowed fiscal transfers not to make to local governments for example before a check was done on payments realized by local governments in case of doubt suggested by the budget committee.

Human rights there are unfortunately an important issue. But on the other side this allowed to take fully into account the human rights dimension in the control of public finance. I think in other countries this link is not explored enough because human rights violations are much more hidden while present and preventing public accountability mechanisms to happen.

#### **Tommaso Tabet, SDC, Bangladesh**

We are actually starting a project with UNDP and UNCDF which includes the piloting of fiscal grants to sub-district level. The tool is aimed at topping-up existing resources/budgets and the criteria and indicators will be finalised and tested in the next months. From our side, we are promoting the inclusion in the criteria a kind of "democracy index" to spot participation, inclusion etc. Let's see in the



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next year or so what we will be able to achieve with our UN colleagues and in the field....

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**Celestine Krösschell; Helvetas, Switzerland**

I would be interested to know if anyone has experience with public expenditure tracking, where citizens or their representatives track what happened to the (municipal) budget in relation to service delivery. Apparently this has been quite an effective monitoring system and was successful in Uganda in the education sector. Pouring money into state budgets without proper upward and downward accountability systems in place, I would consider being very dangerous.

**Norbert Pijls, Intercooperation**

Dear Celestine,

The LOGOS Project in Kosovo intends to implement such activities in 2011. Our intention is to first distribute the budget 2011 to citizens (house to house delivery of brochures with main financial figures) and then organize quarterly meetings in villages in which the mayor and municipal staff will report on the implementation and answer questions.

**Annemarie Sancar, SDC HQ, Switzerland**

Just a short answer: there are many good practices of tracking municipal budget, for example, Cochabamba, Bolivia. I would like to remind you there is a website [www.gender-budgets.org](http://www.gender-budgets.org), where all initiatives supported by Unifem are well documented. It is not only on gender but a lot about methodologies, about participatory approaches, public auditing etc.

As far as I know there are very similar procedures in Nepal as well – with strong gender equality and women's rights focus, though.

**Ephrem Tadesse, SDC, South Africa**

Dear Celestine,

You might be interested in the work of the Centre for Social Accountability (CSA). Through the SDC Regional Programme in Southern Africa, CSA has been promoting its approach in the region. Please check its website: [www.psam.org.za](http://www.psam.org.za).

**Ibrahim Mehmeti, SDC, Macedonia**

Dear Celestine, dear dlgn colleagues,

Regarding the question about the expenditure tracking I would like to share the experience from Macedonia. We have the so called "Budget Forums" where citizens and municipal authorities together discuss the budget for the following year. In these forums the mayors present the budget for the next year and citizens are invited to comment on it and at the same time to propose changes or to present new ideas. In the end of this process the municipality reports about the proposals that have been incorporated in the annual action plan and the municipal budget.

I would like to also mention that in the frames of another programme (not directly related to the decentralization) we also support Civil Society Organizations which monitor procurements or public expenditures at local level.

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**Gérard Lalèyè and Lea Valaulta, SDC, Benin**

- The state and the technical and financial partners of the decentralization sector, including SDC, have developed a national mechanism for financing local authorities (the Fund to Support Development of Communes - FADEC). The purpose of such a mechanism is to promote balanced and harmonious development of all 77 municipalities under a system of equalization (poverty level, size of municipality and population, performance etc.)
- SDC has actively participated in this process. In 2008, an agreement was signed with the ministry in charge of decentralization to directly apply this mechanism. The contribution of SDC represents almost 1.5% of annual funds allocated to municipalities for investment. The SDC support is appreciated and it was important in terms of providing the message of encouraging the State in its efforts to transfer resources to local communities. Through this mechanism, the budget allocated to the communes, in 3 years, has been multiplied by 8. The funds allocated to municipalities now represent nearly 3% of the general budget of the State. In 2007 it was only 1.3%.
- The difficulties observed of such process are related to the possibility of transferring resources on timely basis. The funds disbursed to municipalities do not correspond to the time of disbursement. In addition, the processes for the provision of public funds are long, heavy and complex.
- As a result, municipalities are making commitments to contractors to close the achievement of social and economic infrastructure but often lack the resources to start on time. The planned investment for the year n, is realized in year n + 1. Thus, elected officials spend more time anticipating and coping with such issues and challenges in their communes.
- Decentralization in Benin is still young, it started only in 2003 and it has the second generation of elected officials. The challenges on the issue of transfer of resources from central government to local authorities are still numerous.

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**Many thanks to all that have contributed to this online discussion!**

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