

## EU and UNCDF address the impact of budget support and performance based grants in decentralized cooperation

### Positioning local governments at the core of the Agenda 2030

**Under the title ‘Localising the SDGs and the Paris Agreement’ the UN House in Brussels hosted a brainstorming session involving UNCDF staff and EU officials in January 2020.**

#### **Background**

Over the last two decades, decentralisation has evolved as a mean to addressing various challenges in their local contexts, opening the way to a greater developmental role for local authorities. In line with the EU publication (2019), functional and fiscal reassessments within a country’s public administration is increasingly understood as ‘empowerment of people through the empowerment of their local governments’. Second, the devolution of competences to lower levels of governments implies seeking ‘multilevel governance arrangements under which several levels of government could share responsibility’, as experienced by UNCDF in respect to (local) economic development, agriculture, water and sanitation, infrastructure including energy and transport, and more recently climate change.

These shifts have shaped a new understanding of local authorities as development actors. Local authorities are no longer characterised as just managerial entities delivering a set of specific services, but also the legitimate bodies for populations to voice their concerns and priorities. Local authorities have the responsibility to plan (and implement) development in a participatory, transparent and accountable manner, working closely with communities and deconcentrated services to implement national policies. As a consequence, local authorities are increasingly seen as critically important partners of central government which can both implement and supplement national development efforts (EU, 2016).

In this context, local authorities, both rural and urban, are recognised as key actors in the promotion of SDGs and other international agreements in particular the Paris Agreement. They are indeed in a unique position to identify the local responses that best meet local needs, and typically are mandated to plan and undertake the small- to medium-sized infrastructure investments needed for addressing a range of SDGs and building climate resilience – e.g. agriculture, irrigation, drainage, transport, water and sanitation, waste management and natural resource management. In addition, they have the legitimacy and convening power to coordinate, co-finance and interact with stakeholders, including national level institutions, civil society bodies, the private sector and various local government departments. Yet, they frequently lack the technical capacity and resources to fulfil this mandate – especially in a way which is aligned with established decision-making processes and public planning and budgeting cycles. From the early 2000s, UNCDF has supported the introduction of ‘performance-based grants’ in many Least Developed Countries. These systems, also used in OECD countries, link subnational funding to the quality of process.

The result is that central governments and development partners now recognize that there is local efficiency and effectiveness in delivery of services and infrastructure. Examples include Bangladesh, Cambodia, Mozambique and Uganda (UNCDF, 2017).

Building on UNCDF's 20 years of experience in intergovernmental fiscal transfers, performance-based grants and local public financial management, with support from EU, Sweden and other partners, UNCDF has designed in 2011 the Local Climate Adaptive Living Facility (LoCAL), establishing a standard country-based mechanism to promote climate change-resilient communities and local economies by channelling (climate) finance to local authorities in LDCs, with the aim to contribute through the local level to country achievement of the Paris Agreement and the Sustainable Development Goals – particularly poverty eradication (SDG 1), sustainable cities and communities (SDG 11) and climate action (SDG 13). LoCAL operate through performance-based climate resilience grants (PBCRGs).

Their technical features include a set of minimum conditions, performance measures and a menu of eligible investments. The relative performance of the local authorities, assessed annually, inform the size of the following year allocation, as well as the technical and capacity-building support.

LoCAL secures the channelling of funds working with national systems financing decentralisation through a tailor-made approach where 'on-budget' funding is the ultimate objective.

### **Linking budget support and performance-based climate resilience grants**

In the 2016 publication on the topic, EU notes that there can be three types of budget support in decentralised contexts and that their purpose "is not to induce the adoption of any particular policy, but to help partner countries operationalise and implement the basic policy choices they have already made with respect to the political opportunity — and relative developmental importance — of decentralising governance and public administration, improving local governance institutions and promoting territorial development."

LoCAL indeed supports country implement their national priorities and multi-sectoral climate strategies and policies, e.g. Nationally Determined Contributions and National Adaptation Plans, while harnessing co-benefits for promoting green and resilient local economies.

PBCRGs can be implemented through project approaches, focusing on governance/decentralization; climate change and/or green economy. The PBCRG system can also be financed through budget support.

In Bhutan, the EU budget support 'Capacity development for local government and fiscal decentralisation in Bhutan' overall objective is to assist the Royal Government of Bhutan to reduce poverty and inequality and to promote carbon neutral development. While the specific objectives focus on local government reforms, decentralisation, local service delivery and governance and public financial management, the 5-fold expected results include the implementation of the Local Government Sustainable Development Programme; local service

delivery inter alia through the PBGs; mainstreaming of gender, environment, climate and poverty issues, good governance; sustainable and inclusive socio-economic development, conservation and sustainable management of the environment; and quality PFM. The sector reform contract includes as indicator the 'number of gewogs which plan, request, receive and account for a PBG', in other words which benefit from the LoCAL mechanism. Over five years 100 gewogs, out of 205, will benefit from such grants, almost half of the country.

In Benin, the EU BS helps improve the performance of fiscal decentralisation and create the basis for creating an adaptation to climate change financing line. In Ghana, the EU BS for decentralisation also offers an opportunity to address climate related SDGs through LoCAL which was piloted with EU support. More opportunities exist in countries like Mali, Niger, The Gambia, and more, where the EU has financed the piloting of LoCAL and is ready for scale up.

Since 2011, LoCAL has been deployed across 14 countries and over 280 local governments (Bangladesh, Benin, Bhutan, Cambodia, The Gambia, Ghana, Lao PDR, Lesotho, Mali, Mozambique, Nepal, Niger, Tanzania and Tuvalu), representing over 10 million people, with 8 additional country initiatives under preparation (Uganda, Sao Tome e Principe, Senegal, Solomon Islands, Cote d'Ivoire, Burkina Faso, Malawi, and Liberia) or were scoped (Chad). The original pilot countries in Cambodia, Bhutan and Benin are going through the national scale up and are preparing for direct access to international climate funds, as a way to cofinance the mechanism.

#### Performance-based climate resilience grants for addressing urban and rural linkages

Cities are faced with both challenges and opportunities due to rapid urbanization, demographics (often accounting for more than a third to half of the country population), emissions and limited adaptation to climate change and green economy, e.g. in construction, sustainable transport, waste management.

They offer opportunities for improved living standards, green employment, innovation and ultimately the achievement of the SDGs. Sustainable cities also depends on their links to the rural and peri-urban areas where food production and transformation can take place, as well as artisanal and industrial production. This connection is critical to achieve the SDGs throughout the country and to ensure long sustainability of cities,.

The PBCRGs offers an opportunity to address the localisation of SDG13 and other SDGs in both rural or urban areas while strengthening government systems in particular inter-governmental fiscal transfers, local planning and budgeting and local public financial management, creating the enabling conditions for improving the mobilization and effective of other sources of finance, owned revenue generated resources and private finance for local investments, aligned with local priorities.

#### Questions addressed at the EU-UNCDF dialogue

1. How to achieve the localization of the SDGs and the Paris Agreement? What role for local authorities?
2. How to promote budget support in decentralised contexts? (for decentralised public service

delivery, decentralisation reforms and local authority system development, and for local authority territorial development policies)

3. What are performance based (climate resilience) grants?

a. How do PBCRGs provide a mechanism to implement BS for decentralised public service delivery and decentralization reforms?

b. How can performance-based (climate resilience) grants help achieve the localization of SDGs and the Paris Agreement?

c. How can performance-based (climate resilience) grants operate in urban areas?

Meeting Participants

- EU DEVCO C5 colleagues in charge of local authorities, decentralisation and cities
- EU DEVCO C6 and NEAR colleagues in charge of climate change, GCCA+ and the Local Climate Adaptive Living Facility (LoCAL)
- EU DEVCO A4 colleagues in charge of budget support for decentralization, climate change and green economy
- EU DEVCO and NEAR geographical directorates (Africa, Asia and Pacific, LAC) colleagues in charge of budget support and/or LoCAL countries

• LoCAL	Facility	Manager
• UNCDF LoCAL and BS experts		