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Embassy of Switzerland in Kosovo

Decentralisation and Municipal Support project (DEMOS)

Performance-based Grant Scheme for Municipalities

Funded by SDC

Implemented by  **HELVETAS** | KOSOVO
Swiss Intercooperation

Helvetas-Swiss-Intercooperation

External review

Final Report
16th February 2017

Preamble

Since 2014, the Swiss Agency for Development and Cooperation (SDC) has been funding the Kosovo Decentralisation and Municipal Support (DEMOS) Project that is being implemented by the Swiss NGO Helvetas/Swiss Intercooperation. The first phase of the project runs from 01 July 2014 to the end of December 2017. A substantial part of the DEMOS project funding for this first phase is made available for a performance-based grant to 17 selected Kosovar Municipalities, being the target group for the project. The grant is supposed to be the project's main driver.

As a preparation to the formulation mission for the second phase of the project (foreseen to be done in early 2017), SDC commissioned Dege Consult, specialised in the field of local governance and decentralisation - including fiscal decentralisation and performance-based grants, to conduct a review of the design of the DEMOS-grant as well as a new grant piloted by the German Technical Cooperation (GIZ) with funding from the German Development Bank (KfW). A Terms of Reference, an abridged version of which is attached as Annex 1, guided the assignment.

The assignment was carried out through home-based desk review and report writing, and two missions; one in the last week of October and one in the first week of November. For Dege Consult the assignment was carried out by Gerhard van 't Land (team leader and public sector management consultant) and Jesper Steffensen (performance-based grant specialist), who worked together during the first mission focussed on fact finding and data collection, whilst the team leader alone carried out the second mission, that culminated in a mini workshop and presentation of all findings on Thursday 3rd of November 2016 (see Annex 6 for the presentation made). The workshop was attended by the deputy Minister for Local Governance Administration, the Secretary General of the same Ministry, representatives from the Ministry of Finance, the National Audit Office, SDC, including the Head of Development Cooperation who chaired the session and Helvetas project staff. Also at the presentation was a delegation from SDC and UNDP Albania, who are also considering support for a performance-based grant.

During the first mission, it transpired that the new GIZ grant (the "Clean Environment Race") is likely a one off event, as neither KfW nor the German Embassy committed to further funding, on which basis it was decided to focus the main report for the assignment on the DEMOS grant only. However, in Annexes 3 and 4, a more detailed technical assessment of both grant schemes (DEMOS and CER) is provided. As a result, the main text of this draft report focuses on the overarching questions of relevance and effectiveness as stated in the ToR for the DEMOS grant.

A first draft report was presented on 10th of December 2016, and a revised draft, in which initial comments by SDC and Helvetas were taken into account was presented 10th of January 2017 on which a second round of comments was received by end of January 2017. This final report takes into account the comments received in the second round, but we also note that our assignment was a review and not a reformulation mission.

The team wishes to take the opportunity to particularly thank Saranda Cana-Pruthi (DEMOS project manager at SDC), Norbert Pijls (head of Helvetas Kosovo and DEMOS project manager) and Visar Zekaj (DEMOS, grants specialist) for organising and facilitating the missions. We also wish to thank those in the municipalities, as well as those in their offices in Pristina, Kosovar officials and development partners alike (see Annex 2 for the mission programme and the people met), that reacted favourably on the request to meet with them and who generously made time to share their knowledge and views.

We hope that this report, for which the authors bear sole responsibility, will help to further improve the grant design with the ultimate aim to help foster overall good governance and service delivery performance displayed by the Kosovar local governments serving their people.

Pristina / Copenhagen, 16th of February 2017

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- Annex 6: PPT debriefing workshop

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List of Acronyms and Abbreviations

DEMOS and its Performance-based grant - Objectives, Principles and Budget

Overall Project Goal / DEMOS Phase I						
DEMOS supports Kosovo in its transition process towards a democratic, decentralized state in which municipalities exercise socially inclusive governance and provide effective services responding to citizens' priorities and needs						
Project Approach and Principles						
<ol style="list-style-type: none"> DEMOS incentivizes municipalities to improve performance in financial management, democracy and service delivery by linking better performance to increasing amounts of grants. DEMOS is rewarding own initiative of partners by making available on-demand technical assistance. DEMOS is using existing Kosovo systems, i.e. has a monitoring that is built on-system, whenever possible DEMOS will have a tailor-made approach for different municipalities DEMOS activities include many opportunities for peer-to-peer learning. DEMOS works only on municipal own competences. DEMOS prioritizes the use of local expertise above regional expertise and again above international expertise. Local experts will predominantly deliver on-the-job coaching 						
Outcome areas		Expected outputs				
Outcome 1: Public services in waste management, public spaces and mobility in the supported municipalities respond better to citizens' priorities and needs.		Output 1.1: The quality and quantity of Public Spaces in supported municipalities is improved Output 1.2: The quality and quantity of Mobility Services in supported municipalities is improved Output 1.3: The quality and quantity of Waste Management in supported municipalities is improved				
Outcome 2: Supported municipalities foster democratic processes and apply sound public policy and finance management processes		Output 2.1: Financial management in supported municipalities complies increasingly with the legal framework Output 2.2: Performance-based Grant Scheme successfully implemented Output 2.3: Stronger democratic checks and balances between Mayor, Municipal Assembly and citizenry				
Outcome 3: DEMOS support at the central level contributed to a policy framework which is more conducive for decentralized governance		Output 3.1: Bottlenecks in the policy framework are addressed proactively and on-demand Output 3.2: Capacity Development feasibility study drafted and discussed with all stakeholders Output 3.3: Improved quality and increased ownership by municipalities and MLGA of the performance management system				
Implementation strategies						
The ProDoc states that the PBGS is a core instrument for achieving the outputs under outcomes 1 and 2. At the same time (and whilst the activities foreseen for outcome 3 are described in an open ended manner because demand - driven) the ProDoc mentions TA for all the outputs (except output 2.2) as supplementary to the PBGS						
DEMOS Phase I : Budget by output						
Output	Prodoc			Budget revision 2016		
	Total in CHF	As % of program	As % of total	Total in CHF	As % of program	As % of total
1.1. Public Spaces	129,668	1.9%	1.2%	228,776	3.3%	2.1%
1.2. Mobility	200,350	2.9%	1.9%	254,665	3.7%	2.4%
1.3. Waste	148,325	2.1%	1.4%	219,522	3.2%	2.0%
2.1. Financial Management	221,630	3.2%	2.1%	307,345	4.4%	2.8%
2.2. PBGS	4,698,594	67.6%	43.5%	4,168,395	60.0%	38.6%
2.3. Democratic checks & balances	1,045,223	15.0%	9.7%	1,045,961	15.1%	9.7%
3.1. Policy support	227,590	3.3%	2.1%	258,981	3.7%	2.4%
3.2. Feasibility study CD	12,175	0.2%	0.1%	69,517	1.0%	0.6%
3.3. PMS/MLGA	120,000	1.7%	1.1%	300,091	4.3%	2.8%
4. Monitoring and steering	145,375	2.1%	1.3%	155,906	2.2%	1.4%
Sub-Total in CHF	6,948,930	100.0%	64.4%	7,009,159	100.0%	64.9%
Overhead	3,846,010		35.6%	3,785,787		35.3%
Total in CHF	10,794,940			10,794,946		100.0%

Source: by the authors of this report on the basis of the ProDoc and (for 2016 revised budget data) further direct communication

Executive Summary

Introduction: Over the past three years, seventeen Municipalities have been exposed to a performance-based grant provided under the Swiss funded Kosovo Decentralisation and Municipal Support (DEMOS) Project. Based on 10 indicators covering on areas of institutional governance, public financial management and own source revenues, as well as on concrete outputs in the fields of public spaces (parks), roads (including sidewalks and street-lighting) and waste management. The scores for each indicator are weighted, reflecting the difference in importance of each indicator, and the maximum score is set at 6. Based on their score, and using an allocation table (that somehow takes into account the size of the municipality and the score in six brackets, municipalities can earn a grant, whereby the size of the grant with a top score is 90% higher as compared to the amount received for a relatively low score. The amounts awarded are estimated to be below 5% of the actual discretionary capital budget for the municipality. The objective of the assignment was to assess the relevance and effectiveness of grant design.

Summary of the findings: The Municipalities appear very appreciative of the DEMOS project, and value in particular the interactions with the project staff whilst they consider the grant as relatively small. The prize award ceremony (for the top scorers) is a high profile event, but because the scoring, with weights and an unusual scale of 6, is highly complex, the final scores for the individual indicators remain opaque whilst, because the indicators are so different, also the total scores are difficult to interpret.¹ Whereas the grant (and the award ceremonies) have raised the attention for issues of performance and the municipalities own role, the grant has not led to a clear discussion on most crucial weaknesses in municipal performance and as such neither guided the complementary activities of the project in terms of technical assistance. In practice, the PBG is not the project's spinal cord (as the ProDoc suggested) but rather one of the activities amongst others. This is reflected in the project's progress reports, where an analysis of the scores is missing, and where 'successful implementation of the PBGS' is one of the indicators amongst others including citizen's satisfaction ratio as well as indicators that are also measured for the PBGS.

The major weakness of the grant design is the choice and definition of the (10) indicators, which are based on an unclear objective for the grant and the absence of a thorough analysis of the major municipal capacity weaknesses to be targeted. In addition, some of the indicators measure achievements that are only partially under the control of the municipalities. For other indicators it is assumed that the same standards apply for all municipalities while they measure variables that by definition (or economic and financial reality) are bound to be different in more urban or more rural municipalities (e.g. presence of parks, footpaths, streetlights, which levels ought to be clearly higher in more urban municipalities with higher population densities); hence it applies the same yard-stick for cases that the norms should be clearly differentiated. Such indicators induce incentives for municipalities to spend money in areas that may otherwise have gotten (for a reason) lower priority and hence they distort local decision-making.

Municipalities seem to be aware that the quality of the indicators remains wanting, but maybe also because of the limited financial incentive (only 10% more if moving up to the next scoring bracket) they do not seem to care too much. In general, the ownership of the indicator set and the scoring system seems fairly low amongst the municipalities.

A more clear definition of the grant objectives and identification of the major capacities weaknesses to be addressed and reflected in the indicators are the starting point for redesigning the grant. Technical design issues (as discussed below) are to follow suit.

¹ Some indicators have a maximum score of 0.4166667 (out of 6) others 1.5. For 2015, the commune of Lipjan scored, for the 10 indicators combined, 0.64 on a scale of 6. That is, roughly, equivalent to score of 1 out of 10. Yet, it still received almost 53% of the maximum allocation that it would have gotten if it had scored the equivalent of 9.2 (or higher) out of 10. This illustrates that the scales are too narrow and the financial incentives relatively small.

Other conclusions on the design: *The DEMOS/PB grant as it has been initiated by SDC and Helvetas, has many, if not most, of the features of the PB-grants that are found in other (mostly developing) countries, notably those initially supported by UNCDF and World Bank. However, as a result of enthusiasm and eagerness to make it perfect and to provide it with a Kosovar signature, the actual design as it has emerged, has become unnecessarily complicated and it lacks the possibility to easily communicate the results, which hampers analysis but also the option of peer-to-peer learning and the creation of competition. The fact that amounts are awarded on the basis of the absolute score (instead of a relative score) limits the competition even further; but it also makes a projection of the amounts to be disbursed difficult if not impossible.*

The following modifications in the design are therefore suggested for consideration:

- *Translate the different weights for scoring indicators into different maximum scores per indicator*
- *Ensure that the total maximum score uses a scale that people can relate to (e.g. 10 or, better, 100)*
- *Use relative scores to allocate the total available amount (whereby the latter should be weighted for the relative size of the municipality, e.g. the allocation key for the general grant) to increase predictability of spending (which is certainly important when the grant is to be integrated into a government system), but also to avoid the arbitrary classes boundaries*
- *Define the 'Minimum Conditions' as the minimum non-negotiable requirements (safeguards) for having the minimum capacities to be entrusted to take responsibility for the management of transferred public money.*

Specific recommendations for redesigning the grant design: *In terms of relevance and sustainability, the PBGS would make most sense if considered as a government initiative in the context of intergovernmental fiscal transfers and a broader local governance and service delivery agenda. After the initial experiences under DEMOS-I, the project is in a good position to re-align itself to support that process - but it will require a deliberate decision, commitment as well as stamina from all parties, to go that route. Helvetas, as implementing partner, will need to make sure it has the capacity to play its role.*

Before redesigning the grant, which should be a process involving the various stakeholder parties to ensure full ownership, it would be useful to provide some international exposure with regards to Performance-Based grants in other countries for which West Bengal (India) and Tunisia are proposed (where the PBG is the project - and not only one of its components). PBGs as initiated in Kosovo, are relatively rare in OECD countries and as such, Kosovo would engage in innovative action based on experiences in developing countries tweaked to application in more developed nations.

Overall, it is suggested that the Kosovar PBG is redefined in the light of a longer-term vision to become a performance-based top up of the government general grant and that DEMOS-II is seen as a Government project to use the intergovernmental fiscal transfer system as a powerful tool to guide performance enhancement in local governments, but also, more in general, to strengthen democratic local governance.

Following the exposure visits, it is suggested to engage in a facilitated process with all stakeholders (Tunisia went through a similar exercise) to define the overall objectives of the grant and to define up to the detail, the various performance indicators and their scores. Such a process, whereby the facilitator keeps asking questions whilst ensuring that the process goes forward, may take 4-6 months, inclusive of some field-testing.

Given the available resources, (SDC likely being the only development partner able to fund the grant during phase II), combined with the need to ensure that the grant design is robust enough for expansion, it is suggested that for DEMOS-II the same 17 municipalities are retained, but that it is considered to change the design such that only part of them will be allocated the grant, in order to ensure that the incentives for a stronger competition are enhanced. Later on, under DEMOS-III, the scheme could then be expanded to cover all 38 municipalities, with funding from both SDC and Government, and maybe other development partners.

1. Introduction

1.1 Post war history of local governments in Kosovo - the actual situation

Municipalities have existed for a long time in the area of Kosovo, and they have always been a distinct part of the public administration set-up. After the Balkan war in the 1990s, they have become even more important as they represent a local entity people can associate themselves with. Since the early 2000s, the number of Municipalities increased from 30 to 38, of which 27 have an Albanian majority population, and 10 a majority Serbian population.²

The size of the Municipalities varies widely from, in terms of population (2011 data), less than 2,000 to nearly 200,000 (for Pristina) and from around 10 to over 600 square kilometres in terms of area size. Also the population density varies widely from around 30 to over 600 people per km². Notably in terms of the number of (officially registered) inhabitants, the municipalities with Serbian majority population are usually the relatively smaller ones.

The mere existence and the core roles of municipalities in Kosovo as *basic territorial units of local self-governance* is stated and guaranteed in the Constitution (of 2008), and further detailed in subsidiary legislation, notably the *Law on local self government* (03/L-040 dated February 2008) and the *Law on local government finance* (03/L-049 dated March 2008).

The competencies of municipalities, as described in the *Law on self government*, include the usual municipal functions such as urban and rural land use planning, local economic development and the services related to local roads, water supply, sewerage and waste management, as well as social services (such as primary health care, public health, education up to and inclusive of secondary education), public housing and the provision and management of public spaces. In addition to this list of *transferred* functions, the Municipalities are by law authorised to engage in any other activity of public interest as long as that activity is not explicitly excluded from their competencies or assigned to other authorities. Especially the latter complicates a clear delineation of competencies, as some of the described municipal services (such as solid waste management and water supply) are presently executed by separate regional public authorities, of which, in some cases, the municipalities are shareholder (and which *de facto* means that these services are provided by units above the *basic territorial units of local self-governance*), whilst municipalities only have indirectly influence the scope and quality of the service.

1.2 Present arrangements for fiscal decentralisation

The *Law on local government finance* is meant to ensure that the competencies attributed to municipalities are funded mandates, so that the municipalities can effectively take care of them and deliver those services. It describes a system of municipal funding that is based on own sources of revenues, a expenditure needs-based discretionary grant (called *general grant*) and two conditional sector grants for health and education, respectively that are also formula-based.

Own sources revenues, which account for an estimated 10 to max 15 % of municipal revenues, are mainly composed of taxes and fees (including user charges) and an immovable property tax³, that accounts for around 30% of the total own revenues.

By law, the total sum for the discretionary general grant is set, for any particular year, at '10% of the budgeted central government total revenues'. Out of this, municipalities with a population of below 140,000 are given a fixed amount, in euros, inversely proportional with their population, which is in favour of the smaller municipalities as a contribution to their fixed costs (whereas larger communities are supposed to be better able to fund such costs from own revenues). The

² One municipality has a majority Turk population.

³ This is for the moment in fact a building tax as land is excluded and may become subject to a separate land tax

remainder of the grant amount is divided through an allocation formula, largely based on population (weight of 89%) but that also takes into account other variables of area (6%), the minority population (3%), and municipalities where minorities groups (from the country perspective) form a majority (2%). The latter share (which is basically 2% of the total amount to be divided amongst for 'Serbian majority municipalities') is relatively small, but it should be kept in mind that the allocation mechanisms already takes care of the relatively higher fixed costs for smaller communities through the calculations for the lump-sum amount.

For 2017, the general grant is set at € 149.2 million. The calculated allocations of the general grant vary from almost € 400-thousand for the smallest municipality in terms of population to over € 14 million for Pristina and Prizren.

The special grants for health and education (which can be seen as conditional sector grants with some leeway for the municipalities on how to use these funds within the respective sector) are to ensure that the municipalities have sufficient funds for the operational cost related to the provision of the mandatory education and health services whilst meeting minimum national standards. Major variables in the allocation formulas are, for education, the actual enrolment and teacher salaries, and -for health- the total population with provision for (formula-based) calibration as deemed necessary by the Grants Commission⁴.

In 2014, on aggregate, these two sector grants accounted for 40% of the Municipal budget (education 31% and health 9%). That same year (2014), the general grant accounted for another 40%. Own source revenue is estimated at around 12% of the total municipal budget, of which around 30% (which is 3.5% of the total) originates from the property tax (NALAS, 2015). Other, relatively small, amounts come from the shared property transfer and transfers and contributions of the Ministry of Local Government Administration. In addition, there may be contributions from (or rather spending on behalf of) line ministries, but these amounts are not reflected in the Municipal budgets (as the ministries remain the accounting officer). For the Ministry of Infrastructure, one of the most relevant ministries in this context, these amounts are estimated at € 35-40 million per year. The Municipalities are invited to make proposals for these amounts, (mainly for road construction), but they are not the decision-makers, and for the moment investments in Municipal roads depends in part on the Ministry. This may change over the next few years, as the Ministry is planning that, by 2020 latest, the mentioned amount shall be made available to Municipalities as a sector grant.

1.3 DEMOS and its support for a municipal PBGS

The Swiss funded *Decentralisation and Municipal Support* (DEMOS) programme started in 2014 as a follow on to the Kosovar *Local Governance and Decentralization Support* (LOGOS) programme that had, in three phases including a bridging phase in 2013, been running since 2007. When DEMOS started, the number of municipalities under the programme was increased from 9 to 17, whilst the earlier support for improving services and infrastructural development delivered in project mode was replaced by a performance-based grant, in line with the autonomous nature of the municipalities and their responsibility to take their own decisions. But it also is a reflection of SDC's interest in performance-based grants (see e.g. the SDC internal paper on *Municipal and decentralised budget support - capitalisation paper*, Bern, April 2014).

The DEMOS program as implemented by Helvetas has three outcome areas and 9 outputs (See textbox on page iv). The Performance-based grant is, as one of the outputs, considered a major vehicle to achieve all outputs under outcomes 1 and 2 (ProDoc page 14). At the same time,

⁴ The composition of the commission, its responsibilities and rules for its functioning are described in the Law on Local Government Finance, Articles 32 and 33.

however, the ProDoc speaks about Technical Assistance (TA) to help realise the different outcomes. As such, the project appears to follow a 2-pronged approach of grant and TA, running in parallel.

1.4 Other development partner support for local governments

As much as many development partners (DPs) are interested in the municipalities, and as much as some have supported them in the past (like USAID, UN Habitat, the EU and Sida, amongst others), at present SDC is more or less the only DP to provide direct support to Municipalities for good governance and institutional development, and as such for strengthening of the local government sector itself. Most other DPs, and again as much as they show interest in the way DEMOS is working, rather work with Municipalities for the implementation of (or as a conduit for) their sectoral / project activities.

A strong local government set up can help foster (and rebuild) the social fabric at the basis. For that reasons the local government sector was a rather prominent part of the peace negotiations and reconciliation efforts over the past years. But at present it appears that most development partners find the topic of decentralisation too sensitive, either because of political reasons or because of more economic reasons, the country being considered too small for a highly decentralised set-up. The result is that, as much as there is an overall heavy donor presence in Kosovo, the LG sector does not seem to be too DP overcrowded.

1.5 Objectives of the review and structure of the report

Against the above background of the local government sector and the development partners presence, the objective of the assignment was to assess the relevance and effectiveness of the DEMOS grant scheme; make recommendations for improvement prior to up-scaling and investigate the potential for such an up-scaling also in the light of a possible institutionalisation to serve the purpose of alignment.

The specific questions that are raised in the ToR regarding the aspects of relevance and effectiveness are provided in Table 1.1. In addition, the report will also pay some attention, even though not explicitly asked for in the ToR, to the efficiency of the design, the impact of the grant and to aspects of sustainability.

Chapter 2 of the report mainly deals with the assessment of the grant design. The shorter Chapter 3 looks at the broader picture and the way forward.

The ToRs requested to assess two grants, the DEMOS/PB grant and the KfW funded and GIZ implemented grant for the Clean Environment Race (CER). At the end of the first mission, however, it had become evident that the CER would most likely be a one off event (as further funding is not secured); Given that both grants are rather different and cannot be easily discussed in one line of argument, it was decided with SDC management that the main report would uniquely focus on the DEMOS grant. However, in order to still respond to the ToR, and in order to be able to keep the report relatively short, we decided to attach the more detailed technical assessment of the DEMOS and the grant for the Clean Environment Race (CER, that were made after the first mission) as Annex 3 and 4, respectively.

Table 1.1: Main Review Questions (for the main report / focussing on the DEMOS grant)	
Area	Guiding questions as in ToR - regrouped and slightly rephrased
Relevance	<ul style="list-style-type: none"> • How is the DEMOS/PBGS positioned versus other performance-based grant schemes in other countries with a similar development/transition level? • To what extent is the DEMOS/PBGS in line with the EU accession agenda, the Kosovan legal framework and Kosovan national policies & strategies for strengthening local government? • How does the DEMOS/PBGS relate to and how can they be (better) aligned with the Kosovan Intergovernmental Fiscal Transfer system (with block grants, specific grants for education and health, incidental grants from the Ministry of Local Government Administration, Ministry of Finance and line ministries)? • How does the DEMOS/PBGS relate to grant schemes for local government of other donors in Kosovo? How appropriate is its approach given a very dense donor presence in Kosovo in general? Does the PBGS have enough space to leverage the change it aims for? • Is the focus of the PBGS and the CER on specific services and aspects of local government appropriate for the strategic outlook of local government in Kosovo, or shall the PBGS focus more on strategic/general governance issues? • Does the PBGS incentivize delivering better services that are relevant for citizens in Kosovo? Are there other local governance competences that would be more relevant to incentivize (within the budgetary limits)? • Does the financial incentives that the PBGS provide amplify or limit the risk of corruption and/or clientelism?
Effectiveness	<ul style="list-style-type: none"> • Assess the effectiveness of the PBGS as incentive: does it 'trigger' better services? Why do some municipalities give more efforts than others, for i.e similar municipalities react very differently towards the PBGS, or assumed "change agents" don't react to it as initially expected? The PBGS is a mean to an end and not an end in itself. Thus analyse the effectiveness of PBGS as a central instrument of the Theory of Change of DEMOS. • Assess if the minimum conditions/respective access criteria are relevant and sufficient • For the PBGS: is the relationship between the services, the indicators for the services (which are necessarily reductions), the data (which often are of bad quality) and the formulas to determine the grant sufficiently tight to assure that the award of grants is fair and understandable for the municipalities and communicable to the wider public to raise attention on local government services. • Are the indicators measuring performance in the most appropriate phase of service delivery (PBGS measures the performance of services on the output level) or should they be geared more to measuring the process that precedes the outputs? • Is there a risk that the amount of indicators blurs the incentive structure of the PBGS? • Assess if relevant municipal staff and municipal decision-makers are sufficiently informed on the rules of the PBGS. Does the DEMOS PBGS have enough and clear publicly available information? • Assess the public visibility of the DEMOS PBGS and recommend respective improvement needs. • Assess if municipal staff is motivated by the awards of DEMOS PBGS to focus the resources at their disposal (financial and human) to improve performance in the relevant services. Does the political leadership use the PBGS and CER to motivate their staff? • Assess if the base grant and award grants size is sufficient (DEMOS PBGS) • Assess the proportional relation between base grant and award from the perspective of incentive. Is the base grant too big? Is it needed at all? • The PBGS focuses on municipalities. The CER on municipal owned public companies and municipalities. Are these target groups appropriate? The PBGS currently targets 17 out of 38 municipalities. The CER targets 5 PoE owned by 17 municipalities. Shall the target group be expanded to nationwide coverage? • Assess the choice of the PBGS and CER to work with on-system indicators and data, respectively partly self-generated data. Reflect on how this improves sustainability and/or limits the quality. • Assess if the technical assistance of the PBGS and the CER is sufficiently related to the performance-based grant schemes.
Outcomes and results	<ul style="list-style-type: none"> • Assess whether the DEMOS/PBG has led to or contributed to enhanced performance
Efficiency and organisation	<ul style="list-style-type: none"> • Assess the robustness and soundness of the DEMOS / PBGB
Sustainability	<ul style="list-style-type: none"> • At present the DEMOS/PBG is managed by the DEMOS/Helvetas office - Assess the institutional soundness of these arrangement and make recommendations on what to do to enhance sustainability and alignment

Note : As compared to the ToR, the last three lines are added by the authors, in order to be able to make a full assessment

2. Analysis of the DEMOS/PBGS design

2.1 Introduction to PBGS

2.1.1 Definition of the term *performance-based grant*

The term *performance-based grant* is often used as if it has one unique meaning for a specific arrangement or object, but in fact the term has both; an adjective (performance-based) and a noun (grant). As such, all grants to local governments (also the health and education grant in Kosovo) could be performance-based (or not). It depends on the arrangements that are made for municipalities to be able to access (part of) the concerned grant.

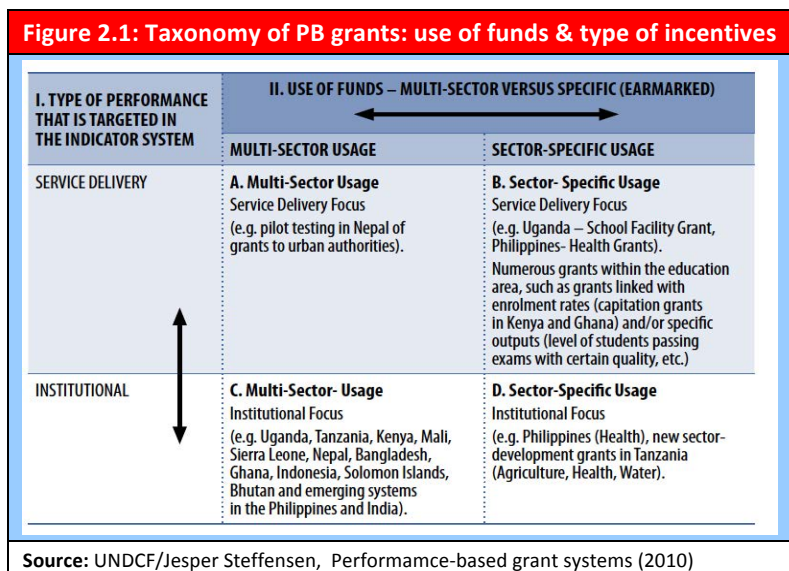
Furthermore, for a clear description of a grant, performance-based or not, it is useful to add reference to what the said grant is supposed to be used for. Normally, when speaking about a *performance-based grant* it is not just a reward for good (or minimal required) behaviour, but a grant for which the operating procedures are such that they induce good behaviour - almost as a by-product of the grant that has its own purpose; e.g. a grant for operation and maintenance of primary schools that is, amongst others, only released in case the Parent Teacher Associations have deliberated on the plan on how to use the funds - Hence the grant is for recurrent school cost but through the embedded requirement it also stimulates the functioning of PTAs.

In this context, and whilst taking for granted that most PBGS are conceived as a government project, with funds flowing through a government system, it is useful to make the distinction between (i) sectoral performance-based grants as a sector conditional transfer with added incentives related to sector specific objectives and/or national minimum standards related to the sector and (ii) a general (or multi sector) performance-based grants, which usually is a discretionary transfer, typically with access based on minimum conditions and the size (usually of the additional top-up) being determined on the basis of scoring against the set of performance incentives.

Another distinction that is useful to make is whether the performance incentives are geared to institutional (governance) incentives or whether they are focussed on service delivery norms and standards. Most often, PB-sectoral grants are geared to norms and standards whilst PB-general purpose grants are oriented towards institutional incentives, but all kinds of mixed models in between are possible (see Fig 2.1).

In general, it is important to be clear on (i) what the grant is supposed to fund and (ii) what the performance aspects are the grant is seeking to, simultaneously, stimulate. In other words, there is need to define clear objectives for the grant both in terms of its use and the incentives, whereby, most logically, the two are related in the sense that enhanced performance leads to better use of the funds for its intended purpose.

As part of the general introduction, it is useful to note here that some decentralization advocates disagree in principle with central government designed LG incentives, because they consider them to infringe on local government autonomy. They argue that the role of the center should be primarily to develop intergovernmental structures, systems and procedures, whilst the incentives for improved LG behavior ought to be provided through local elections and other downward accountability measures. Others are less puritan and see a legitimate and useful role of the center



in stimulating LG performance, notably because the center has a natural oversight role, whilst elections are often a crude mechanism for accountability, especially in the absence of mechanisms for social accountability. But also, these proponents argue, the Centre has a role in capacity development across the public sector and in ensuring that local behavior supports national policies and priorities, not the least also because often most of the LG funding comes from the Centre. Such priorities could include ensuing and promoting LG downward accountability and strengthening of the links between LGs and constituencies. Most people would take latter view (that the center has a right, and maybe even obligation to stimulate LG performance), but it is still expedient to understand the difference between the two vies, as incentive systems can vary widely from extremely 'liberal', whereby LGs are loosely guided and shepherded in the right direction, to forms where the LGs, through the incentives are precisely told what to do and what not to do, thereby seriously infringing on their right of discretion.

2.1.2 Possible broad objectives for LG incentives

For the overall performance objectives of a grant, different strands of objective can be distinguished, including, amongst possible others, the following, that may occur in combination:

- **Ensure compliance with rules and regulations (related to governance system reforms)**, which could range from stimulating application of new systems and procedures to incentivizing participatory governance approaches. It may also simply take the form of ensuring compliance with budgeting, financial, governance or other LG reform introduced features.
- **Enhance Fiscal and/or economic and/or social performance** which may include indicators for budget/expenditure ratios, surplus/deficit and/or debt reduction goals as well as adherence to the original budget as a proxy for the quality of the budget; but it could also include service delivery or other priority goals ranging from broad targets like poverty reduction to more specific targets like pollution control. It may measure inputs, outputs and/or outcomes e.g. in education, student-teacher ratios, enrollment rates, literacy rates, test scores etc. (see also Annex 5)
- **Stimulate Innovation**, which may include incentives for technology adoption, use of public-private partnerships, cooperation with other local governments, actions of local economic development or initiatives related to climate change adaptation and mitigation, etc.

2.1.3 Major design decisions for LG incentives

Once the direction of the overall performance objectives is set, there are other design decisions to make e.g. with regards to:

- Whether there will be only rewards or also penalties, and whether these will be fixed or relative
- Whether the incentives will be purely financial or also non-financial
- Whether existing mechanisms will be used or new ones created
- Whether, and this will strongly depend on the objectives and type of indicators chosen, the standards are fixed (the same for all) or relative

2.1.4 Measurement and Institutional responsibility

Also for the measurement and the related institutional arrangements various design decisions need to be taken, including the following (whereby the final answer or resolution often comes 'as a package'):

- which agency or agencies will assume the tasks of the annual assessment; /do they have capacity and is it part of their natural mandate/tasks? Could it be contracted out to a neutral third party?
- What data will be used: on system or to be collected off system
- Should all data be purely objective (what is possible for compliance measurement) or should some elements of subjectivity (and judgment of the assessor) be allowed, in order to be able to also measure the more qualitative aspects of performance

For all these aspects, as we will see in the next paragraphs, certain positions are taken for the DEMOS grant, and it is good to be aware of all options to be able to make the strongest design.

2.2 Description of the DEMOS/PBGS - how is it operationalized

The DEMOS PBGS is a composite of the various PB-grant types mentioned in the previous paragraph and its design is overly complicated. Its foundation is based on the design of generic (multi sectoral) performance-based grants as introduced, notably by the United Nations Capital Development Fund (UNCDF) and the World bank in various developing countries going through a decentralisation reform.⁵

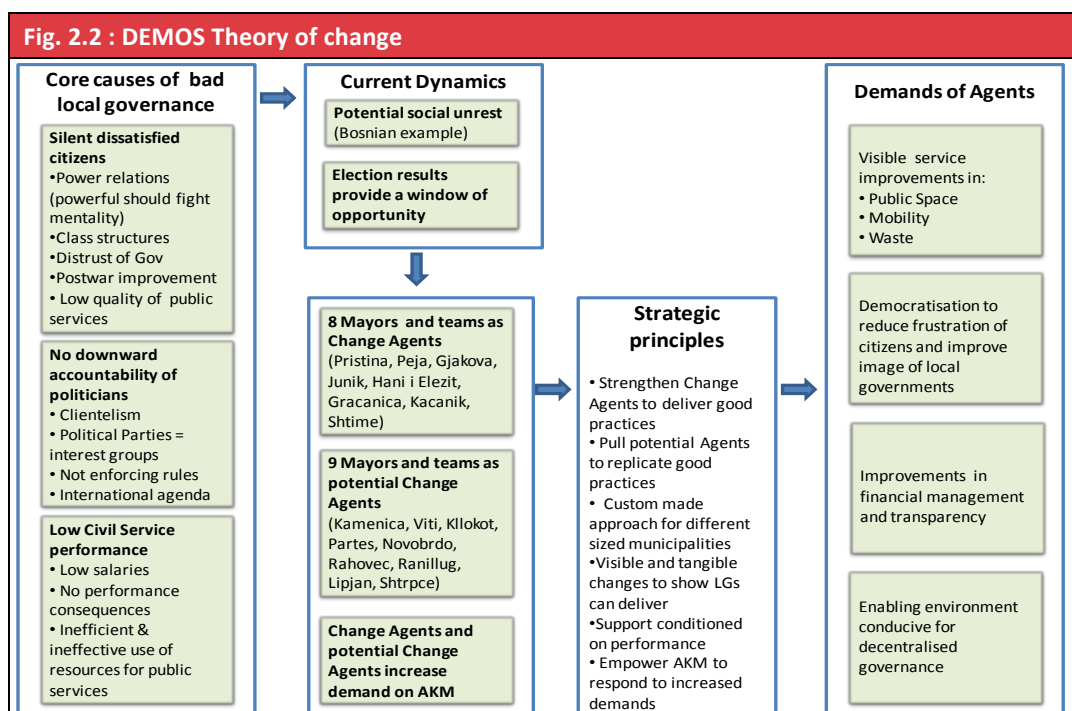
As most readers of this report will be very familiar with the DEMOS grant design, we will at the beginning of this chapter not provide a complete overview, but rather look at the different components of the design whereby we propose to distinguish between the following interlinked design parameters:

- Objectives of the grant
- The set of indicators
- Measurement of the indicators
- Scoring and calculation of the allocations
- Size of the grant
- Menu of grant eligible activities
- Minimum conditions to access the grant

2.3 The stated objectives of the DEMOS/PBGS

The DEMOS ProDoc problem analysis of the problems facing municipalities (see Fig 2.2, most left column), points to unsatisfied customers that are not able to voice their concerns and mistrust between the people and their political leaders, also because the latter do not adhere to the rules of downward accountability. Both these problems relate to core governance issues under a decentralised system that precisely finds its justification in the fact that political leaders *are* accountable and that people *do have* a voice. Local democracy and local oversight is expected to lead to more satisfied citizens because (a) they are listened to and (b) they get services they have prioritised. That logical linkage, however, (and one may say it is theoretical, yet it remains the rationale for decentralisation), is not found back in the way the objectives are defined (See Text Box 2.1). In fact, the grant objectives are simply described in terms of the selected performance indicators, but these do not have a direct link to the identified problems. In Fig 2.2 this is illustrated by the fact that the link between the most left column (problems) and the most right column (solutions) is weak. We also note that the objectives do not at all speak about the purpose of the grant in terms of its use, even though (see also below) the guidelines specify that the grant can only be used for five rather diverse areas (Public spaces, roads and sidewalks, waste management, financial management and local democracy) that are also found in the right column of Fig 2.2.

⁵ The first such project was the District Development Program (DDP) supported by UNCDF in a limited number of districts in Uganda in the second half of the 1990s, after the president had launched a policy of decentralisation to rebuild the country (and keep it together after a period of civil war). The basic model was very simple: Districts, the central unit of decentralisation in Uganda, would receive a fully discretionary allocation for capital investments, the size of which was determined by population and area size, provided they met less than a handful of minimum conditions. In addition, they could gain a top up on the basis of performance scores, established during an annual assessment. All (all!) indicators in the assessment were derived from and simply measuring compliance with the new LG-Act and the LG financial rules and regulations. The project itself, that was later up-scaled nation-wide with funding from the World Bank had an extremely small overhead structure as the model was based on the idea that the financial incentives (plus the competition and 'blaming and shaming' around the scores) would be a sufficient incentive for LGs 'to pull up their socks' - as the indicators were not measuring complicated technical requirements, but rather the willingness to comply with general rules and regulations. The only TA available was to help address (ex post) capacity gaps as revealed in the assessment and make sure the LG would score better next time. In other words it was indeed the grant that was driving the entire process, including the TA. This model has since been replicated in over 20 countries applying more or less refined models of the same basic concept.



In the model, there seems to be some inconsistency between, on the one hand, the wish to push for local democracy (stimulating local decision-making on what the available resources shall be used for; left column above) and on the other hand the incentives pointing towards achievements related to three very specific types of investments (public spaces, roads and sidewalks, and improved waste management). Latter is guided by the wish to contribute to *visible* investments (to support the profile of good mayors), yet it is in contradiction with the principle of local decision-making following locally identified needs and priorities; it distorts the local autonomy.

Textbox 2.1: The objectives of the DEMOS grant	
DEMOS grant guidelines	
The goal of the DEMOS PBGS is : to a) improve public services delivery, local democracy and executive oversight, as well as financial management; and b) incentivize municipalities to use and increase their own source revenues (OSR), which will make municipalities more autonomous. The PBGS also provides partner municipalities a tool that can be used to formulate policies and align them with long-term development goals. Furthermore, it acts as an important tool for improving links between central and local governments on the one hand, and for closer engagement between local governments and citizens on the other.	
DEMOS project presentation	
The DEMOS grant is expected to:	
<ul style="list-style-type: none"> Increase municipal ownership for improvement of public services, good governance and financial management Contribute to increasing collection of municipal own source revenues (OSR), making municipalities more autonomous Improve links between central and local governments by generating data that can form a basis for policy making Enable more focussed engagement between local governments and civil society / citizens Support weak performers with targeted technical assistance 	

Source: DEMOS Grant guidelines and DEMOS presentation (PPT)

2.4 The relevance of the indicators - what do they measure?

2.4.1 Introduction

The objective of making a grant *performance-based* is normally neither to ‘blame and shame’ nor to penalise those that under-perform, but to remunerate those that perform well, thereby creating an element of competition whilst introducing the notion that: (i) performance is important and (ii) that municipalities themselves have a responsibility for its performance. Usually, a performance-

based grant is a smart way of designing a grant such that it puts in place (in build) mechanisms that encourages and incentivises LGs (municipalities) to constantly improve their performance.

As also indicated above, good performance indicators reflect (decentralisation) policy objectives, and are meant to help achieve those objectives without distorting local priorities. They are geared towards promoting attitude and behavioural change, and as such need to be ‘visionary’ and need to be stimulating something new or additional, in a self-governing environment. Ideally, they aim for critical weaknesses that can help change the way in which LGs operate i.e. instead of aiming for individual aspects in behaviour, they incentivise critical activities that trigger change in a chain of events. There must be a direct link between the scoring on the indicator and the active role and the effort of the municipality; as such, the value of the variable should be under the direct control of the Municipality and be independent of external/other factors meaning that they reflect the actual (behavioural) performance (effort) by the municipal managers, either elected and/or appointed. Ideally, the PBGS provides incentives for LGs to drive a change in behaviour, but without being too directive and/or authoritarian as it should still respect the autonomous position of the LGs.

2.4.2 Assessment of the 10 indicators for the DEMOS PB-grant

The ten indicators retained for the DEMOS grant are reflected in Textbox 2.2, and two observations can be made that related to the objective of the grant. Firstly, and in the light of the taxonomy given above, the indicator set includes both institutional and sector output related indicators. Secondly, each of the five areas for which the grant can be used, has 2 indicators, as if the grant were some sort of a combination of five conditional sector grants. These observations point to the fact that the indicators are too thinly spread and going in too many different directions, which is a reflection of the observation made above that both the overall objectives of the grant as well as the major municipal capacity weaknesses to be addressed are insufficiently articulated.

Textbox 2.2: The 10 DEMOS indicators				
Domain	#	Indicator	Data source	Max points
Financial Management	1	% of recommendations of the general audit report from previous year fully addressed	NAO	1
	2	% of collection of annual invoiced property tax	MoF	1.5
Public spaces	3	Area of parks/squares per capita in square meters	MLGA Municipal Performance Management System	0.42
	4	% of km of roads with public lighting - out of the total		0.42
Roads / sidewalks	5	% of kilometres of sidewalks regulated		0.42
	6	% of local asphalted roads in the municipality		0.42
Waste	7	% of settlements included in waste collection service		0.42
	8	% of waste fee invoices paid		0.42
Local democracy	9	# mayoral reporting in municipal assembly meetings		0.5
	10	% of published municipal assembly acts		0.5

Another related point, already raised above, is whether performance indicators should measure the output for some of the Municipal competencies and leave out others. Sidewalks may be well ‘visible investments’, but are they really a democratically established development priority? Why are there no indicators for health and education, which are equally competencies for which the Municipality is responsible and which are most likely higher on the population’s agenda. Having those indicators could still be fine if, for example, the grant was a PB-grant for sidewalks or for municipal operational costs and investments related to local roads.

Another observation, at the level of individual indicators, is the question what it means for municipalities to get more resources because they have -say- more sidewalks - while those that have less sidewalks get less money. What is the mechanism (and where is the performance) for those Municipalities that have -e.g. because of historical investment patterns-, relatively less sidewalks; how would they get out of the negative spiral of less sidewalks - less money - less investments for new sidewalks etc.? The same applies for the indicator on streetlights.

Another aspect of these norms and standard based indicators, and especially the ones used here, is that they may vary depending on the level of urbanisation of the municipality. Rural municipalities have obviously less need for parks, for sidewalks and even for streetlights. And even if rural municipalities may wish to have streetlights everywhere, it may economically and financially just not be feasible given the level of operational costs per capita. Such investments need a certain population density. Hence these indicators seem severely biased in favour of the more urban municipalities. Obviously, this problem is much less for sectors like education and health (both rural and urban school have the same norm for the maximum number of students per class room; the number of people per doctor etc.), but it certainly plays for Municipal type of investments.

The performance of Municipalities should be seen against the services they deliver, and as much as one can debate whether there is a straight relation between good governance and service delivery, the beauty of institutional governance indicators (like for DEMOS the indicators #1, 9 and 10) is that they apply across the board, for small as well as for big LGs, for those with good revenue potential as well as for those with a lower potential. All Municipalities need to address audit issues, all need to have (as other examples of indicators not applied by DEMOS) a participatory planning process, they all need to have a realistic budget and make expenditures during the year in conformity to that budget, all need to be transparent, corruption free etc. etc. Moreover, such indicators are a genuine reflection of a LG's own efforts.

A final overall point with regards to the indicators (a more detailed assessment is made in Annex 3) is that for some of the indicators (like #7 and #8) the result is dependent on the actions of other parties i.e. the regional waste management companies. For #6, asphalted roads, municipalities are, for the initial investment, dependent on the central government budget. But also the indicator for property tax, misses the point in what is the crucial aspect and where the Municipality has a role; this is not what is paid against invoiced but whether the tax register is up to date - in other words: is the amount invoiced as high as can be? The invoices are sent out by the Kosovo Cadastral Agency, whilst collection is done via the treasury offices, the role of the Municipality on recovery is relatively limited - but, on the contrary, it has a direct responsibility in ensuring that the register is up to date and that revaluation is done periodically.

In brief, the current system tends to focus on short-term outputs instead of longer term sustainable institutional improvements, whilst several indicators are at least partly outside the full control of the municipalities. Overall, the indicators could (and should) have been more robust and more relevant, but identifying those will have to follow the setting of a clear overall objective for the grant and better articulation of the major weaknesses the incentives are seeking to address, and which, in turn, needs to be based on a solid analysis and understanding of the LG sector, its strengths and its weaknesses.

It may then also turn out that 10 indicators is insufficient to capture the complex reality of municipalities. In annex 6 (copy of the presentation) an example is given (Tunisia) where the PBGS has 26 indicators under 10 major governance headings. In the other case (Bangladesh), the number of indicators is more limited but then the score for some indicators is broken down to be able to reward different features of the same characteristic.

2.5 Measurement of the indicators

In most countries applying a PB-general grant, the annual performance assessment is done by either specially hired assessment teams, as part of the annual audit (Bangladesh) or, as for Tunisia, the Inspectorate for public services, attached to the president's office. In all these cases, it concerns independent assessors that make an additional effort to get and verify the required data, which of course also involves additional costs.

As shown in Text Box 2.2, for the DEMOS grant, for 8 of the 10 indicators data are used from the *Municipal Performance Management System* as kept by the Ministry of Local Government Administration on the basis of data provided by the municipalities. There is a certain incentive for the Municipalities to provide correct data, because if caught deliberately providing wrong (i.e. inflated) data, that will lose the entire grant for that year.

The main question remaining is whether LG grant allocations should be based on data that are provided by the beneficiaries of that same grant, and from a system integrity perspective, the answer is probably negative. That is not to say that the *Municipal Performance Management System* is not useful, or that it cannot be used to make 'league tables', but using those data for public resource allocation is a different matter, especially when done without a neutral verifying agent. In all accounting systems, a red flag ought to go up if a beneficiary would provide the data to establish the amount of a payment, if those data were not independently checked, verified and/or confirmed on a routine and near to 100% basis, using either reliable underlying documentation or verification on the ground.

2.6 The Scoring and the Allocation system

The effectiveness of a PB-grant is on the one hand based on an element of competition between the various managers, but also on people holding these managers to account (and complaining when their Municipality has scored low and for that reason missed money). For that reason the performance scores should be presented in a way that can be easily understood and appreciated (e.g. on a scale of 10 as done in schools, or on a scale of 100, as is done for percentages).

The DEMOS scoring methodology doesn't follow either of those but uses, for 10 indicators, a scale of 6 that is arrived at by providing a maximum score of 3 for each of the indicators, but then, weighing the score for each indicator such that the maximum score becomes is 6 (see last column in Text Box 2.2). It means that, for example for sidewalks the maximum score is 3, but this is translated to a maximum of 0.42 on a scale of 6. For own revenue collection a municipality gets 1.5 points on the scale of 6 if it scores 3 out of 3 on the indicator and 1 out of 6 if it scores 2 out of 3 on the indicator.

In summary, the scale of 6 is, to say the least, a-typical, whilst the scoring in two steps (a maximum of three points that is subsequently weighted) could easily be translated into one step by differentiating the maximum number of points for each indicator. And presentation wise it would then be much better to make sure the total adds up to 100 (last column in table below).

Table 2.1 : scoring and weights on a scale of 6 / alternative on a scale of 100

Indicator	Max score	weights	Actual maximum weighted scores on a scale of 6	Same on a scale of	Alternative max scores on a scale of 100
1	3	17%	1.00	3.00	15
2	3	25%	1.50	4.50	25
3	3	7%	0.42	1.25	7
4	3	7%	0.42	1.25	7
5	3	7%	0.42	1.25	7
6	3	7%	0.42	1.25	7
7	3	7%	0.42	1.25	6
8	3	7%	0.42	1.25	6
9	3	8%	0.50	1.50	10
10	3	8%	0.50	1.50	10
	30	100%	6.00	18.00	100

The DEMOS-grant uses a table showing for each Municipality the (fixed/absolute) grant amount that it will receive for 6 scoring ranges (see Table 2.2). If the score is below 0.5 (out of 6) no amount is awarded, and then it goes up by 10% and for the last two classes by 30% of the base amount. For the score between 5.5 and 6.0 the allocation is 90% higher than for the base amount.

The bases amount is related to the population size of the Municipality but is favourably biased towards the smaller municipalities. For the bigger municipalities, the bases amount is slight over €1 per capita, but for the smaller municipalities this goes up to over €5 per capita. For the highest score group the per capita amounts vary from €2.2 per capita in Pristina to over €20 for Partesh.

Table 2.2 : Overview of grants per municipality per year (euro), by score								
Municipality	Population	0.5-1.49	1.5-2.49	2.5-3.49	3.5-4.49	4.5-5.49	5.5-6.0	
1	Prishtinë	201,804	240,000	264,000	288,000	312,000	384,000	456,000
2	Gjakovë	95,363	100,000	110,000	120,000	130,000	160,000	190,000
3	Pejë	97,360	100,000	110,000	120,000	130,000	160,000	190,000
4	Viti	47,408	45,000	49,500	54,000	58,500	72,000	85,500
5	Rahovec	57,451	45,000	49,500	54,000	58,500	72,000	85,500
6	Lipjan	58,292	45,000	49,500	54,000	58,500	72,000	85,500
7	Kamenicë	35,981	40,000	44,000	48,000	52,000	64,000	76,000
8	Kaçanik	33,664	40,000	44,000	48,000	52,000	64,000	76,000
9	Shtime	27,645	40,000	44,000	48,000	52,000	64,000	76,000
10	Novobërdë	6,796	30,000	33,000	36,000	39,000	48,000	57,000
11	Shtërpcë	6,942	30,000	33,000	36,000	39,000	48,000	57,000
12	Hani i Elezit	9,514	30,000	33,000	36,000	39,000	48,000	57,000
13	Junik	6,151	30,000	33,000	36,000	39,000	48,000	57,000
14	Graçanicë	10,871	30,000	33,000	36,000	39,000	48,000	57,000
15	Partesh	1,784	20,000	22,000	24,000	26,000	32,000	38,000
16	Kllokot	2,585	20,000	22,000	24,000	26,000	32,000	38,000
17	Ranillug	3,853	20,000	22,000	24,000	26,000	32,000	38,000

For the year 2015, 10 of the 17 Municipalities were in the bracket 1.5-2.5; one was in the bracket above, 4 in the bracket below and 2 did not meet the threshold of 0.5 points.

Against these observations, the following comments can be made.

- Firstly, the fixed allocation table means that the DEMOS/PBGS uses absolute scores instead of relative scores to determine grant allocation. *De facto*, such absolute scores mean that the municipalities are not competing against each other for the available resources, but only against itself (to get a higher score); In that sense, in terms of competition (and if that was supposed to be the driver), a league table (without the grant) would have had the same effect.
- With the absolute amount, and assuming that it would be fairly easy to at least score 0.5, the PB-aspect of the grant works on the assumption that either Municipalities are willing to make an effort to get into the next bracket, and which will give them a 10% increase, or that they all will make an effort because they see the carrot in the scores of 4.5 and above. Neither seems a very strong incentive at the moment as a marginal 10% increase is relatively small while the top end scores are very far away (and appear out of reach for the near future) for most Municipalities, also given what is under their direct control.
- The absolute scores have another disadvantage, it being impossible to predict the total budget outlay prior to the scores being know. With relative scores, the total amount is divided proportionally to the score and hence the total amount spent. As such, absolute scores and allocations are a nightmare for development partners and government alike because it does not allow proper multi-year budgeting. For DEMOS this created a problem in terms of budget utilisation, and which led to additional rewards, a factor which further reduced predictability (of the grant amounts to be received) and the chances for the system to be mainstreamed as part of the system of intergovernmental fiscal transfers.
- A final remark on the scoring is that the scale is too narrow to allow differentiation (10 out of 17 Municipalities being between 1.5 and 2.5), hence the suggestion of a scale of 100, but the project

may also wish to rethink the calibration of the scoring from a psychological point of view, as at the moment most municipalities score abysmal (and at school nobody thought you could aspire for a 9 out of 10 by the end of the year if the first report card showed a 3 out of 10).

2.7 The relative size of the DEMOS/PB-Grant

In the PBG-schemes for general grants as promoted by UNCDF and World Bank, the share of the grant that is allocated using performance scores is usually 10-20% or sometimes 30% of the total, the other part being allocated, almost as an entitlement, on the basis of expenditure needs-based variables such as population and area, amongst others. The PBG in Tunisia, where 50% of the grant is allocated for the PBG-allocation, is an exception, and generally considered on the high side from an equity perspective.⁶ On the other hand, amongst practitioners, there is also agreement that the PB-(part of) the grant should have a certain size to be effective (event though, also because of the element of competition and pride, fanning and shaming, it is not only the size of the amount that counts). Often, a minimum percentage of at least 10-15% of the grant being available for PBG-allocation is considered reasonable, and because only part of the LGs will get the PBG (as they have to pass a benchmark score or the Minimum conditions), those that get, often received 'PBG top up' of 25% at least (up to 50% of more).

In that sense, the amounts 'to be earned' under for the DEMOS PB-grant are, from various perspectives relatively small as is shown in Text box 2.3.

Textbox 2.3: Some Key figures for Municipal finances in Kosovo

- For 2015, the NAO reports, for all 38 Municipalities in Kosovo, an aggregate expenditure of €388M, out of which €69M (or 17%) was covered by own source revenues
- For 2017, according to the budget circular of MoF, announces the general grant to municipalities to be € 149.2 million
- For 2017, the Education and Health grants are estimated at € 163 M and € 44 M respectively, bringing the total central government transfer for 2017 to around € 356 million or a total aggregate municipal budget (including OSR) of around € 415 million. If we assume that 80% of this is for recurrent /operational costs, the total Municipal capital budget would be around € 83M
- If all 17 Municipalities score above 0.5 (on the scale of 6), the DEMOS PBG varies between €0.9 M and €1.7M, which would be (rough estimate) equivalent to equivalent to between €2.0M and €3.8M for all 38 Municipalities.
- Latter figures for the for all 38 Municipalities, amount to estimates that the DEMOS PB grant is
 - between 1.5 and 2.5 % of the general grant
 - between 2.5 and 4.5 % of the above calculated capital budget
 - between 3.5 and 6.5 % of the own sources revenues
- These percentages tally with data obtained for the few Municipalities visited during the mission that suggested that the PBG received amounted to 3.0 to 3.5% of their capital budget (which means that, given that most municipalities are in the lower scoring ranges) the DEMOS PBG would at best (for a top score) be around 5% of their capital budget.

The argument (advanced by DEMOS management) that the DEMOS/PBG has more weight than the above figures show, as the grant can only be spend in five DEMOS priority areas (see below), hence the PBG amounts should be compared with the budgets available for these five sectors, is not valid, because financial resources are fungible. For the Municipalities, the non-DEMOS funds are not compartmentalised, hence the PB-funds received (or 'gained') are *not* a top up on the budgets for the 5 sub sectors but a top on the entire budget, because (and municipalities visited confirmed this) the Municipalities will reallocate the non DEMOS funds, that would have been allocated for these five sectors, to elsewhere (to comply with the rule that DEMOS funds should be used in these sectors). In other words, they just tag (part of) the expenditures in these five sectors as DEMOS funded to comply with and satisfy the project regulations.

⁶ In Tunisia, the PBG-part of the grant is allocated proportionally to the score (i.e relative scores, weighted with the basic needs based allocation formula), but Municipalities have to score at least 70 (out of 100 points) to become eligible. The indicator scores were calibrated such that an estimated 2/3 of the municipalities would be able to qualify provided they made some kind of an effort.

2.8 Menu of eligible activities

As mentioned above, most PBGS, are either for expenditure in particular sectors (often as a sector conditional grant, the monies for which are kept in a separate bank account, but at least kept under a separate book keeping code), or as a general grant, either for all expenditures (as the general grant in Kosovo) or for capital expenditures (as is the case for most UNCDF and World Bank supported PBGS).⁷

The DEMOS grant guidelines indicate that the PB-grant funds must be used in the project's priority sectors : (i) public spaces; (ii) mobility i.e. local roads and sidewalks mainly; (iii) waste; (iv) democratic governance and/or (v) Public financial management, the same activities the technical assistance under the outputs (of outcome 1 and 2) are focussing on. In the Municipalities visited, staff indicated that they highly value this TA, and at the same time they indicated that amounts of the DEMOS grant are relatively small. In those municipalities, (and probably this was beyond the mandate of the assignment), we did not see much direct relation between the TA and the grant. More fundamentally, the question needs to be raised what that relation actually ought to be.

If the PB grant is the centre piece of the project (what from the budget figures -see page iv- seems to be the case), one would expect the TA to follow (and react on) the performance scores and address those issues where Municipalities, either individually or collectively, score low. In fact, this goes back to the discussion above: is the grant a specific sector grant that addresses sectoral performance or is it a general grant that addresses general or specific governance issues? At the moment it is too much of a mixed bag.

2.9 Minimum (and other) conditions

In the various (initially UNCDF/WB supported) PBGs referred to in this report, Minimum Conditions (MCs) are a couple of basic conditions that need to be in place, without discussion, to have basic provisions in place to guarantee that the transfer, once given, will be used well i.e. in accordance with the democratic governance model that is being reinforced. Typical minimum conditions are: (i) there is a LG plan in which people have a chance to voice their ideas; (ii) history of audit reports shows that the LG knows about proper (or basic accounting) and sometimes; (iii) selected crucial staffing positions (e.g. CEO, CFO or Chief engineer) are filled, thereby assuming that the LGs themselves can ensure that said MC is met (if they make an effort). Minimum conditions have basically two values: yes or no, met or unmet, 1 or zero. This sets them apart from the Performance Measures (PMs), that have a score on a scale, and where one indicator can be 'compensated' by others. In the case of the MCs all need to 'met' before a transfer as made - and they apply to the 'regular' transfer (the entitlement) and the performance-based top up.

Apart from the latter (as the DEMOS PBG is 'only' the top-up), for the DEMOS grant the idea of MCs works the same way, but with the difference that the MCs selected are not purely minimum conditions to guarantee provisions for proper spending of the money, but also indicators that are apparently found very important but that could equally have been taken as a performance indicator. Following that rationale, the MC related to audits makes perfectly sense. However, the second and third MC (minimum percentage of property tax collection and payment of AKM fees) have little to do with basic minimum guarantees for proper spending, but are in fact performance measures that are found important. In fact, by making them a MC they become 'killer' conditions, that are forced upon Municipalities.

⁷

Although the notion that recurrent expenditures should also be allowed is gaining ground. There is obviously an argument that a big chunk of the LG recurrent costs financing, as far as it goes through grant, can not be made part of a PBGS as it would not be considered socially and morally acceptable if e.g. salaries of teachers were not paid because the LG management is not performing. For a grant over and above such minimum thresholds there is, however, no logical argument to bar spending on recurrent costs (as long as the LG council / elected representatives opt and approved for such spending).

Our suggestion would be that if the rate of property tax collection is found very important, give it a high weight in the scoring - which with 25% of the total is already done - hence why make it also, with a lower percentage, a minimum condition, which is unnecessarily making the design more complicated.⁸

Perhaps the MC on the AKM contribution is a reflection of one side of the philosophy of the DEMOS grant: you have to pay a membership fee to enter the competition, but it does not seem to be good MC for an intergovernmental fiscal grant. There is no relation between the payment of a membership fee and the overall management performance of the Municipality.⁹

Textbox 2.4: DEMOS PBG - Minimum conditions

- Audit opinion (that the accounts are in place and could be audited; that there is an audit report)
- Minimum rate of property tax collection
- Membership fee to AKM
- Necessary anticorruption strategy measures are in place
- Correct reporting in PMS

The last two MCs are difficult in the sense that, although the points they raise are valid, they are not easy to measure binary (yes/no) in a totally objective manner (as a base condition). Obviously, there may be good reasons to have a deterrent against false declarations (into the Performance Management System) that would influence the possible allocation, but whether that should be a MC or a penalty clause excluding such Municipalities from the grant allocation, is another question. We do not think it should be an MC. Another solution could be to have rules (not MC) that Municipalities lose -say- 25% of their corrected score, if caught cheating.

Also the MC on corruption may be more easily dealt with a performance indicator, especially when the indicator (as we suggested above to consider in general for all indicators) is broken down in various components that each are scored, as there is no single indicator here that merits the title 'MC', even if derived from present legislation.¹⁰ We finally note that there is no MC related to one of the core objectives of the programme related to democratic governance.¹¹

2.10 The institutional arrangements and embedding

The DEMOS project works closely with the MLGA and has supported the latter in establishing the (PMS), the main database for determining the performance scores. In addition, the project has contacts with the Ministry of Finance and the National Audit Office as well as the Association of Kosovo Municipalities (AKM). Apart from this, the PB-grant is largely managed by the DEMOS

⁸ Another, unnecessary, complication for the same indicator is that the grant guide states that for a Municipality to be allowed into the last scoring brackets (score above 5.6 out of 6) it needs to have a property collection rate of over 70% - which seems like another MC for the top scorers. This should (if that was considered the purpose) be addressed through the scores and by making sure that, when a Municipality is not scoring 70% on this indicator, it will get enough points to enter those brackets. It's all about a way of calibrating the scores, which is, as argued above, much easier if different maximum points were attributed on a scale of 100. Apart from that, and as argued elsewhere in the report, we would think that the indicator on property tax, apart from focussing on the wrong aspect (collection of amount invoiced instead of on the completeness of the register, i.e. the invoice base), it is overstating the importance of property tax, in the sense that it accounts for only a very small part (3.5%) of the Municipal budgets.

⁹ Consider a situation where the LG association is functioning dismally and the mayor (or the council) decides not to pay a contribution because s/he thinks it is not worth it; Does that make the Municipality qualify for the label 'bad performer who can not be entrusted with any grant'?

¹⁰ The proxy presently used ('whether the Municipality has effectively suspended anybody under investigation') is in the context of our understanding of MCs a little troublesome as then it would mean that 'if in the municipality there is one person under investigation that is not suspended, basic conditions for proper use of money are no longer guaranteed'. Apart from the fact that it seems to violate the principle 'none is guilty until proven', we think this is too bold a statement to make.

¹¹ An example of such a MC would be the availability of a 'Plan and Budget' that has been prepared following all the required steps of participation, consultation, hearings, objections etc.

project office, outside of the formal government system. There is no link or connection between the DEMOS-PB grant and the general grant.

All this, together with the above observations, point in the direction that so far the PB-grant has been more of ‘competition price money’¹² rather than adding an element of performance to an existing system of fiscal decentralisation. It would be fairly simply, however, to perceive (or remodel) the DEMOS PB grant as a performance-based top up to the general grant. The question that needs to be asked is whether (i) the DEMOS grant is a temporary project-based performance competition or whether it is (ii) an effort to improve municipal performance through fiscal decentralisation looking at the medium and longer term. Most would settle in favour of the latter, which means that even as a project, the set up and activities need to be geared to the latter.

2.11 Impact of the grant so far

In the end, the quality of the PB design is shown in its capacity to trigger enhanced performance. In general, and because of issues of attribution, it is not easy to prove the direct link between a PB-grant and LG performance, but for the UNCDF/WB schemes referred to above (e.g. in Uganda, Solomon Island, Bangladesh, West Bengal), there is a correlation between the grant, the attention for core performance issues that comes with it and the general improvement against governance performance indicators. It is probably best seen as that a PB-grant provides a contribution to (generic governance) performance. But it cannot be expected (as DEMOS management sometimes seems to do) that a grant does ‘buy’ performance for each and every indicator included in the system. It remains part of a systemic approach.

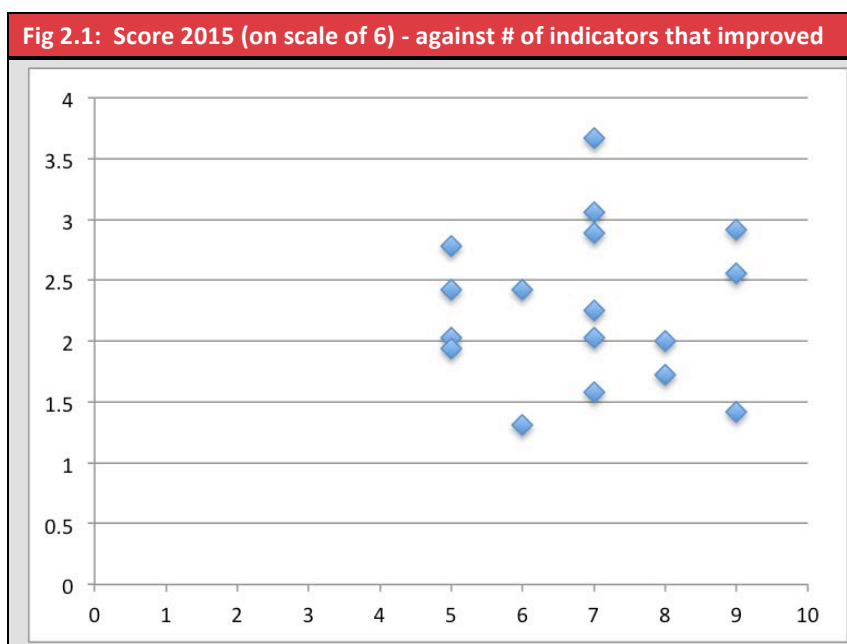
The performance data available for the 17 participating municipalities and the three reference groups one seems to confirm this overall picture (see Table 2.3). Overall, the average score increases from 1.84 (out of 6) for 2013 to 2.29 for 2015. Seven (out of the 17) municipalities show a consistently up-going line. Three show a consistent downward line whilst another seven show ‘ups and downs’, whereby for 5 out of seven the last years is better than the first year. Hence over the three years 12 have improved their performance.

Table 2.3 : Performance scores over three years, 17 DEMOS partner municipalities			
DEMOS partner municipalities \ Scores	2013 (in 2014)	2014 (in 2015)	2015 (in 2016)
Gjakovë	1.86	2.36	2.92
Gracanica	2.22	3.31	3.67
Hani i Elezit	1.92	2.56	2.42
Junik	2.28	2.42	3.06
Kaçanik	1.86	1.61	1.31
Kamenicë	0.94	1.78	1.58
Klokot	2.06	1.81	2.03
Lipjan	0.64	1.97	2.42
Novo Brdo	1.28	1.08	1.42
Parteš	2.39	1.72	1.94
Pejë	1.94	2.78	2.78
Prishtinë	2.25	2.42	2.89
Rahovec	1.11	2.19	2.00
Ranilug	2.25	2.19	2.03
Štrpce	1.67	2.06	2.25
Shtime	3.08	2.72	2.56
Viti	1.61	1.94	1.72
Average score	1.84	2.17	2.29
% out of max 6 points	30.7%	36.2%	38.2%

¹² This notion of the grant as ‘price money’ is further reinforced by the fact that the design has provision for the best three performers to get additional price money (a 50%, 40% and 30% top up respectively) as a top up of - as the guidelines put is ‘in addition to their regular grant’. Latter is confusing as is the ‘normal PB grant is the regular grant, while, in fact, the general grant would be the regular grant, which is paid out to all Municipalities as an entitlement.

However, when we look at the more detailed changes in the values of the indicators from e.g. 2014 to 2015 (see Table 2.5), a more complicated picture emerges that is difficult to analyse or interpret. Several of the indicators (in fact five out of ten) are showing overall negative progress, but also there is none of the 17 Municipalities that shows progress across the board for all ten indicators. In fact, three Municipalities improved against 9 out of 10 indicators, and at the other end four municipalities ‘only’ improved on 5 indicators. All Municipalities improved on at least 5 (out of the ten) indicators).

Slightly surprising, from the data, there does not seem to be a link between the total score (for 2015) and the number of indicators against which improvement was noted. In fact, the Municipality with the highest score still deteriorated its position for three indicators, whilst the Municipality with the lowest but one score (Novo Brdo) had improved its performance for 9 indicators (see Fig 2.1).



Analysis of data for the control group (three municipalities) and a comparison with the 17 DEMOS municipalities was totally inconclusive. It seems that the control group was doing equally well (not worse not better) than the 17 DEMOS-Municipalities, but also for them strange fluctuations in the score values were observed.

In addition to this, during the field visits, when the Municipalities were asked about the ‘odd scores out’ or the unexpected high variations from one year to another, they always had reasons, not referring to the performance itself, but either to the way the indicator was measured (e.g. change of including rural roads for the indicator for street lightning) or to special circumstances in the municipality that would prevent them (often for reasons beyond their control) to get a good score.¹³

Overall, and also given the analysis in the previous paragraphs, our impression is that at this juncture not too much time should be spent on analysing and interpreting the performance scores as the indicators are simply not yet robust enough to provide reliable performance data. The brief analysis above seems to illustrate the points made in the previous paragraphs.

¹³ The scores for the indicators seem to support the point made by the municipalities as there are many year-to-year fluctuations, up and down, that are otherwise difficult to explain. Why should, as an example, the % of roads with streetlights go down for 5 of the 17 municipalities from 2015 to 2016?

Table 2.4 : Changes in Score 2016 against 2015										
DEMOS Partner municipalities	Financial Management	Property Tax	Parks & Squares	Public Lighting	Sidewalks	Roads	Waste (settlements with collection service)	Waste (% of payments)	Mayor's reporting	Publishing of Acts
Gjakovë	-41.67%	0.44%	2.93	15.84	1.07	6.76	24.28	5.66	1	42%
Kaçanik	0.00%	-2.57%	0.21	0.19	1.47	2.27	-12.9	-5.16	-1	5%
Kamenicë	-16.33%	-1.05%	0.66	4.62	-3.97	0.5	1.72	16.73	0	0%
Lipjan	-8.33%	-2.46%	0.00	0.36	-1.13	3.82	-1.61	30.53	1	12%
Novobërdë	8.33%	1.85%	0.06	0.71	1.62	0.42	0	-7.65	0	43%
Rahovec	-41.67%	-0.50%	0.00	0.00	1.13	2.1	0	34.35	0	19%
Pejë	-33.00%	-0.66%	0.50	1.85	-0.47	4.04	-2.56	-3.12	0	54%
Prishtinë	-8.00%	2.22%	0.09	2.87	-0.01	0	0	3.36	-1	73%
Shtime	-33.67%	0.60%	0.00	0.84	3.3	1.26	0	0.96	0	9%
Shtërpcë	33.33%	2.20%	0.00	-42.06	94.05	-41.67	0	-0.69	0	5%
Viti	0.00%	-2.65%	0.02	7.94	-0.65	10.14	5.13	0	2	0%
Hani i Elezit	-8.00%	-3.63%	1.01	2.90	8.01	-9.87	8.34	-24.58	-1	0%
Junik	0.00%	-2.05%	3.09	-26.79	11.53	4.76	0	-0.15	0	66%
Kllokot	25.00%	-9.55%	0.23	-50.00	-21.07	-28.64	0	1.91	-1	8%
Graçanicë	16.33%	-3.06%	0.14	-0.30	1.8	0.02	0	-22.76	1	4%
Ranillug	-8.00%	1.54%	0.00	0.00	0.22	1.14	0	-5.14	-1	0%
Partesh	25.00%	4.85%	-2.77	-10.51	-0.81	-0.94	0	4.13	-1	100%
Average	-5.33%	-0.85%	0.36	-5.38	5.65	-2.58	1.32	1.67	-0.06	25.91%
MAX	33.33%	4.85%	3.09	15.84	94.05	10.14	24.28	34.35	2.00	100%
MIN	-41.67%	-9.55%	-2.77	-50.00	-21.07	-41.67	-12.90	-24.58	-1.00	0.00%

3. Conclusions and Recommendations

3.1 Main Conclusions

3.1.1 Overall relevance of the DEMOS/PBGs

Despite the high level of development assistance per capita, the support for the local government sectors per se (for strengthening democratic governance at the municipal level) is fairly limited and SDC/DEMOS for the moment probably one of the few (if not the only) partner. In international literature on decentralisation the role of local governance (and local governments) in rebuilding the state (and the relation between people and the state) after a period of civil turmoil is getting increased attention over the past years.¹⁴ Also in Kosovo, municipalities are recognised for that role (even though that role is less and less emphasised), and as such the SDC/DEMOS project -to support good governance in the LG sector- is relevant. In that context, a PBG is, potentially, a very powerful tool that provides incentives for LGs to be shepherded into the right direction (in terms of democratic good governance and service delivery) whilst cultivating and re-enforcing the premise that municipalities are independent organisations of local self governance that take their own decisions within their mandate.

For the project to be as relevant as it can be, however, it is necessary to have clearly defined both the objectives of the grant (what it is supposed to fund) and the key performance weaknesses it is seeking to address, whereby, logically, the latter weaknesses to be addressed are linked to the proper spending of the grant. For the DEMOS PB-grant neither these general objectives of the grant nor the key weaknesses to be addressed are clearly defined. In fact, the objectives are very wide (from governance to specific aspects of service delivery), and not necessary linked to the key development issues related to democratic governance and certainly not clearly linked to the purpose of the grant itself (that is what it is supposed to fund).

Although the DEMOS PB-grant has many of the characteristics of a general-purpose grant in the context of establishing (or improving) the system of fiscal decentralisation (the way LGs get their money from central government), in fact, the other aspects of the grant design make the grant look like prize money for winning a competition that has the features of a repeated one-off reward event.

Going forward, SDC, together with project management and other stakeholders, needs to consider a few critical questions:

- Is the grant to be seen as an award to stimulate, in an ad-hoc and non institutionalised project mode, selected municipalities into higher levels of performance or is the grant a contribution to improving the overall local governance system with fiscal decentralisation and improving the system of inter-governmental fiscal transfers as starting point?
- What is the major objective of the grant money - is it prize money, a sector grant or a general grant to support the general functioning and performance of the Municipalities;
- What are, based on a critical analysis (that has not been done as part of this assignment) the most critical issues and bottlenecks facing the functioning of Municipalities that need to be addressed and/or resolved?

Based on the answers to these questions (which must be answered by government in discussion with SDC) a revised set of indicators could be developed, as a joint effort by all stakeholders. As far as the first two questions are concerned, in the recommendations further below we take the approach of PBSG as a mechanism to improve overall governance with fiscal incentives as a driver.

¹⁴ See for example Joakim Ojendal and Anki Dellnas (ed), *The Imperative of Good Local Governance: Challenges for the Next Decade of Decentralization*, UN University Press, Tokyo, October 2013, which contains several articles on different countries where decentralisation reforms were used to foster national unity and state building, also after period of civil unrest or even war including Cambodia, Indonesia and Mozambique. Other examples where the same is at play are Myanmar and Uganda.

3.1.2 Overall Relevance of the indicator set

For a variety of reasons the ten indicators presently used to trigger performance improvements (or a behavioural change) are not robust enough, which finds its origin in the fact that neither the grant objective nor the critical weaknesses to be addressed are clearly defined - The grant is then like an untargeted buckshot, providing a range of mixed signals to the municipalities.

Main weaknesses with the indicator set as used are:

- Issues of attribution, holding a Municipality to account for things it has no full control over;
- Use of same absolute yardstick, whilst there is a significant difference in values for, for example, urban and rural, wealthy or less wealthy municipalities, whilst their relation with actual management performance is questionable; and
- Distortion of local priorities by focussing on particular sectors or types of investment (which may not even be needed to the same degree in all places; see previous point), instead of focusing on generic governance indicators (of e.g. participatory planning, prioritisation processes and downward accountability).

Ten (10) single indicators is certainly a very small number to catch the governance complexity of an entire Municipality. Hence the number may have to be increased, or, each indicator - through the scoring system -, should be made to measure different aspects at the same time.

Finding a robust indicator set will start from a clear definition of the objective of the grant and the main governance weaknesses to be addressed. Defining such indicators requires first of all a thorough discussion on the expected roles and functions of Municipalities and an analysis of the present versus the desired situation. That discussion cannot be pre-empted here, but as indicated above, we find it hard to believe that regularisation of footpaths is a top priority for all municipalities. On the other hand, various discussions with stakeholders from various corners, seem to suggest that governance indicators such as (i) communication, in the broad sense: does the mayor inform the citizens and is the mayor informed about what is going on in his/her municipality?, (ii) accountability, who is responsible for what and how can citizens claim accountability; (iii) transparency (e.g. in tenders, in recruitment) and (iv) democratic local governance more in general could be important issues to consider.

For some of these latter issues, it will be a challenge to find good indicators, and it should be realised that the more straightforward PB-schemes found around the world are often in countries where local governments are at relative infant stages and hence the model based on compliance with laws, rules and regulations. In more sophisticated environments, where performance is already at a higher level, also the PB-scheme has to become more sophisticated (which does not mean more complicated!) and appropriate, tailor made, systems may need to be designed.¹⁵

The PGBS as the DEMOS project has introduced is inspired on similar systems that have been introduced in a variety of countries, mainly developing countries. In the more developed OECD countries, there are several examples of performance incentives build-into grant schemes, but much less when it comes to multi-sectoral capital grant schemes in the form as supported by WB and UNCDF in some 15-20 least developed countries as well as transitional countries (including Bangladesh, India, Indonesia and Tunisia, and as now also introduced in Kosovo).

The reason that similar PBGSs are less known in the more developed countries could, amongst others, be that:

- These countries have other means of controlling /influencing LGs, such as legal framework, control, supervision etc.;
- Stronger accountability with citizens, from the demand side, hence less need for this "push" from the supply side; and
- Grants usually account for a lower share of the total LG revenues (as own source revenues are more important), whilst for grants there is less focus on 'capital investments' (which is the type of grant easiest to adjust by way of PBGS).

¹⁵ In Kenya, the World Bank supports the development and use of so called 'performance dashboards'.

However, the system of PBG as introduced in Kosovo has been discussed in various workshops amongst OECD countries, and there is interest for it. Kosovo could play an innovative role, taking advantage of lesson learns in developing countries and tweak it to a model for more developed countries.

3.1.3 Relevance of the indicator set from a Municipal perspective

As far as available (the team only visited few municipalities), the information obtained from the municipalities confirms the same picture as described in the previous section (see Textbox 3.1). As long as the indicator set is not robust, and if the performance against the indicators is not, or only partially, under the control of the municipalities, it will not spur municipalities into noticeable performance improvements - simply because they cannot respond to the incentives given.

Textbox 3.1: Municipalities on the indicators

In Kacanik municipality, the people we spoke to appreciated the idea PBGS, but in their view the indicators were flawed, as some could not be influenced by the municipality (e.g. parks (no space), waste collection, etc).

In Gjakove municipality they also appreciated PBGS as a principle, but suggested that governance and PFM indicators should be strengthened, as those are key.

People interviewed in Streece were more negative. They indicated that PBGS may work, but at needs to be fundamentally re-designed to focus on indicators which they can improve on. At present they can hardly improve on street lights and also do not see the need (for rural roads; the point has been made elsewhere in this report); they cannot control waste management and they cannot compete on revenue collection size because of the privatization of the companies within their area. In fact, the perceived lack of fairness in the indicators impinged on their impact on performance. In Streece, they were in favor of strong indicators on governance, procurement and PFM, transparency etc. In general, most of the indicators have to be reshaped to effort by the municipality rather than all kinds of external factors.

In the same vain, the questions in the ToR whether financial incentives amplify or limit the risk of corruption and clientism must be answered: It depends on the indicators. Clearly a good and solid indicator (e.g. in the area of procurement) that improves transparency limits the risk of corruption.

Finally, it must e acknowledged, and this point has been made elsewhere in the report, a PBSG and performance indicators are not a magic want that works in a same manner in all Local governments across the board. The grant does not automatically 'buy' performance. Their will always be good and less good managers - but the longer term vision is that in the end (as in en open market) all municipalities would get similarly good managers (but the grant does not turn managers with less capacity into top class managers and certainly not within 1-2 years - the only things it does, when indicators are tuned to effort, is that managers are stimulated 'to pull up their socks'.)

3.1.4 Effectiveness and efficiency of the overall PBG-design

As a result of a lot of enthusiasm, goodwill and determination, the design of the DEMOS PB-grant has the flavours of most of the usual features of a general-purpose grant as found in the other countries referred to. However, in the process of making the grant better and nicer, without sufficient review of experiences from other places, the final design has become unnecessary complicated, insufficiently focussed and internally inconsistent, whilst it lacks the features to easily communicate the results.

The main strength of a good PB-grant is its presentation, communication and interpretation of the results, such that it draws attention to the own role of local governments in their performance, triggers competitions, and thereby brings LGs into a positive spiral of continuous performance improvements.

In Kosovo, the DEMOS-PB grant has certainly raised attention for the aspect of 'performance' and the role of municipal management therein. Municipalities appreciate DEMOS, but also indicate that the size of the grant is relatively small (as compared to their total investment budget), and appear to value most the technical assistance the project is providing for preparation and implementation of the projects. As such, the PB-system (i.e. the indicators) does not seem to have led to a

discussion on the core performance bottlenecks of municipalities (and most likely this is linked to the choice of the indicators and the lack of focus of the grant). Under DEMOS II there is need to strengthen this link, and make the PBG the centrepiece of the project, guiding the other elements.

And as much as 'Oscar' style award ceremonies draw public attention for the good cause of strengthening the performance of the municipalities, such events easily draw away the attention of institutional and longer-term approaches, unless carefully managed as a platform for 'another message'. In our view, the grant scheme will be most relevant for Kosovo if used as a tool for strengthening of the local government sector, linked to the system of fiscal decentralisation and intergovernmental fiscal grants. Overall, there appears scope to embed DEMOS and its grant more in the context of a discussion on local governance and local governments, and the role of municipalities in both service delivery and nation building.

3.1.5 Institutional aspects and sustainability

In an institutional sense, the DEMOS PBG is at a crossroad, and for the next phase a decision needs to be taken whether it should remain a project that, on a temporary basis and from the side-line raises in a creative way the attention for public sector performance at the local level or whether it is to become a mainstream support to strengthening the local government sector (as part of the public sector closest to the people), whereby incentivised intergovernmental fiscal transfers are taken as the starting point and driver of the process.

If the latter, in our view most sensible, option is chosen, government should, during Phase-II increasingly become the implementer of the project. The DEMOS office would need to relocate to within the government premises. That would tally with the above suggestion to put the experiences with the grant in the context of a good local governance and service delivery agenda. Intergovernmental grants are a powerful tool, but remain only a means to an end.

3.1.6 Selected strengths of the DEMOS model on which to build the revisions

Despite the critical notes above (purpose of the review), it should also be noted that the DEMOS model as introduced has strengths to build on the improvement. These include (see also Annex 3):

- The principle of annual allocations to municipalities linked to results and performance;
- The links between the performance assessment and the announced budget for next budget cycle;
- A high level of awareness in the municipalities about DEMOS and the assessment system;
- Municipalities supporting the concept that parts of the grants are performance-based;
- The link between fiscal support, incentives and capacity development and technical assistance;
- Strong commitment by the DEMOS team and strong relation of the team with the municipalities.

3.2 General Recommendations for improving the DEMOS/PBSG

With the first phase of DEMOS, local governance stakeholders have had a great opportunity to gain first hand experience with a performance-based grant. Based on the lessons learnt, some discussions are to take place, and decisions must be made to further improve the design.

This process should take the following steps:

- Specify more clearly the objectives of the grant and the major performance improvements its PB-component will be targeting, and do this in a facilitated participatory process;
- Involve (or rather provide a leading role) for the government partners in this process, with next to MLGA and the AKM, also the Ministry of Finance and the National Audit office amongst others;
- Review the size of the grant, and consider options to make it bigger as its present size (3% of the capital budget) is fairly small to be considered a serious incentive; and
- Finally, consider (or at least keep in the back of the mind) that for the PB to be fully successful and institutionalised (and to lift itself above a project), it should get (with time) the scale of a national undertaking, in which all Municipalities participate.

Given the above analysis and these remarks, our suggestion is that the grant (including its objectives) is redesigned from the perspective of working towards a country wide Performance

Based General Grant, as a top up to the general grant; and later, if government likes DEMOS Phase II, could become an integral part of the general grant (e.g. as 10% of the GG being made available as PB-top up).

For DEMOS Phase II, and when considering the above, we see a total of 7 or 8 options, summarised in Table 3.1 overleaf, with the available budget being a main determining variable for the different options. At the same time the options allow to make a choice related to capacity and the need to first make the system more perfect, before rolling it out (thereby making the present financial constraint a virtue allowing further piloting before it is 'marketed' for funding by other DPs).

The first three options work with the same annual budget for the grant as under DEMOS Phase-I. Options 1 is to 'continue as is' coverage wise, albeit with improving on the design, whilst options 2 and 3 make the incentives and the competition stronger by reducing the number of participating municipalities or limiting the number of municipalities amongst whom the grant shall be divided.

Option 4 is to stick with the 17 municipalities but with increased incentives. As it cannot be expected that government will fund only part of the Municipalities, these additional funds would have to come from another development partner.

Options 5 and 6 basically have the same options as 3 and 4, but then for all 38 municipalities. These two options (only a portion of the municipalities share the grant, or all get the larger grant) would require that government (or another development partner, chances of which are slim at the moment) slips in additional resources.

Option 7 is a deviation from the general grant idea, in case there were a party interested in funding a (national) sector grant. Such could for example work (if SDC's concerned domain were interested) for climate change (or energy efficiency) funds (in the context of the objective of 'innovation'; see Chapter 2 above). It would mean that the PBGS is to be linked to a sector grant (See discussion above on the objectives of the grant).

Option 8, finally is a combination of one of the options 1-3 to start with under DEMOS-II, with the intention that this will be up-scaled to option 5 or 6 towards the end of phase II or in DEMOS-III. We consider this latter option as the most sensible, given that there is still quite some 'ground work' to do to get to a robust design, which will then provide stronger arguments for a sub-sequent scale-up. In that case DEMOS-II would apply option 3 (or 1) with the longer-term vision of having a DEMOS-III along the lines of options 5 or 6.

In order to arrive at a solid set of indicators it is proposed (based on concrete experience in Tunisia) to engage in a facilitate process with representative of all stakeholders (different ministries and AKM) that may take the time span of two times two weeks, with working sessions every other day, whereby the group thoroughly discusses what is sought to be measured and why, and on how that can be measured (and whereby the facilitator's role is to ask critical question and making sure that the process moves forward). This to be combined with field level visits testing of the tentative indicators and ideas.

Without an effort to pre-empt that proposed discussion, but in order to provide ideas, we would think that the following are potential performance areas that may merit attention:

- Democratic governance / Participatory planning
- Communication and information
- Transparency, anti-corruption/integrity, gender, citizen satisfaction; whereby the availability, content and execution of Municipal Integrity plans could be a lead to follow
- Own source revenues (beyond the present indicator and unpack it to activities where municipalities have a role to play; but it has to be kept in mind that the share of OSR in the total budget is likely to remain fairly small, unless one expects the property tax to triple or quadruple).
- Public financial management, notably indicators related to budget-expenditure ratios; and
- Procurement and Asset management, including keeping records and taking care of O&M.

Table 3.1: Different options for DEMOS Phase II in terms of coverage (largely premised by the available budget)				
Budget	MAIN OPTIONS	Pros	Cons	Pre-requisites
Same (SDC) budget	1. Continue with present 17 Municipalities and same amounts to perfect the system	<ul style="list-style-type: none"> Allows building a solid foundation, prior to scaling-up but ... (see cons) 	<ul style="list-style-type: none"> The incentive (small amount) remains weak Too slow expansion 	
	2. 4-6 municipalities with larger amounts	<ul style="list-style-type: none"> Allows building the foundation whilst addressing issue of financial incentive, but 	<ul style="list-style-type: none"> Difficult (if not impossible) to go back to a smaller universe Too small a number 	
	3. Present 17 municipalities but only 30 to 50% of better scoring ones receive relatively larger amounts	<ul style="list-style-type: none"> Improves the system within the given budget envelope Stronger competition 	<ul style="list-style-type: none"> Weaker municipalities may ignore system or feel excluded 	<ul style="list-style-type: none"> Indicators must be based on 'effort' so that so-called 'weaker' municipalities can equally qualify
Extra DP Money	4. Present 17 municipalities with larger grant amounts (10-15% of capital budget)	<ul style="list-style-type: none"> Same universe with stronger incentives 	<ul style="list-style-type: none"> Needs more money 'just to improve the existing' 	<ul style="list-style-type: none"> Needs an additional budget of € 3.5 - 6.0M
Gov and/or extra DP monies	5. All 38 municipalities but only 25-40% better scoring ones receiving relatively larger amount	<ul style="list-style-type: none"> National Much stronger competition Additional budget affordable for government 		<ul style="list-style-type: none"> Needs an additional €2 - 5 M
	6. All 38 municipalities being eligible to relatively larger grant amounts (10-15% of capital budget)	<ul style="list-style-type: none"> National Increased incentives 	<ul style="list-style-type: none"> Additional financial resources substantial 	<ul style="list-style-type: none"> Needs an additional €10-15M
		<ul style="list-style-type: none"> 		
Extra 'Swiss' money	7. A dedicated grant budget line (conditional grant) for e.g. energy efficiency	<ul style="list-style-type: none"> Extra incentives Focus on fiscal decentralisation 	<ul style="list-style-type: none"> More complicated 	<ul style="list-style-type: none"> The concerned SDC domain 'gets on board'
Combi	8. Combination: Start with option 1, 2 or 3 (latter preferred) to evolve to option 5 or 6	<ul style="list-style-type: none"> Laying foundation Vision of institutionalisation and national ownership 		<ul style="list-style-type: none"> Government interested and willing to co-finance

Then there are a number of technical improvements to be made in order to simplify the design and improve its suitability for communication:

- Translate the weight of each indicator into a proportionate maximum score with a total number of points to add up to 100 (or 1000);
- Consider rewarding different aspects under one and the same indicators through the scoring guidelines;
- Allocate the total amount based on relative scores (so that every point gained 'counts') but make sure the top up is weighted/scaled for the allocation key of the general grant; so that for a similar level of performance different municipalities get a same proportional increase; and
- Review the Minimum conditions to reflect genuine minimum conditions (i.e. safeguards for proper fund management and fund utilisation).

Once the grant objectives are set and indicators defined based on an analysis of the most crucial performance gaps, (or rather simultaneous with those discussions) there is need to decide on a quality assurance provision, through a sub contracted third party, audit or another firm or agent.

3.3 Specific recommendations

The above proposed process could start with a review of international experiences and study visits to e.g. Tunisia and West Bengal (India), that both recently started PBGs for municipalities. Even though those countries are so-called developing countries, and Kosovo is more developed on the same scale, we still think that exposure to those systems would be beneficial, as it will enhance understanding and, amongst others show that in those cases the PBGS is the project rather than one of its components.

The grant system in West Bengal is a typical multi-sectoral grant, co-funded by government and World Bank, and in a process of being up-scaled from 1000 to 3,342 lower level local governments (Gram Panchayats), with 5 Minimum conditions and 38 performance indicators, with the assessment being contracted out, it is combined with TA, and it has a strong link with other grants. The PBG can become as much as a 25 to 50% top up to the basic discretionary grants.

Tunisia, and apart from the French language a problem that can be easily solve with interpreters, is interesting because social economically as well as in terms of the size and competency level of the municipalities, it looks much more (and in fact fairly) similar to Kosovo, located in the same Mediterranean region. The government of Tunisia, with funding from the World Bank started a PBG for municipalities in later 2015 and in the first half of that same year a group of 10-15 key government officials worked for a period of 4 months on defining the set of indicators that was finally accepted by consensus. The memories of this design process as well as the experiences from the first assessment (carried out by the department under the president's office monitoring the quality of public services) are still fresh and hence they can share information that will soon become relevant for Kosovo.

Following these excursions, that should include those people that are actually to work on the design, the team should be ready, energised and motivated to embark on the tasks as proposed above. It should be possible to have a redesigned PBGS within a period of say 6 months, but the time required for consultations and making sure there is buy in by all parties should not be underestimated; Sometimes it may take longer than 6 months - sometimes it can be done faster, but a real consultative process, with time for maturation of the reflections, can not be rushed within a month and can certainly not be done within 14 days from behind a desk; It requires serious consultations, discussions and reflections as a group. It is difficult to prescribe the precise steps, as it also depends on the level of interaction and interest of the stakeholders, but the process requires a mature facilitator, that knows the sector and can critically challenge the group, on he basis of a combination of knowledge, energy and humour. It would require a series of topic-based sessions, that allow to gradually zoom in on the final set of indicators and subsequent calibration of these. It

would start with identifying the 'main areas' in need of attention and then for each of those a number of indicators would be discussed, to retain the most solid and relevant ones.¹⁶

In relation to the design, care must be taken that the project team has the capacity and management structure to both construct a solid design and carry a challenging project that will need to discover uncharted territory of a PBGS in more developed countries. Attention should be given to training and exposure of staff, but the approach may also include involvement of international experts, be it during design but also during implementation. Given that DEMOS-II would be an innovative programme, it would need to create space for discussion and sharing of experiences. As such, DEMOS-II would be rather different from DEMOS-I.

3.4 The broader (and more long term) institutionalised picture

The proposals above point towards DEMOS-II being designed as a government led project with a PB-grant as part of a system of intergovernmental transfers that are designed in such a way that they trigger performance (in the same way as architects may deliberately design aspects of buildings to influence people's behaviour, even without the latter themselves noticing).

As such and when designing DEMOS-II there is scope to pay more explicit attention (even though this may not be said always out loud) to the decentralisation agenda. Part of the project objectives could be to help government (and the municipalities) to shape that agenda.

But there is also scope to strengthen the link (and the proper sequence) between municipal performance and support through Technical Assistance. The annual assessment has the potential to guide the TA, and there is scope to really make the grant tool the driver of the project activities.

Finally, and this relates to the foregoing, the work the project does at the local level, and the information that becomes available should be used as input for a policy dialogue. Much more than under DEMOS-I, the grant can (and should) become the core tool of the project. In fact, under DEMOS II, the grant should be the project.

Then, under DEMOS-II, the project has a couple of years to work with a more robust design and prepare for a national role-out, with all government partners, under DEMOS-III. Such may be a more realistic time frame as compared to expecting that other parties will, within a very short time frame make decisions on joining DEMOS II.

*Pristina / Copenhagen / Yangon,
February 2017 (final report)*

¹⁶ For a similar exercise in Tunisia, it took three missions of roughly two weeks each by an external facilitator, with meetings with the core every other day - that is, at least twice a week, to steadily move the 'beacons'.

Annexes

- Annex 1: Abridged version of the Terms of Reference**
- Annex 2: Mission programme and persons interviewed**
- Annex 3: Analysis of the indicators of the present DEMOS/PBGS**
- Annex 4: Observations on the Clean Environment Race (CER)**
- Annex 5: Theory & practice of input vs output/impact measuring**
- Annex 6: PPT debriefing workshop**

List of reviewed documents

List of Acronyms and Abbreviations

Annex 1: Terms of Reference (abridged version)

External review of the Performance-based Grant Scheme (PBGs) of the SDC funded Decentralization and Municipal Support (SDC/DEMOS) and the German Government funded Clean Environment Race (CER) implemented by the Sustainable Municipal Services Programme (GIZ/SMS) and KfW

The Swiss Cooperation Office Kosovo (SCO-K) is mandating an experienced team of consultants from DEGE Consult, Denmark (Gerhard van 't Land and Jesper Steffensen) to conduct an external review of the Performance-based Grant Scheme of the "Decentralization and Municipal Support (DEMOS)" project financed by SDC and implemented by HELVETAS Swiss Intercooperation – Kosovo (HSI-K), as well as the Clean Environment Race (CER), a waste performance grant scheme funded by the German Government and implemented in cooperation with various national partners and two German development cooperation organisations: GIZ's Sustainable Municipal Services programme and KfW, the German development bank.

This external review is mandated by SDC as a donor. These terms of reference outline the framework upon which the prospective consultant shall provide services to Swiss Cooperation Office – Kosovo and GIZ/KfW - Kosovo.

1. CONTEXT

1.1 SDC/DEMOS I project

DEMOS Phase I was planned in line with the Swiss Cooperation Strategy with Kosovo 2013 to 2016. The goal of the Domain "Democratic Governance and Decentralisation (DGD)" states: "*Socially inclusive governance and quality service provision at local level contribute to Kosovo's democratic state-building process*".

DEMOS phase II will adhere to the Swiss Cooperation Strategy with Kosovo 2017 to 2020. A draft Strategy Document is available, while it will be further finalised and signed in autumn 2016. The Democratic Governance and Human Security (DGHS), where DEMOS II will continue to represent a flagship project, has the following objectives and lines of intervention:

Domain objective (2017 to 2020): The three state powers at central and sub-national levels (legislative, executive judiciary) strive for socially inclusive governance and effective service provision. Strong civil society organizations (CSOs) and citizens foster peaceful relations between communities.

Impact hypothesis: If Kosovo institutions at central and local level – be it at their own initiative or pushed by civil society and citizens - deliver responsive services effectively and governance becomes more inclusive and transparent then civil society and citizens increasingly engage in and scrutinize the democratic processes. This will also lead to a decrease in the space for corruption and clientelism and to increasing accountability. Genuine interethnic dialogue will be promoted thus helping to improve the peaceful coexistence of the communities. As a result, trust in institutions and between citizens will be built, legitimacy will be improved, and Kosovo's democracy as well as the security of its citizens and state-building will have progressed.

Lines of intervention

- Municipal development interventions will focus on local democracy (horizontal and vertical accountability), administrative and financial management, municipal service provision and a performance-based grants scheme. Possibilities for an expansion towards a country-wide coverage of the grants scheme (i.e. with co-financing from other donors) will be explored. Potentials to contribute towards a sustainable municipal capacity development system will be examined.

- Core contribution to the AKM to ensure effective advocacy and lobbying for municipal interests at central level.
- Mainstreaming of best practices and capacity development to all municipalities through AKM-DEMOS collaboration.
- Possibilities will be assessed for support to municipalities in the North and the Kosovo Serb Association of Municipalities (to be established) – either through a specialized tailor-made component, or a separate tailor-made program.
- Interventions in support of democratization of the society through increased citizen and civil society participation.
- Interventions in the area of fight against corruption targeting strengthened integrity of institutions and increased citizens' engagement in fighting corruption.
- Strengthening of the capacities of local and national parliaments.
- The possibility for addressing a “niche” in the judicial reform will be assessed.
- Enable the continuation of a dialogue platform for the normalization of relations and the integration of Kosovo Serbs. Work with the Parliament in strengthening capacities to fulfil its oversight role over the executive regarding agreements with Serbia.
- Possibilities for further cooperation with the Inter-Ministerial Working Group on ‘Dealing with the Past’ and support to specific ‘Dealing with the Past’ initiatives will be assessed.

As confidence-building measures, support to mechanisms protecting and promoting human and community rights (for example Office of the Language Commissioner, Ombudsperson Institution, etc.) will be assessed.

1.2 Context of the GIZ/SMS I project

German Development Cooperation in Kosovo is currently developing a comprehensive country strategy with three pillars of which one will likely be named Effective Institutions and Service Delivery. The pillar unites various programs of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, an international cooperation enterprise for sustainable development with worldwide operations and the Kreditanstalt für Wiederaufbau (KfW) the German Development Bank. In this pillar Germany supports Kosovo in the domain of state building and good governance.

The aim is to support Kosovo to develop a modern, efficient, transparent and service-minded administration. This is consistent with the objective of the Kosovar strategy for modernizing public services to provide qualitative and accessible public administration services that are based on adequate administrative procedures. The aim is also to contribute to anti-corruption measures with the aim of advancing the integrity, accountability, transparency of public institutions and hence increase public confidence in it. The two subsectors in the pillar are thus (1.) *Sustainable performance and integrity of administrative action* mainly focussing on capacity development for the juristic system, macro-financial stability and EU integration, and (2.) Efficient, inclusive, citizen-oriented public services focusing mainly on municipal tangible utilities/services such as waste, water and sewerage.

2. PROJECT DESCRIPTIONS

2.1 The goal of the SDC/DEMOS I program

“Kosovo is a democratic, decentralised state in which municipalities exercise inclusive governance and provide effective services responding to citizens’ priorities and needs.”

DEMOS has four outcomes:

Outcome 1: Tangible improvements in the delivery of the 3 public services – waste, public spaces and mobility – are recognised and mainstreamed

Outcome 2: Good governance and municipal performance (finance and service delivery) have improved in supported municipalities

Outcome 3: DEMOS contributed to a policy framework which is more conducive for decentralised governance

Outcome 4: The AKM is a stronger as an organization and more effective in serving the needs of its constituency and advocating on their behalf at the central level

The project includes a "Performance-based Grant Fund (PBGS)" of CHF 4.168.395 over 4 years that provides matching grants for municipal investments pertaining to DEMOS's areas of interventions. Each municipality receives an annual grant which size is related to its performance. Each year the best performing municipalities receive additional rewards. The review of the PBGS is the core subject of this ToR.

DEMOS has 17 partner municipalities.

The project's implementation phase started on 1.7.2014 and will be completed by 31.12.2017. It was preceded by an inception phase, which lasted six months.

2.1 The goal of the GIZ/SMS I program

The focus of the GIZ project "Sustainable Municipal Services (Waste Management)" (SMS) 2014-2017 (likely extension until 2020), is to support selected Kosovo municipalities and their service providers in accordance with their legally assigned mandate in the area of waste management. At the local level SMS supports municipal authorities in implementing service delivery, administrative processes and innovations; at the knowledge management level GIZ supports multiplier to scale-up reforms (such as AKM and the association of waste service providers PAMKOS) and assuring a broader impact and sustainability; and at national level by improving the legal framework of the sector.

In January 2016 the Ministry of Environment (MESP), the Ministry of Local Governance and the two German Development Cooperation institutions launched the Clean Environment Race, a waste performance grant scheme to scale-up reforms to now 17 municipalities reaching 67% of the population. The CER has been developed through a multi-stakeholder process under the leadership of the MESP and has two parts: the performance scheme and the grant scheme. The performance scheme (supported by GIZ) has four principle objectives:

1. Developing basic good governance and government conditions to enable effective waste management. For this seven access criteria have been developed, among these the availability of solid waste management (SWM) plans, SWM units, Service Level Agreement between municipalities and public owned enterprises (PoE) and standardised administration and reporting processes;
2. increasing the financial sustainability of the SW services, by incentivising increased fee collection performance;
3. speeding-up basic service provision in rural areas, by incentivising increased service coverage and
4. tangible performance of municipalities and increased citizens' accountability by incentivising the elimination of illegal dump sites and their web-based visualisation.

The grant scheme (owned by KfW) will provide equipment (e.g. container and trucks) to successful candidates. The design of the grant scheme incentives inner- and intra-municipal cooperation (i.e. among municipalities and their PoE and among municipalities of one service region). A Technical Guidance Document is available.

3. PURPOSE AND OBJECTIVES OF THE REVIEW

In order to assess the effectiveness and efficiency of the current performance-based grant schemes in the SDC/DEMOS project and the German Development Cooperation project and to assess how both can be integrated in the future, the external review is planned for the third quarter of 2016. This time frame will allow for adequate planning of the new SDC/DEMOS II and GIZ/SMS II based on the findings and recommendations of this review.

The review of the SDC/DEMOS I will feed into the general review of the DEMOS I project which is planned for spring 2017 according to the schedule below.

Overall Goal: DEMOS supports Kosovo in its transition process towards a democratic, decentralized state in which municipalities exercise socially inclusive governance and provide effective services responding to citizens' priorities and needs. Review: contracted by SDC		
Outcome 1 Public services in waste, public spaces and mobility in the supported municipalities respond better to citizens' priorities and needs.	Outcome 2 Supported municipalities foster democratic processes and apply sound public policy and finance management processes	Outcome 3 DEMOS support at the central level contributed to a policy framework which is more conducive for decentralised governance
Outcome 4 The AKM is strongly constituency driven and owned, and effective in advocating on behalf of municipalities at the central level and in serving the needs of member municipalities,	Output 1.1 The quality and quantity of Public Spaces in supported municipalities is improved Output 1.2 The quality and quantity of Mobility Services in supported municipalities is improved Output 1.3 The quality and quantity of Waste Management in supported municipalities is improved Output 2.1 Financial management in supported municipalities complies increasingly with the legal framework Output 2.2 Performance-based Grant Scheme successfully implemented Review contracted by SDC Output 2.3 Stronger democratic checks and balances between Mayor, Municipal Assembly and citizenry Review contracted by HELVETAS Output 3.1 Bottlenecks in the policy framework are addressed proactively and on-demand Review contracted by SDC Output 3.2 Capacity Development feasibility study drafted and discussed with all stakeholders Review contracted by SDC Output 3.3 Improved quality and increased ownership by municipalities and MLGA of the performance management system Review contracted by SDC Output 4.1 Empowered functionality of AKM Output 4.2 Provision of most advanced services and improving the performance of municipalities Output 4.3 Representation and protection of municipal interest through lobbying/advocacy	Review contracted by SDC

More specifically, the objectives of this assignment are to:

1. assess the relevance of performance-based grant schemes in the given development/transition context in Kosovo
2. assess the effectiveness and efficiency of the SDC funded PBGS and the GIZ funded CER
3. propose how the PBGS and the CER can be more integrated (i.e. into a multi donor trust fund or at least better harmonised/aligned) in the next phase of SDC/DEMOS (2018-2021) and the coming phases of GIZ/SMS (2017-2020) respective KfW (2018 onwards)

The review will feed into the currently prepared next GIZ/SMS phase (4/2017 – 3/2020) and the development of a CER II. However, even more importantly the review will provide arguments for the upcoming German-Kosovo government negotiation, planned in October 2016 in Berlin and respective future intergovernmental meetings. The specificity of the German Government Cooperation with its two main implementation organisations (GIZ for technical assistance and KfW for financial assistance) requires farsighted planning and early integration of the common donor - the German Government. Also there is a potential better harmonisation/coordination among technical assistance possible in the sector of waste

management, where both countries invest. Here, the potential for co-financing of GIZ-SMS by SDC shall be evaluated.

1. Assess the relevance of a performance-based grant scheme in the given development/transition context

- 1.1. How are the PBGS and the CER positioned versus other performance-based grant schemes in other countries with a similar development/transition level?
- 1.2. To what extent are the PBGS and the CER in line with the EU accession agenda, the Kosovan legal framework and Kosovan national policies & strategies for strengthening local government?
- 1.3. How does the PBGS and the CER relate to and can be aligned with Kosovans Intergovernmental Fiscal Transfers (block grants, specific grants for education and health, incidental grants from the Ministry of Local Government Administration, Ministry of Finance and line ministries)?
- 1.4. How does the PBGS and the CER relate to grant schemes for local government of other donors in Kosovo? How appropriate is its approach given a very dense donor presence in Kosovo in general? Does the PBGS have enough space to leverage the change it aims to?
- 1.5. Is the focus of the PBGS and the CER on specific services and aspects of local government appropriate for the strategic outlook of local government in Kosovo, or shall the PBGS focus more on strategic/general governance issues?
- 1.6. Does the PBGS and the CER incentivize delivering better services that are relevant for citizens in Kosovo? Are there other local governance competences that would be more relevant to incentivize (within the budgetary limits)?
- 1.7. Do the financial incentives that the PBGS and the CER provides amplify or limit the risk of corruption and/or clientelism?

2. Assess the effectiveness of the PBGS and the CER

- 2.1. Assess the effectiveness of the PBGS as incentive: does it 'trigger' better services? Why do some municipalities give more efforts than others, for i.e similar municipalities react very differently towards the PBGS, or assumed "change agents" don't react to it as initially expected? The PBGS is a mean to an end and not an end in itself. Thus analyse the effectiveness of PBGS as a central instrument of the Theory of Change of DEMOS.
- 2.2. Assess if the minimum conditions/respective access criteria are relevant and sufficient.
- 2.3. For the PBGS and the CER: is the relationship between the services, the indicators for the services (which are necessarily reductions), the data (which often are of bad quality) and the formulas to determine the grant sufficiently tight to assure that the award of grants is fair and understandable for the municipalities and communicable to the wider public to raise attention on local government services.
- 2.4. Are the indicators measuring performance in the most appropriate phase of service delivery (PBGS and CER measure the performance of services on the output level) or should they be geared more to measuring the process that precedes the outputs?
- 2.5. Is there a risk that the amount of indicators blurs the incentive structure of the PBGS?
- 2.6. Assess if relevant municipal staff and municipal decision-makers are sufficiently informed on the rules of the PBGS and CER. Do the PBGS and CER have enough and clear publicly available information?
- 2.7. Assess the public visibility of the PBGS and CER and recommend respective improvement needs.
- 2.8. Assess if municipal staff is motivated by the awards of PBGS and the CER to focus the resources at their disposal (financial and human) to improve performance in the relevant services. Does the political leadership use the PBGS and CER to motivate their staff?

- 2.9. Assess if the base grant and award grants size is sufficient (PBGS and CER)
- 2.10. Assess the proportional relation between base grant and award from the perspective of incentive. Is the base grant too big? Is it needed at all?
- 2.11. The PBGS focusses on municipalities. The CER on municipal owned public companies and municipalities. Are these target groups appropriate? The PBGS currently targets 17 out of 38 municipalities. The CER targets 5 PoE owned by 17 municipalities. Shall the target group be expanded to nationwide coverage?
- 2.12. Assess the choice of the PBGS and CER to work with on-system indicators and data, respectively partly self-generated data. Reflect on how this improves sustainability and/or limits the quality.
- 2.13. Assess if the technical assistance of the PBGS and the CER is sufficiently related to the performance-based grant schemes.

3. Propose how the PBGS and the CER can be more aligned/harmonised in the next phase of SDC/DEMOS (2018-2021) and the coming phases of GIZ/SMS and KfW

- 3.1. Propose the outline of a performance-based grant scheme that is:
 - on-system
 - open to all municipalities in Kosovo (38)
 - simple to understand for beneficiaries
 - communicable and easy to understand for the general public
 - relevant, more effective and efficient
 - aligned, harmonised and unified in assessment
 - aligned, harmonised and unified in award procedures
 - aligned, harmonised and unified in visibility for beneficiaries and
 - open to other donors that want to join laterbut allows donors sufficient administrative full control over their resources with their own administrative project management tools.
- 3.2. Assess if there are other projects in the SDC and German portfolio whose grants can be integrated into a revised PBGS (see annex 2)
- 3.3. Provide detailed recommendations what steps SDC/DEMOS, Germany/SMS and the Government of Kosovo (MLGA/MoF) have to take to better align/ harmonize in 2018-2021 or with substantial co-financing from local institutions.
- 3.4. Suggest locations for a study tour that has a recently established a multi donor performance-based grant scheme - which is functioning well - and another one where a multi donor performance-based grant scheme became integrated into the system for Inter-Governmental Fiscal Transfers.
- 3.5. Advise how to measure the effectiveness in strengthening inclusive local governance and effective service provision of an integrated PBGS/CER as directly as possible.
- 3.6. Identify the consequences of DEMOS' and GIZ SMS' overlapping sectoral technical assistance services in waste management and evaluate the feasibility of co-financing GIZ-SMS by SDC.

4. SCOPE AND METHODS OF WORK

- Desk top research of PBGS and CER materials (list of documents proposed in Annex 1)
- Briefing with the SCO management (and SDC Regional Governance Advisor)
- Briefing with German Development Cooperation (GDC), GIZ and KfW management
- Interviews with relevant staff of SCO, the implementing agencies HELVETAS and CER, project partners, local governments, waste POEs, ministries (Ministry of Local Government Administration, Ministry of Finance, Ministry of Environment and Spatial Planning), donor representatives, focus groups discussions.

- Debriefing with the SCO and GDC, GIZ and KfW management – discussion of the main findings
- Preparation of the report

The above list of steps is not exhaustive and the consultant may engage in other activities deemed important for accomplishing this mandate. A detailed work plan will be elaborated including detailed programmes for both missions in Kosovo and agreed with the SCO K.

4.1 Qualification and Professional requirements

SCO K is entrusting the mandate for carrying out this external review to two experienced consultants: Gerhard van 't Land (Team Leader) and Jesper Steffensen, DEGE Consult Denmark.

The consultants should demonstrate a strong expertise in the following areas:

- Good knowledge (preferably international comparative) of performance-based grant schemes
- Good knowledge of local government sector
- Good knowledge of SDC interventions in the Balkans / Kosovo
- Excellent and proven knowledge in reviewing programs with Performance-based Grant Schemes
- Excellent and proven experience in similar mandates;
- Excellent analytical skills, ability to propose recommendations;
- Excellent coordination, communication and reporting skills;
- Excellent in both spoken and written English.

4.2 Reporting

The report shall not be longer than 20 pages and shall comprise the following chapters:

- Executive summary (max 2 pages)
- Methodology for the assessment (max 1 page)
- Findings (based on the ToR) and conclusions (max 10 pages)
- Main recommendations for improvement (max 5 pages)
- Annexes

The SCO-K reserves the right to request changes in the report or additional information.

The report shall be written in English. A first draft report shall be delivered to SCO-K not later than 31st of October 2016.. The final report revised based on comments and remarks of the SCO shall be submitted on 30th of September 2016.

Following the first assessment mission in Kosovo, the team of consultants shall prepare and send to SCO_K and GIZ by 10th of September 2016 a PowerPoint presentation of a summary of preliminary findings as well as an outline of the final report.

4.3 Timeframe

Task	Gerhard van 't Land	Jesper Steffensen	Additional remarks
<i>Relevant desk review</i>	<i>2 days</i>	<i>2 days</i>	<i>Home days</i>
First joint assessment mission in Kosovo from 26-30 September (briefings and debriefings with SCO K and GIZ, interviews with Stakeholders, field visits, focus group discussions, etc).	<i>5 days</i>	<i>5 days</i>	<i>Kosovo</i>
Preparation of PPT (GL) and report drafting (JS). Draft PPT for workshop in 2 nd mission presented by 10 th October latest together with summary of interim findings and proposed outline of the main report	<i>2 days</i>	<i>2 days</i>	<i>Home days</i>
Second assessment mission (TL) in Kosovo 17-21 October 2016 (dates tbc) (briefings/debriefings to SCO-K and GIZ, interviews in	<i>5 days</i>		<i>Kosovo</i>

Kosovo/including debriefing workshop with SDC, GDC, GIZ, KfW, HELVETAS, MLGA)			
<i>Report Writing</i>	<i>4 days</i>	<i>1 day</i>	<i>Home days</i>
<i>Intercontinental travel</i>	<i>2 days</i>		<i>Travel days</i>
Total	20 days	10 days	

Annex to terms of reference - list of available documents to be consulted:

Documents SDC/DEMOS: PBGS

- List of DGD domain projects
- First external review report (Skopje, November 2014).
- Swiss Cooperation Strategy for Kosovo 2013 -2016
- Draft Swiss Cooperation Strategy for Kosovo 2017 to 2020
- DEMOS Program Document 2014 -2017
- PBGS manual
- PBGS Score cards 2015, 2015 and 2016
- Yearly and Half yearly progress report 2014 & 2015
- Capitalisation of municipal on budget support experience in SDC.
- SDC Policy: Democratisation, Decentralisation and Local Governance 2016
- Other program reports available on the www.DEMOS-kosovo.org

Documents CER

- List of current and upcoming GDC projects with short description (internet links)
- Draft GDC country strategy (to be translated, tbc)
- GIZ SMS project documents and reports
- Draft GIZ SMS II project documents (to be translated)
- KfW appraisal mission report and project documents
- CER Technical Guidance Document
- CER Baseline report

Annex 2: List of key persons met

- Patrick Etienne Director SDC Kosovo
- Saranda Cana-Pruthi SDC, Senior national programme officer, responsible for DEMOS
- Ardiana Efendija-Zhuri SDC, Senior national programme officer, water, sanitation & energy
- Norbert Pijls Head of Helvetas Kosovo and DEMOS project manager
- Ertan Munoglu DEMOS, deputy program manager
- Visar Zekaj DEMOS project officer
- Kai Hofmann GIZ, Programme Manager Sustainable Municipal Services
- Driton Vatovci GIZ Pritina

- Bajram Gecaj Deputy Minister of Local Government Administration
- Rozafa Ukimeraj Secretary General, Ministry of Local Government Administration
- Arben Çitaku Secretary General, Ministry of Environment and Spatial Planning
- Artan Venhari Deputy Auditor General
- NAO, officer in charge of Municipalities
- Ministry of Finance, Budget Department, deputy director
- Besnik T Hajdari Ministry of Infrastructure, Director of Finance
- Feim Salihu Executive Director, Regional public own enterprise Pastrimi

- Naim Ismajlin Chairman of the Association of Kosovo Municipalities
- Sazan Ibrahim Executive Director, AKM
- Gani Berisha Programme Manager, AKM
- Team of 5 people Municipality of Gakova
- Remzi Elezi et all Municipality of Kaçanik, Deputy Mayor
- Siniša Budurić et all Municipality of Strpce

- Henriette Kötter First Secretary and Head of Development, German Embassy
- Goran Paulsson Counsellor/Head of Development Cooperation, Embassy of Sweden
- Premtim Islami KfW, sector coordinator, Municipal Infrastructure
- Arsim Aziri Austrian Aid, Program officer/Head of Admin
- Jeton Cana USAID
- Petrit Skenderi UNDP, Support to anti corruption efforts in Kosovo program
- Albina Duraka Nura European Union, Task manager Public administration reform
- Gwendoline Mennetrier UN Habitat, Kosovo programme

Annex 3: Analysis of the indicators of the present DEMOS/PBGS

Introduction¹⁷

This annex provides a snapshot assessment of the DEMOS system in terms of indicators and systems of performance assessment. In the end of the note some general and specific recommendations to improvement of the system are offered. The most important ones are reflected in the main report.

Main Features

The performance-based grant system (PBGS) in Kosovo, piloted in 17 partner municipalities under the Decentralization and Municipal Support Project (Demos) has many of the features of PBGS experienced in several other countries, but is also to some extent different, and in some areas with new innovative features and some areas which may need to be addressed to bring it fully along the line of lessons learned. The box below presents some of the main features of the PBGS model:

Box 1: Core features of the PBGS in Kosovo under the DEMOS Project

- DEMOS applies both minimum conditions (on/off) and more qualitative performance measures
- 10 performance measures are applied reflecting 3 quite different thematic areas: Public financial management (PFM), service delivery and local democracy (vary different aspects)
- Complex scoring system with weighting of each indicator and additional rewards (in the most recent assessment)
- Self-reported performance assessment with some quality assurance system of the PMS data applied. It uses data from the Government PMS (M&E system) combined with some QA from the Ministry on the data entered, however, this is only if the results seem strange
- Grant allocated against performance but also the level of autonomy is linked with the performance as best performing municipalities gets more autonomy (sector budget support) (i.e. if more than 4.5 points- 6 points and more than 70 % collection of invoiced property tax). However, none of the municipalities have reached this level yet;
- Multiyear scheme, the indicators and system has been kept relatively stable for 3 years (with smaller adjustment in the definition of indicators and the MACs);
- Assessment of performance in Fiscal Year N-1, conducted in Year N with impact on Year N+1
- Basic allocation formula is combined with performance adjustment in % of the basic model, e.g. score 1.5-2.49 provides a 10 % increase compared to 0.5-1.49 with the max level between score 5.5-6 points. This means that in some years, the budget allocation will be much higher than in other years
- Calibration of the scoring system is complicated but deliberate with weights for each area and a mathematically logical system, but hard to comprehend for out-siders;
- Size of the grant incentive is between no access, and 0-90 % top up of the basic level. In addition to this a number of special rewards to the best performers and improvers have been introduced, which may impact even more on the entire grant allocation. However, in most cases the rewards will be less than 10 % of the total capital investments in a municipality
- Minimum conditions + minimum performance on scores (0.5 points to get access)
- Assessment manual developed with assessment procedures and scoring system
- No links with the national grant system yet and on institutionalization of the approval and grant allocations with general Government Systems, e.g. grant commission etc.

Some of the recommendations (e.g. introduction of an appeal process, differentiation of recommendations from audit report in the scoring system, etc.) from a review workshop in 2014 in Macedonia, where various PBGS from various countries were reviewed, have been incorporated in the design, and many others left to future considerations.

Below is a focus on the future issues after short introduction to selected strengths.

¹⁷ It should be noted that some of these comments and recommendations were also provided during the workshop in Macedonia 2014, but are repeated to the extent that they are still relevant. However, other recommendations provided during this workshop, including e.g. provisions for appeal, links between PMS and PBGS have been taken on board already.

Selected strengths of the DEMOS model

- Annual allocations against results
- Links between the assessment, announcement of the results and the coming municipal budget cycle
- DEMOS encompasses support to both TA/CB, fiscal support and incentives, a triangle which is very important in PBGS
- Strong commitment by the DEMOS team and strong interaction between the team and the municipalities
- Generally, a high level of awareness in the municipalities about DEMOS and the assessment system
- Municipalities support the concept that some parts of the grants will be performance-based.

Size of the grants

The DEMOS grants are generally small compared to the total public budget of municipalities, compared to the capital investment and even compared with other investments in the target areas.

Below are some selected budget figures from municipalities reviewed (rounded figures/est):

Table 1: Overview of DEMOS grants compared to other budget figures

Municipality	DEMOS grant 2016	Total budget (est)	Grants from Central level	Capital budget of municipality*
Gjakove/Dakovica	140,000	20,000,000	17,000,000	4,000,000
Kacenic	40,000	6,700,000	6,000,000	1,200,000
Shterpce	(no grants as lack of compliance, but would have received 30,000 EURO)	3,000,000	2,700,000	300,000**

* Most relevant figures to compare with. It should be noted that these figures are rounded and based on field collection.

** In addition to this, there were capital investments in the municipality promoted by line ministries, NGOs and others (not in the municipal budget in the tune of about 1,000,000 EURO. Figures based on information received by municipalities and may not include all the most recent rewards.

The size of the grants constitutes a smaller share of the amount of funds for capital investments than other countries with PBGS (typically min. 20 %). This may over time impact on the strengths of the incentives in the system.

Review of the Minimum access conditions (MACs)

Below is a review of the MACs applied and possible future MACs.

Table 2: Minimum Access Conditions

Minimum Condition	Relevance	Effectiveness and possible to measures
GA (National Audit Office) could provide opinion in the annual audit report	Relevant as core safeguard on PFM as municipalities without an audit report is a great risk.	Yes Easy to get from the GA audit reports
Minimum rate of property tax collection of the annual bill is 30%	Relevant as core performance on municipal finance and about sustainability. However, this should perhaps be moved to performance measure, as there are municipalities, e.g. Shterpce which are doing well in many areas, but	Yes. However, it may be fair in the future to review the collected amounts against potential excluding companies which are out of reach for municipalities.

Minimum Condition	Relevance	Effectiveness and possible to measures
	which due to good reasons cannot comply with this. ¹⁸	
100% of annual membership fee to Association of Kosovo Municipalities (AKM) is paid	Not directly relevant for future up-scaling, as this is targeting another objective than the grant system	Possible to measure, but will be more effectively targeted through other means, than through a MAC.
Necessary anti-corruption measures are undertaken according to the DEMOS anti-corruption strategy (see chapter 7);	Relevant as basic safeguard against misuse of funds and lack of capacity	Possible, but the way it is administered currently with procurement taken over by DEMOS in case it is not complied with, may <u>not</u> be feasible for future sustainable scaling up and will not be accepted e.g. in the CER.
Municipalities report correct data in the PMS	Relevant, as many of the indicators are derived from this system	Possible, but needs a clear sample system and QA system of the PMS by a neutral verification agent (e.g. the NAO) when scaled up
By the 31st of August of the current year municipalities should have spent more than 90% of the grant awarded 2 years ago.	Relevant – does indicator absorption capacity	Possible, if funds are going to a special account and /or combined with the funding source codes for municipal spending. Project implementation and utilisation rates could be future strong performance measures.

Changes in the minimum conditions since the start of DEMOS

Since the first assessments, the MAC on anticorruption measure has been revised, so that DEMOS takes over the procurement tasks in municipalities which have not been complying with the conditions. The last MAC on use of grants have been included to ensure absorption capacity. To get the newly introduced additional rewards, there is an additional condition, which is to have a clean audit report.

Comments on the MAC

As it appears, some of the MACs are not really typical safeguards and should be reviewed in future design and scaling up.

Second, to provide sufficient safeguards a few additional MAC should be considered such as e.g.: Annual plan and budget reflecting all investments; compliance with “investment menu” of various grants, an indicator to ensure that a basic procurement system is in place and strengthening of the audit opinion to exclude opinion which are classified as adverse/i.e. accounts of a very poor quality.

Moving forward, and moving away from a project-based approval system (project by project), consolidated plans could be reviewed beforehand for compliance with the “investment” menu in the guidelines, and compliance with this would then be a new MAC.

Review of the Performance Measures

Below is a review of the performance measures applied in DEMOS and assessment of the relevance and effectiveness of the indicator.

The performance measures use a combination of process and output inputs, see also the annex on focus of assessment system.

¹⁸ This municipality could not get access to the grants, as there were numerous companies, which were not able to pay property tax, hence they could not meet the benchmark of 30 % even with their maximum efforts.

Table 2: Performance Measures

Area	Indicator	Comments and relevance	Possibilities to measures	Other experiences	Conclusion
PFM	% of recommendations of the general audit report from previous year. ¹⁹	<p>Useful indicator, but it should be clarified that if there are no recommendations, a top score should be provided. Also need to calibrated in a better manner to reward municipalities with nearly clean reports, plus in cannot stand alone to reflect performance in PFM.</p> <p>The indicator as a stand alone for PFM is somehow random, as it is related to the severity of the audit recommendations, and the cycle. If a municipality cleans all in one year, harder to get scores in the second, although the performance is still good.</p> <p>Municipalities with many recommendations can often get higher scores.</p> <p>Other PFM indicators could be considered, such as books of accounts up-to date, bank reconciliations up-to-date, procurement compliance performance, etc.</p>	Possible with some efforts.	Used in other countries as well, but never as the sole indicators of PFM.	<p>Alone it is not a proper reflection of the PFM performance of a municipality.</p> <p>Can be combined with other useful indicators on PFM, from PEFA assessments etc.</p> <p>Could be combined with number of audit comments (size of these compared with the municipal budget) and procedures for follow up, e.g. publicity around this.</p> <p>Also a further calibration of the audit opinion could be included to reward with points the ones with clean report.</p> <p>NAO has a set of indicators which could be reviewed, and some incorporated.</p>
PFM	% of collection of annual invoiced property tax	<p>Reflect efficiency in collection, but this is only one element of this. It should be combined with PMs such as registers up-to-date, whether they are invoiced, followed up on defaulters etc., how funds are utilized. These are important indicators as well, see also the examples from other countries.</p>	Possible to measure	Typical indicator applied, but never alone.	<p>Useful, but does not cover a sufficient range of performance elements in this area.</p> <p>Should be combined with other useful indicators on OSR</p> <p>If only one indicator is being applied, this is in most countries typically: year –by- year increase in property tax revenues, regular up-date of registers, whether municipalities have applied their full tax rates, links between planned and realized OSR, etc.</p>

¹⁹ There have been some improvements of this by weighting of severe versus less severe queries, but there is still need for improved calibration.

Area	Indicator	Comments and relevance	Possibilities to measures	Other experiences	Conclusion
Service	The area of parks/squares per capita in square m2	This may not fully reflect the performance /efforts of the municipality, but rather framework conditions (economy, type of municipality (urban/rural etc.), original construction of the municipality/city. It also depends on the economic strengths of the municipality where rich LG can easier get this, although they may not be efficient and with poor efficiency performance. A municipality may not have more space to utilize, and can thereby not improve.	Can be measured, but does not reflect the efforts, and may not be in need of promotion compared to other more needed services in all municipalities.	Mostly used in M&E systems, <u>not</u> PBGS due to a number of issues with mixing sector outputs with multi-sectoral PBGS, see annex.	Problematic, as it is not about efforts but also reflection of the general conditions of the municipality. Rather, indicators could focus on: implementation progress, value for money in implementation, efforts made, proper systems for maintenance and operations, supervision, initiatives taken, etc.
Service	% of km of roads with public lighting – out of the total number in urban areas	As above. It will depend on coverage of network, the needs of various types of LGs vary, external conditions, etc. This may not be needed or even promoted in the rural areas, and may in some cases distort investments away from local needs. May distort priorities and lead to non-sustainable investments and lack of energy efficiency. May not lead to sustainable choice of local investments.	Possible	As above	As above.
Service	% of kilometers of sidewalks regulated	As above.	Possible	As above	As above
Service	% of local asphalted roads in the municipality	As above, especially this will depend on the funds available and the fiscal conditions of a municipality and costs varies greatly, where remote municipalities may have much higher costs, and even less funding to achieve results.	Possible.	As above	As above
Service	% of settlements included in waste collection service	As above (some areas are easier to tackle, hence may not be easy to compare). Second, this will depend on the POE performance which is not under full control of each municipality.	Possible	As above	As above
Service	% of payments made (on waste)	In addition to the worries above, this will depend on the POE performance which is not under full control of each and every municipality.	Possible	Used in some countries.	Need clear operationalization and other indicators for administrative efficiency could be included, e.g. on publication, announcement etc.

Area	Indicator	Comments and relevance	Possibilities to measures	Other experiences	Conclusion
Governance	Number of reportings of the mayor in the municipal assembly meetings	This is one indicator of governance, but perhaps not the single most important, and perhaps it can be combined with indicators such as: i) Procures for conduction of meetings, ii) Level of participation, iii) level of consultations with citizens, minutes and publication of these, operations of standing committees, etc.	Possible	Used in some places, but often with more comprehensive and targeted indicators.	Could be combined with other useful indicators. However, it is also recognized that some more qualitative indicators will require more assessment efforts. Should be combined with other governance indicators.
Governance	% of published municipal assembly acts	Useful, but could it be combined with publication of plans, budgets, audit reports, and assessment results? And other transparency means, e.g. libraries, open access to information, citizens charter etc. may be considered.		Used in many places	Useful and may be combined with other useful indicators for transparency.

Examples of other relevant indicators for the future

Area	Indicator	Comments and relevance	Possibilities to measures	Other experiences
Planning and implementation	Projects completed compared to plans (calibrated) Timely completion	Relevant for service delivery and preserves autonomy	Possible	Many countries
Planning and budgeting	Links between plans and budget	Relevant for targeting of investments	Possible with some efforts	Many countries
PFM	Procurement systems - specific indicators on performance. Committees, compliance with rules, timing etc.	Relevant for effective service delivery	Can be formulated..	Many countries
PFM	More calibration of the PFM from audit reports e.g. clean report extra points. Some of the indicators from the NAO, which publish benchmarks, e.g. assets mgt. and debt.	Relevant for efficiency spending of public funds	Possible with some extra review of the audit report and QA of this	Many countries
Transparency and governance	Publication of various documents for the public (plans, budgets, accounts, audit reports etc.) Involvement of citizens in the planning and budgeting process, monitoring etc.	Relevant for accountability	Possible with some extra indicators and efforts	Many countries

Changes in the indicators over time

There have been few changes in the definition of each indicator, and a further calibration of the audit recommendations (in two groups with weighting) addressed taken into consideration the severity of these. The PMS system has also changed some of the classifications and definitions making it hard to compare performance over time. However, the intention has been to keep them stable over the three years.

Comments on the performance measures applied

The assessment shows that there is room for improvement of the performance measures, as some of the existing ones does not reflect the municipal efforts, but rather their conditions and development level (and economic wealth). The indicators on service delivery relate more with the basic framework conditions of a municipality than their efforts on performance (i.e. the current status of a specific service may be related to external factors rather than on the performance and efforts of the municipalities), and are problematic in terms of incentives and attribution. They are not seen as fair by municipalities, e.g. their association AKM, and may therefore not stimulate performance.

It is hard to compare performance within one service area with another very different area, when the grants are multi-sectoral and can be used for various sector investments. It may drive attention away from other important (cross) sectoral spending areas (and combined services), which will suffer as municipalities are trying to cover areas where they can get extra points and thereby funding, instead of the optimal and targeted mix of services needed in each municipality.

Other means to measure effective service delivery and to promote this across mandatory service sectors could be considered such as performance measures on implementation progress, execution against plans, procurement efficiency, value for the money in sampled investments, systems for effective maintenance and operations, supervision of projects, compliance with service standards in implementation of projects, co-funding and contribution from citizens, whether the municipality has introduced citizens' feed-back mechanisms/surveys, etc. It is hard to compare output performance across sectors like the ones used in the project, see Annex (focus on the PBGS) on the challenges with these kinds of output measures currently applied. Some of these may require review and revisions in the PMS as well.

Other indicators are not targeting the core issues of governance, e.g. the reporting by the mayor, but other governance indicators will be stronger in reflection of this, e.g. the extent to which there is dialogue between the assembly members and the citizens, transparency in municipal operations, and follow-up on decisions, reporting to citizens, use of OSR, etc.

The future system will need to be revised to reflect areas under municipal attribution and where efforts from one year to another can impact on the performance results and thereby reward system.

The National Audit office has developed a range of indicators they review every year, including issues on assets management, OSR, etc. which should be reviewed and considered for the next phase.

The scoring system

The scoring system is clearly defined in the related performance assessment manual and Grant Score Sheet. However, the rating system, which ensures that some PMs are provided with a higher weight is overly complicated, and could perhaps be simplified with establishment of a score between 0-100 which enable percentages to be calculated easily and which will enable LGs to compare themselves with the average performing municipality. Although mathematically correct, the formula in the Assessment Manual seems a bit complicated and not easy to comprehend. Also the basic formula with population and other factors is hard to review and appreciate (how are weights calculated, and why is it not following the formula from the general grant scheme?). The basic formula, 240,000, 100,000, 45,000, 30,000 and 20,000 may need further justification - is it sufficiently based on objective (and weighted) criteria such as population, size, variations in needs, proxies for poverty, etc. and can it be refined?

The basic needs-based criteria should be factored in with the performance score, in a relative system whereby each extra performance point is having an impact on the allocations (the relative weighting model). This system will ensure that every extra point in the performance rating will provide extra funds from the system, but also that municipalities will have to continue to improve to avoid losing out.

The incentive system from the project is innovative in the manner whereby it is not only linking the size of the grants against performance, but also the level of municipal autonomy. However, it is not clear whether micro-control of all the municipalities with the scores from 0.5- 4.5 points as described is necessary as long as the MCs and /or PMs capture a review of municipal spending within eligible areas, instead of ex-ante control of projects? Similarly for the procurement issues, if there are strong MAC on operations in procurement, this can handle the issues on decentralized versus centralized procurement, and less need for ex ante control.

Furthermore, it is not fully clear why there are no co-funding requirements for the better performing municipalities, units which may in fact be in a better position to mobilize revenues?

The differences in the instalments between the two types of municipalities, depending on performance, need better justification, and perhaps linkages to the general grant allocation system and reporting system, so that instalments are only made when proper accountability for previous instalment is provided and made on a fix date during the fiscal year. According to the Manual, for the better performing municipalities, the last part of the instalment is only provided after the fiscal year. This is very unusual for intergovernmental fiscal transfer systems, and considerations on how to link this to the overall grant system could perhaps be initiated. Moving towards a genuine PBGS, the Government release system from MoF should be reviewed and harmonization promoted. It should be noted that the general grant system applies only one instalment per year.²⁰

Finally, although the extra reward system with various groups of rewards to the best performing may be useful in a “project”, also symbolically to provide awareness and publicity, in a future “program” all these extra funding sources can be incorporated in the general simple allocation formula with calibration of points and integration of the scores in a scaled manner in the general formula. The special rewards have in the last fiscal year overriding most of the impact in the general scoring system and should be reviewed in future consolidation of the reforms. It seems not to be a sustainable system and different from PBGS based system in which to allocate public funds for grants to municipalities in a regular, mainstreamed and formula-based manner, but is of course suitable as one-off stand-alone event to create awareness. However, the future system should focus on supporting a longer term PBGS with allocations based on formula factoring in the performance scores. The performance points should be scaled with the relative share of the basic formula in one integrated and consolidated formula, ensuring budget predictable and use of funds on an annual basis, in a system where every incremental performance improvement (point) is impacting on allocations (i.e. moving away from the band system).

Efficiency

The system has its strengths in the fact that it is based on an already existing Government PMS, and indicators which are already available, and where QA can be done in a rather cost efficient manner. However, the indicators could be elaborated to better reflect the municipal efforts and efficiency level in various phases of the municipal operations, from planning, procurement, project implementation, maintenance to reporting. Dialogue with the PMS to see how this can be strengthened should be continued. Despite the efficiency gains of using an existing M&E system this should not be a straightjacket and other core required (new) indicators could be included in the PBGS, with subsequent inclusion in the PMS. Second, there is need for a strong system of quality assurance as well.

²⁰ Based on information from Budget Department, Ministry of Finance.

Effectiveness and impact

The table below shows that there is a small incremental increase in the performance of the municipalities over the 3 years, but there many exemptions from this.

DEMOS partner municipalities	2013 (assessment in 2014)	2014 (assessment in 2015)	2015 (assessment in 2016)
Gjakovë	1.86	2.36	2.92
Gracanica	2.22	3.31	3.67
Hani i Elezit	1.92	2.56	2.42
Junik	2.28	2.42	3.06
Kaçanik	1.86	1.61	1.31
Kamenicë	0.94	1.78	1.58
Klokot	2.06	1.81	2.03
Lipjan	0.64	1.97	2.42
Novo Brdo	1.28	1.08	1.42
Parteš	2.39	1.72	1.94
Pejë	1.94	2.78	2.78
Prishtinë	2.25	2.42	2.89
Rahovec	1.11	2.19	2.00
Ranilug	2.25	2.19	2.03
Štrpce	1.67	2.06	2.25
Shtime	3.08	2.72	2.56
Viti	1.61	1.94	1.72
Average score	1.84	2.17	2.29
% out of max 6 points	30.7%	36.2%	38.2%

Source: DEMOS, September 2016.

However, it has been hard to review the effectiveness of the system in terms of performance improvements within the short time period as some of the indicators have changes in calibration from the PMS, and as external factors have played a role on the performance improvements of municipalities, and as the impact of recent changes will only be reflected in future assessments, e.g. the most up-dated assessment reviewed the FY 2015, in FY 2016 with impact on 2017.²¹

However, the review indicates that some of the challenges identified above on the performance measures and possibilities to improve on these on a year by year basis, has led to less than expected improvements in performance (which has overall been very modest over the 3 years). The review also revealed that PFM in typical area such as opinion of the audit report, assets management, debt management etc. can move in one direction and the single one indicator: “audit recommendations addressed applied” can move in another direction suggestion that the system is a rather weak tool for measuring the overall performance in PFM of municipalities. Furthermore, some of the smaller and remote municipalities have great difficulties in improving on indicators which will require much more funding available, e.g. km of roads and infrastructure.

However, the system has had some of the intended impacts in terms of focus on performance improvements, and awareness on the importance of improving performance through the consultations, TA/CB and linked with rewards. All municipalities stated, that they are in favor of a competitive system, that it could lead to stronger focus on performance enhancement, but that this would have been much stronger, if the performance measures were designed with better consideration for attribution, relevance and fairness (see the table above). Hence, there are potentials through the design, to strengthen these good prospects in future.

²¹ One example was in one municipality where it was noted that the streetlights in 2015 focused on measurement of the urban roads, whereas in 2016, it covered all types of road, leading to a significant decrease in measured performance, although was actually not the case.

Quality assurance of performance results and future credibility of the system

Experiences have proved that the most critical part of a PBGS is a credible set of performance measures + system for performance assessment. The current model applied under PMS does not provide a sufficient system of external QA/verification, and is mostly based self-reported data, with some reviews if data seems strange, not realistic, but has not undergone a sample QA field check or spot checks, like the case e.g. under general audit and/or performance audit (which can be compared with performance assessment). This means that some of the results may not be correct, and over time, it can lead to manipulation of the entire data set in the PMS, and decrease the reliability of the M&E system as well.

The National Audit Office only reviews the systemic part of the PMS, not sample check on the actual performance on the indicators, reported by the municipalities. Although the demand for supporting documentation has increased over time, the municipalities reported that it was possible to inflate figures, pointing in direction of need for external verification.

Sustainability

The system is potentially sustainable, as it links up with the Government's general M&E system, but needs to consider linkages with the overall intergovernmental fiscal transfer system and the institutional arrangement for this. Second, to continue to provide a reliable and trusted tool for municipal performance assessments and comparisons, some of the indicators may need to be refined. The one-off reward system does not fit well with the aim to develop a sustainable PBGS with clear and simple calibration of scores and rewards. Finally, if the system is mainstreamed with MoF grant systems, it need to ensure a predictable allocation every year, which is another argument for integration of the performance in the general allocation formula in a weighted manner, and establish a system with strong inter-municipal competition where funds are all used through a calibration of scores and reward system.

Review of the assessment system in the project and linkages to M&E²²

The system is generally based on the Government's performance monitoring system. In the first year it was combined with external QA of the imputed data, which was a strength of the system, but this is no longer the case (opposite to e.g. the future CEF reward system, which will undergo external verification). The data documentation requirements have been strengthened over the years, but still without sample checks and verification there is a high risk for "gaming" in the future system, if linked with grant allocation of a significant size.

The results are decided by DEMOS, and there is no SC for the PBGS specifically, and/or another committee which review and approve the results.

The results are published during a presentation workshop, and communicated to municipalities so that they can integrate them in the planning process. The table below provide a quick snapshot of the pros and cons of the system.

²² This section also confirms a previous review in 2014 of the system

Features of the system	Advantages	Areas where further development may be considered
Assessment of last year with impact on subsequent year	Yes. This fits well with the LG planning and budgeting process (hence the system is tackling the problems in many countries with PBGSs)	Should be continued.
System of external QA	Not sufficient under PMS, as there is no sample/on the spot check of data, unless results seem very strange... Important for credibility, neutrality and quality	A strong system of verification of the indicators applied in the PBGS is a future need, especially to build trust in the system and attract more funding.
Calibration of scores and description of these	Yes. Clarity on this is provided which will assist the assessment team on most indicators	The one-off extra rewards should be integrated in the future calibrated system where some indicators are more important than others.
Assessment manual exist	Yes. Transparency	Continue to up-date such as manual.
Publication of results	Yes. Transparency	Continue to publish results.
Incentives for all in the system (bigger and smaller ones)	Yes. Advantages for incentives in the formula as it is adjusted with a certain percentage, which provides incentives for all municipalities.	Basic formula needs refinement. A system for integration of performance with basic formula should be introduced, in a manner which is predictable in terms of budget allocation. A system whereby every performance point is counting to enhance competition could be explored.
Appeal system	Yes,	This system has been strengthened in the later years, but is not institutionalized with the Government but still project oriented. The Grant Commission could a future forum for discussion of results.
Other element of institutionalization		The system has no linkages with other grant elements
		Moving forward it is important with a SC arrangement for approval of results and institutionalization of the entire system.
		The assessments could be stronger linked with CB needs assessment and CB support

Comments, Conclusions and Implications of the Analysis above.

The analysis above lead to the following implications and suggestions:

- Explore options for combining the performance-based with a needs-based allocation formula (and/or use the general grant formula with performance weighting) and integration of the weights on scoring with this model, in a model which allocates more funds to the financially weaker and/or municipalities with higher expenditure needs in a more objective manner and with a view to test relative performance (performance of one municipality against average performance of all municipalities, to ensure that every performance point counts, and that the incentives are always working);
- Strengthen the performance indicators with a view to reflect the core performance measures within each thematic area, e.g. on local governance and public financial management (other than just audit results), see tables above i.e. areas which are important drivers of changes for all sectors and support local planning and prioritization instead of promoting earmarking;
- The service delivery indicators entail the risk of not reviewing the performance, but rather the status on service delivery (as an M&E tool), and more efforts related indicators such as progress against plans (implementation ratios), procurement, implementation performance and value for money in the investments, compliance with standards, etc. should be considered;
- Continue the engagement with the nation-wide reforms and ensure stronger linkages between the pilot and the national system, one example of this is to institutionalize the system as part of the law on LG finance and ensure that results are discussed and approved in the Grant Commission, not only within DEMOS. This also provides room for better harmonization with other development partners.

Re. principles for the future minimum access conditions

- The future MACs should be based on necessary basic safeguards for proper handling of funds, e.g. audit reports etc. This means that the MAC should be thoroughly reviewed and reformed prior to a second phase, roll-out, harmonization etc.
- MACs should be sufficiently strong to avoid project by project control by the project.

Re. principles for selection of indicators

- The indicators should pay ample attention to issues of equity and ensure that good performance is always, as much as possible equitable e.g. in selection of indicators (indicators where all can perform if they use necessary efforts), 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 at the expense of options for an equal “playing ground”!
- Indicators should all be under contribution of the municipalities, and not related to their wealth and /or fiscal capabilities;
- 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 to areas which may not be locally optimal;
- 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.

Focus of the performance measures/indicators

- In multi-sectoral (and discretionary) grants, the focus of the performance measures in various countries have benefitted from use of indicators of benefits for all sectors such as OSR, PFM, governance etc., whereas sector grants in some cases have included sector output indicators, but this should be limited to areas where performance can be compared in a fair manner across LGs,
- Focus of the indicators should be based on analytical work on where municipalities have performance gaps and weaknesses/bottlenecks.

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, and areas which can be improved on an annual basis.

Re. scoring

- Move into a system with graduate/calibrated scoring system instead of than bands with fixed categories – a system which ensures that every point has an impact on allocation;
- The scoring system should be simplified and a scale from 0-100 points applied whereby each indicators has a weight, and not through a complicated formula as present.

Re. performance assessment

- All data needs to be verified and sufficient level of QA needs to be included,
- More information from e.g. audit reports can be utilized in calibration of the PFM and procurement performance, including assets management and OSR performance.
- 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 and critical for the future trust in the system. Agreements with NAO should be explored to ensure that data on a sample basis is checked annually;
- System of decision-making should be clarified and transparent – the Grant Commission could be an option as the forum for discussion and approval of results.

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

- 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, e.g. the general grant system. This should be subject for discussion in the Grant Commission and coming revisions of the LG Finance Law;
- 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; short term outputs may not be sustainable, but the system should rather focus on systems and procedures which have a longer term impact,
- Future systems should focus on all municipalities in the country, if funding permits.

Re. monitoring of impact of PBGS

- As the system is developing, it is important to compare the actual situation with baselines and continue with control groups of municipalities not being supported to document impact of the system (if the system is only covering a sub-set of the country)

Links between Performance-Based Grants (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; However, the PBGS can move ahead of the PMS in certain required areas, and the indicators applied from PMS need to be neutrally verified when applied in the PBGS; Other indicators, e.g. indicators applied by NAO can be included as well as long as they adhere with the design principles;
- 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
- 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 and as ownership and buy in is important;
- 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 the PBGS may evolve 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 improve 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, handling of appeals and sharing of results with stronger involvement of the existing bodies for handling of municipal funding- grant commission etc.;

PBGS and links with overall decentralization /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 municipalities will strengthen arguments for further decentralization of functions, funding and staff and a justified increase in autonomy.

Annex 4: Observations on the Clean Environment Race (CER)

Introduction

This annex provides a snapshot review of the main features of the performance-based grant elements of the Clean Environmental Race (CER), and reviews it against international good practices for the design of PBGS.

Main PBGS alike features of the CER

Box 1: Main features of the system

- The focus is on improvements in solid waste collection, i.e. a very specific sub-sector in the range of municipal services
- The CER is a one-off exercise, and only provides funds for rewards in one budget/fiscal round
- The system has access criteria as well as performance measures (determining the size of the rewards (only 3 performance measures are applied))
- The system has QA of the results from the assessment by a development partner supporting the scheme (KfW)
- Procurement is handled centrally and the rewards are highly earmarked to equipment and capital investments for solid waste management, i.e. it is not a budget support/grant scheme as such
- The budget available is 3.4 million EURO for rewards
- The scheme covers potentially 17 municipalities and 5 POEs, and the rewards are given to a mix of municipalities and POEs
- A Steering Committee with representatives from central government and municipalities is established
- The system is not integrated with any other funding/ grant schemes to municipalities nor the general intergovernmental fiscal transfer framework
- Procurement will be done centrally through the MED, and not the usual process of using the POE procedures (according to KfW)

Review of Access Criteria

In order to get access to the rewards, the CER has defined a few access criteria. Below is a list of these with comments on the relevance and effectiveness and possibilities to measure.

Table 1: Access criteria to the CER

Minimum Condition	Relevance	Possible to measure
Approval of municipal solid waste management plan by municipal assembly	Relevant as core safeguard	Yes
Annual financial statement of municipalities and POE are audited, discussed and made publicly available and registration of municipal assets has improved in 2016.	Relevant as core performance on municipal finance and about sustainability. However, funds will go to capital investments, and not through POEs.	Generally yes, although the review of the assets improvement may require some work on the assessment.
Existence of local anti-corruption program and compliance to required anti-corruption measures	Relevant as basic safeguard against misuse of funds and lack of capacity. Is relevant in the current situation where this is a general challenge.	Possible to measure. Although it may not alone lead to quick change in performance, it is important as a symbolic measure.
Application of standard operation and maintenance processes within the POE unit according to PAMKOS QMM	Relevant	Possible, with some efforts.
Existence of waste unit or waste officer	Relevant and a basic safeguard	Possible.

Minimum Condition	Relevance	Possible to measure
within the municipality.		
Existence of signed service level agreement between municipality and service provider with regards to solid waste management system	Relevant but there are pros and cons. as there are various modalities for service provision, and requests from some municipalities to have better access to choose the service providers which is most optimal for them.	Possible
Declaration to stay part of a regional solid waste management system	Relevant. See above.	Possible

Generally, the access criteria reflect good principles, but could be combined with conditions on core procurement capacity, if the other recommendation, below is followed, i.e. that POE procurement procedures are applied as per current practice instead of central project /MED procurement as suggested by KFW supporting the scheme. According to MED, this Ministry cannot conduct the procurement on behalf of the regional POEs.

Review of Performance Measures

The CER will have the following performance measures:

Table 2: Performance Measures under the CER

Performance measure	Relevant	Efficient and possible to measure	Other comments
Waste collection service coverage rate (% of clients served with waste services)	If this was fully under control of a municipality this would have been considered, but will depend on baseline, as a poor one can easily improve, and get rewards, which may be unfair. Second, each municipality may not control the POE directly, but will be sanctioned/rewarded (attribution issue)	Possible, but important to control issuing of bills versus collection of these.	Problems with attribution, as a single municipality cannot directly impact on this.
Fee collection rate (% of payments made for waste services)	As above.	Possible, but problems if low level of invoicing.	Challenge with attribution especially with the linkages between the municipalities and the POEs. Other indicators could be the trends in collected payments to ensure sustainability.
Illegal dump site removal (absolute number of dumpsites removed)	May not be easy, as some will have a better situation with few dumpsites and may thereby not be rewarded. (which will be	Possible, but will require a major exercise.	Challenge with fairness. It can maximum be used as a one – off exercise, as the playing ground for possible improvements

Performance measure	Relevant	Efficient and possible to measure	Other comments
	seen as unfair).		may be very un-equal. Hence, if it is reward for performance, a situation without these should also be rewarded.

Scoring system

The scoring and reward system is a combination of rewards to POEs and municipalities, but some of the municipalities, which have not improved will then get rewards, and opposite, and in cases of 4 municipalities under one POE it leads to questions on attribution (this was also a complaint by the associations of municipalities AKM and municipalities visited). The rewards are not scaled with any needs-based formula as per normal practice for PBGS, but fixed amounts for various benchmarks (equal whether you cover a smaller or bigger area, hence incentives are not equally strong for all). This will not provide equally strong incentives to all units, and may distort general funding of the units.

Review of the linkages with other systems

The system is a stand-alone reward system, not linked to any grant systems/funding schemes. Second, procurement is done centrally. Hence it is not promoting a general sustainability of systems and procedures at the municipal/POE level, which is important for longer term achievements and building of longer lasting effective delivery systems.

Other features of the system, including institutional framework

The CER has a Steering Committee with representatives from central government, associations of POE and municipalities, but the Ministry of Economic Development is not partner in this, and is not aware of their roles²³ in monitoring and involvement in performance assessment of the indicators, as per the current draft concept. The system is not supporting the core basic operations of the regional POE, i.e. planning, financial management and procurement procedures and systems, which lead to questions about sustainability.

Future roll out and sustainability

As the initiative is only a one-off initiative, without plans for future continuation²⁴, and institutional arrangements, it lacks sustainability and possibilities for impacting the systemic bottlenecks and needed performance improvements in the area.

The initiative seems not to address some of the more regulatory and institutional challenges in the sectors, and the need to ensure that municipalities can choose the most effective service providers, and this combined with a reward system is generally a conceptual problem with the model.

Implications of the findings

Compared to larger centrally driven projects, this CER supports the regional/local operations of solid waste management, and may be in a better position to address local/regional needs.

However, there needs to be a future review of the links between the performance assessment- the scoring – the responsible agent and the reward subject.

²³ Based on meeting with the relevant M&E/control unit in the Ministry.

²⁴ E.g. in meetings with KfW it was clearly mentioned that this will only be a one-off support

The procurement system should be institutionalised, and could even be a measure of performance. The institutional framework and use of and strengthening of the POEs should be reviewed and adjusted. Also the role of the MED needs to be revisited, as they mainly focus on central level POEs.

The system has a number of features, as mentioned above, which deviated from a typical PBGS, and is more a reward system for certain activities, than building up longer term systems and procedures, hence may be hard to link with other PBGS initiatives in the current form.

Finally, the system should be reviewed in way whereby municipalities are rewarded for aspects under their control/attribution, especially in cases where there are multiple municipalities involved in a POE.

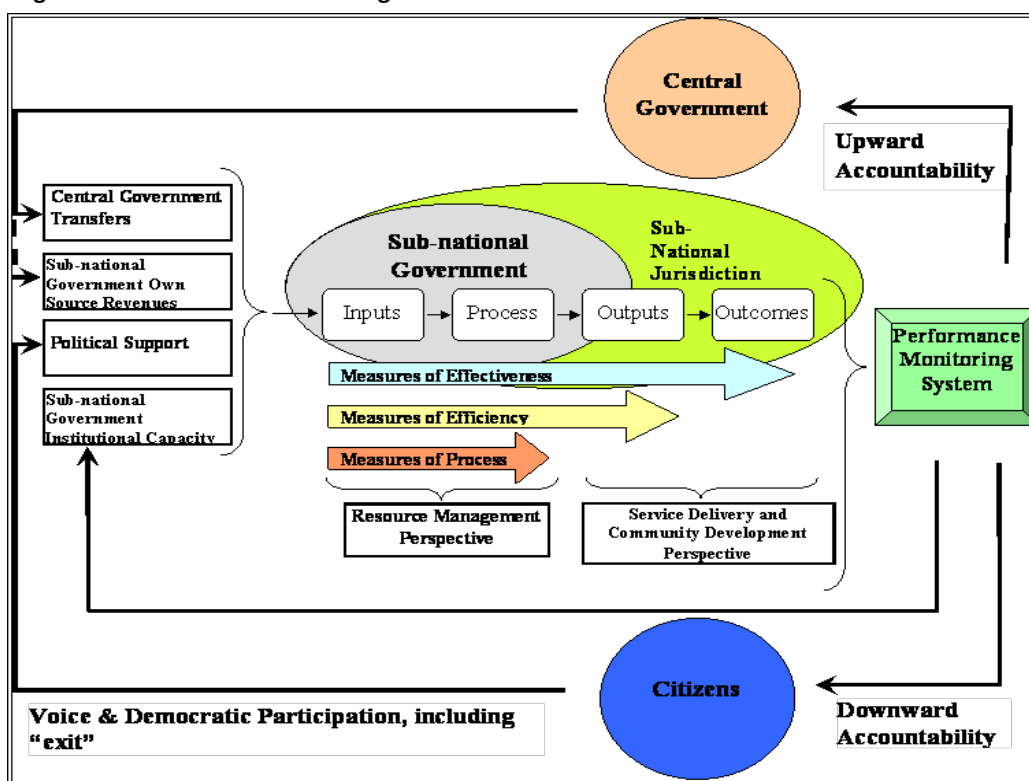
Annex 5: Theory and practice of input vs output/impact measuring²⁵

1. Input versus output measurements

In the recent years, the core focus on Performance Assessments (PA) and Performance-Based Grant Systems (PBGS) has undergone discussions in many of the countries, which have originally designed and are implementing PBGS. This note intends to present some of the core principles behind selection of focus areas and main features of the system in many countries.

A Performance Assessment System and PBGS may focus on inputs, processes, outputs and outcomes. However, it is important to note that results in one phase of the process, such as final audit reports, will be perceived as inputs in the service-delivery chain, but will be outputs in another chain – the public financial management performance cycle, where there are a number of other inputs prior to this result (such as accountants in core positions, production of accounts, etc.). Figure 1 below illustrates this.

Figure 1: Performance Monitoring Framework



Source: Adapted from Kai Kaiser in a then forthcoming publication on: "Intergovernmental Performance Grants – A Synthesis of Issues and International Experiences", prepared for the 13th India IFC, Revised Draft, July 31st, 2009

Most of the PAs & PBGSs focus on the *resource-management perspective*, systems, procedures and processes, and there are often good reasons for this, particularly in cases where there is high risk in the use of funds, procurement, management operations, and gaps in the performance of core functional areas such as e.g. planning and budgeting, etc. And also as these systems and procedures are pertinent drivers of changes for effective service delivery in all sectors.

²⁵ This is a revised version of a note often used by Dege Consult to explain the focus of the PBG system approach

Moving toward sector output or outcome indicators may be a great temptation, but is not without caveats, particularly in *multi-sectorial grant* systems.

- First, it may tend to distort the use of funds toward certain sector outputs (hard to balance these) and thereby move the system toward the functioning of non-discretionary sector grants with strongly “*guided spending*”²⁶, i.e. a LG may be sanctioned if it focuses on water instead of roads, street lights instead of proper health care, or vice versa, and these may not be in accordance with local needs and priorities. It may also reduce the possibility that LGs invest in multi-sectorial integrated initiatives of benefit for several sectors. However, in specific conditional grant system, this issue is not relevant, as this may be amongst the objectives of the system, to direct towards specific activities and service delivery outputs.
- Second, there is the question of *attribution*, as LGs can often legitimately claim that such outputs and (especially) outcomes are not under their direct control, but influenced by other (external) factors, e.g. the efforts of the line ministries or the level of resource available. More wealthy LGs can easily provide good outputs even with less efforts and efficiency in spending than poor LGs (i.e. not a question of *efforts* of the LGs per se, which is should be);
- Third, the LGs may use funds from grants for quite *different purposes*, making it hard to compare their performance in terms of outputs, particularly for multi-sectorial grants, e.g. how to compare quality of a road with the quality of a school building, solid waste management, street lights, etc., and which area should have the highest score here.
- Fourth, the assessment will require a very *detailed assessment tool* with specific definitions and targets, and this is likely to lead to a very complex and expensive assessment process with significant field-work on a regular basis. It may lead to further delays in the assessment process experienced in some countries, and very high costs of the assessment, which is already an issue in some of the countries.
- Fifth, outputs and particularly outcomes are often only to be observed after *several years of operation*, fitting poorly with the annual assessment cycle and the incentives to be provided;
- Sixth, it may be argued that strong systems of *process indicators* (those reflecting planning, budgeting, procurement, financial management, good governance, etc.) will be important *prerequisites* in any case for the achievement of all service- delivery outputs and it has been documented in various audits that stronger PFM procedures, including governance and transparency is often related with improved local services²⁷. If these systems are stronger and more robust, there is a greater likelihood that the actual services will be produced more efficiently and transparently especially if the process and system indicators focus on areas of great importance as *drivers of change*. It may finally be argued that certain processes, particularly in areas of good governance, can be seen as *ends in themselves* – e.g. if people participate in decision-making and monitoring the feel empowered and increase their well-being²⁸. However, it is also a question of sequencing, getting the basics right and then moving on towards the next stage.

²⁶ LGs will rapidly work out in which sectors they will obtain high performance scores and thus target their investments toward these, compromising and blurring the local priority setting process.

²⁷ This was also convincingly argued in a recent review of e.g. LGDP in Uganda (World Bank 2008) and was a key assumption underlying the entire review of General Budget Support under OECD (see IDD et al 2006). In the review of GBS, the PFM results were treated as *immediate effects leading to outputs such as improved service delivery and accountability*. It has also proved to be the base in studies in e.g. Bangladesh (UGDP/UZGP Program).

²⁸ In most definitions of poverty, people’s empowerment is an important part, including the options for participation in decision-making.

- Sector-specific output indicators are easier to handle in *sector-specific grants*, where they will be aligned with the specific sector needs and targets, and where they will not distort local priorities across service-delivery areas. However, even for these grants, there are additional demands on the assessment teams and enhanced issue of quality assurance on these;
- Seventh, an exaggerated and limited focus on *short-term outputs*, may lead to less focus on longer-term institutional improvements, which would have benefitted in a longer and more sustainable manner, e.g. strong institutions (with an effective operational “machine-room”), which can deliver future services.

For these reasons, *discretionary block grant* funding within the PBGS has been more closely tied to performance seen through the prism of “process indicators/intermediate indicators” – often called the *missing link* between input and outputs, as more easily measured proxy measures for likely performance outcomes, but also because some of these indicators constitute benefits in themselves (e.g. participation of citizens in local decision-making, involvement of women and disadvantaged groups, targeting of investments, proper handling of funds, and empowerment vis-à-vis the LGs²⁹).

It is also possible to combine the systems in the sense that the PBGSs for multi-sectorial grants focus on generic institutional performance improvements, whilst sector grants also include more sector-specific and sector-oriented indicators, and this option is obvious in the case of countries where there are multi-sectoral as well as sector specific development grants side by side.

The focus on the intermediate indicators does not mean that the indicators cannot be action-oriented and relevant, and it should be avoided to have static – “ticking the box” – indicators, which has limited impact on the outputs. It is therefore important to ensure that the theory of *drivers of changes* is made clear, and that the indicators are focusing on systems and procedures, which are likely to lead to better resource allocation and service delivery outputs and outcomes, and based on a wish to address the existing bottlenecks for effective service delivery.

2. Implications on the Limitations in the Overall Focus of the PA & PBGS – From Inputs to Outcomes

Ideally, it should be possible to tie the funding of LGs to their success in improving service delivery and in reducing poverty. Most systems influence this in a largely *indirect* manner, by providing incentives for improvements in the ways that LGs work and function. They also do so directly, by improving governance practices (e.g. enhanced participation, citizen involvement, etc.), often seen in themselves as important elements of poverty reduction³⁰. But the fact remains that the PBGS model used to date in nearly all countries does not directly link LG funding to service-delivery and poverty-reduction outcomes, but address intermediate indicators of importance for these objectives. There are good reasons for this.

It is often neither practical nor useful to attempt to institute direct links between measures of such *outcomes/impacts and annual PBGS funding*. Several reasons underlie this, *inter alia*:

- The *high costs and complexity* of undertaking regular annual surveys of outcome/impact indicators in every LG area and the wish to ensure that the assessments are kept simple and manageable – how e.g. to compare the quality of a school with the quality of the roads;

²⁹ In many measures of poverty reduction (the end target for many grants), “empowerment of citizens” is one of the core dimensions and an end in itself.

³⁰ This section draws on the UNCDF publication “*Delivering the goods*” by Roger Shotton and Mike Winter (2006) .

- The *attribution problem* that would have to be addressed, since LGs can often legitimately claim that such outcomes derive partly from factors outside of their control and which may depend on the service-delivery performance of line ministries – it is nearly impossible to distinguish between these factors³¹. It may not, for example, be fair to sanction LGs for a low enrolment rate in schools (output) if the education sector is not fully devolved to LGs or for a low literacy rate (outcome) as factors other than LG activities/performance have an impact on this (typically the poverty level, distance to service facilities and economic potential of an area and/or historical/cultural reasons). E.g. the level of water coverage in a municipality or sanitation depend on many other factors outside the municipal control, including level of migration, etc.;
- The wish to ensure a high level of *flexibility* in the use of funds. As PA & PBGSs are often applied to non-sectorial block grants, neighbouring LGs may use funds for quite a different mix of service expenditures³², greatly complicating the comparison of the performance outcomes. It may also indirectly defeat the purpose, if outcome indicators are focusing on a few sectors (non-balanced), or it may be very hard to balance across the sectors in terms of scoring weights³³. Giving all sectors equal weight would also be wrong, as all sectors should not have the same share of investments. Giving some sectors a higher weight could lead to bias toward these sectors, even in local areas where there is no need for this, e.g. agriculture interventions in urban areas;
- The fact that outcomes are often only seen after *several years* of operations, fitting poorly with the PBGS assessment process and the incentives to be created.
- Process and intermediate indicators can be formulated in manner where they are important for the subsequent delivery of good outcomes.

There are therefore good reasons why non-sectoral grant funding within PBGSs has been more closely tied to performance measured against *process* indicators and *institutional* outputs (such as participatory planning and budgeting processes, revenue mobilisation, procurement and transparency and good governance in administration, budget execution etc.). This type of performance underlies all service delivery, is more easily measured, and can act as a proxy for performance outcomes³⁴.

For *sector grants*, the problems associated with sector-specific output indicators are somewhat reduced. Nonetheless, in all cases care must be exercised in ensuring that such indicators: (i) measure what is wholly attributable to LG actions and their **efforts**; (ii) are poverty sensitive, i.e. can be achieved by rich as well as by poor LGs; (iii) are not too complex and time-consuming to collect; and (iv) are fair. Second, for the sectors, there are a number of procedures and systems, which impact on performance of the sectors, which will be addressed by the sector performance measures.

However, even in this area there are major challenges in defining specific and feasible indicators – an indicator such as the unit cost of classroom construction may be influenced by conditions in the environment, logistical conditions, economic and historical factors. It is

³¹ E.g. LGs in the Philippines have complained that the M&E system established should make it clearer which indicators relate to areas under their control (often more input-, process- and output-related) and which relate to areas outside of their control (often more outcome- and impact-related indicators).

³² This is actually also promoted by one of the objectives behind decentralisation, which is to ensure a close link between targeting of investments and local needs.

³³ This has, for example, been a problem in the previous draft assessment manual for municipalities in Nepal. The proposed system would (as it was tested) provide incentives to municipalities to focus on a limited number of sectors, which may not necessarily be the most important ones for poverty reduction and addressing local needs.

³⁴ One of the important findings in a value-for-money-audit in Uganda was that there was a direct link (correlation) between the LGs which have improved performance in institutional areas such as PFM and in their efficiency and effectiveness in service delivery, World Bank (2004), pp 7, 12 and 27.

perhaps a gradual process whereby the core processes – such as planning, PFM, interactions with citizens – are fixed as the first step in measuring progress toward effective decentralisation, and then gradually moving toward more output-based systems, particularly for sector funding schemes and starting with the service delivery units.

M&E system needs to be able to support the annual assessment systems. A good starting point for this is the guidance in the sector grant guidelines/budget guidelines on targeting of the LGs efforts, e.g. in guidelines on rural water supply where a LG may be guided to provide most investments within areas with low coverage rates, or rewarding good system of community involvement in planning, inspection and monitoring.

When the decision on the objectives and basis design are taken, the next step is the design of the performance indicators and the links between the PBGS indicators and the overall M&E system.

Annex 6: PPT debriefing workshop

The image shows a presentation slide with a white background and a thin black border. In the top left corner, there is a red Swiss cross logo followed by the text: 'Schweizerische Eidgenossenschaft', 'Confédération suisse', 'Confederazione Svizzera', and 'Confederaziun svizra'. Below this, it says 'Swiss Agency for Development and Cooperation SDC' and 'Swiss Cooperation Office – KOSOVO'. A thick yellow brushstroke is drawn across the slide. The main title is 'Review of DEMOS Performance based grant system', with 'Review of' in blue, 'DEMOS' in large black letters, and 'Performance based grant system' in red. The date 'Pristina, 03 November 2016' is in the bottom right. Below the date, the names 'Gerhard van 't Land', 'Jesper Steffensen', and 'Dege Consult' are listed, with the 'DCGG CONSULT' logo to the right.


Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development
and Cooperation SDC
Swiss Cooperation Office – KOSOVO

**Review of
DEMOS
Performance based grant system**

Pristina, 03 November 2016

Gerhard van 't Land
Jesper Steffensen
Dege Consult



The objectives of the assignment and structure of presentation

- ToR: Assess the DEMOS grant scheme - in light of DEMOS phase II (2018-2021)
 - Relevance
 - Effectiveness
 - Alignment and Harmonisation
- The assignment has two main (related) elements
 - the bigger picture and the context of the grant
 - the 'technical assessment' of DEMOS/PBG system itself
- Structure of the presentation
 1. Characteristics and virtues of Performance Based grants
 2. Some comments following the review of DEMOS/PBGS
 3. Way forward – considerations and options

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Part 1

Performance Based grants

- definition and virtues
- principles and characteristics
- best (international) practices

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Performance Based grants rationale, definition and virtues

- not primarily to blame and shame
- not to penalise those that under perform
- BUT to remunerate those that perform well
- meant to introduce an element of competition
- introduce the notion that
 - performance is important
 - that municipalities themselves have a role to play
- put in place the foundation for an arrangement
 - that encourages/incentivises LGs (municipalities) to constantly improve their performance

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Performance Based grants characteristics of 'good' performance indicators

Good performance indicators

- Reflect (decentralisation) policy objectives
- Aim to improve those critical weaknesses that can change the way in which LGs operate
- Need to be visionary and a step ahead - asking for something new or additional, geared to change in behaviour
- Measure aspects that are under control of the LG or that can be directly influenced by them
- Are independent of external/other factors
 - meaning, they reflect performance (effort) by the municipal managers, either elected and/or appointed

Performance Based grants

characteristics of 'good' performance indicators

but also, preferably, good performance indicators

- are simple (as simple as possible)
- can be appreciated in a relatively objective manner
- are non-discriminatory for size, endowments, levels of OSR
- The totality of the indicator set should convey the message of what has been (jointly) established as important in terms of municipal performance / improvements
- The best indicators are those that initiate a change in the way the LGs (Municipalities) are doing business
- PBGS provides incentives for LGs to change behaviour (without being too directive/authoritarian as it respects the autonomous position of LGs)

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Performance Based grants

and its four components

- An objective allocation formula
 - to ensure a equitable allocation according to expenditure needs
- Minimum conditions
 - that reflect non-negotiable minimum requirements (in terms of governance and management) to reasonably ensure a good use of the resources
- Performance indicators and scores (that reflect weight)
 - a basket of indicators – that provide access to supplementary funding pro rata to relative scores
 - The relative scoring provides competition, which is further enhanced if only the top-scorers benefit
- A credible objective independent assessment system
 - as part of the annual audit
 - by government inspection department (Tunisia)

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Performance Based grants

international trends and discussions

- **First generation of PBGS**
 - remunerating legal compliance
 - but over time – 'the bar is to be put higher and higher'
 - This enhances the challenges for PBGS
- **Institutionalisation**
 - experience shows that sustainability of the PBGS (to LGs) is best guaranteed if the is implemented by government
 - eg. as a top up to a generic cross sectoral grant
- **Institutionalising the system or the impact?**
 - there is scope for discussion whether the aim should be to make the PBGS 'perennial' or whether it could be in place for a certain period of time (say 10-15 years)
 - But it has to have a certain minimum duration (not for less than 5-10 years)

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PBG - Indicator matrix Bangladesh – LGSP III

Performance Indicators for Union Parishads (Bangladesh) - Third Local Governance Support Project - (LGSP-III) - Bangladesh

Theme/ Objective	Sub-Theme	Indicator	Max. Points (total 40)	Means of verification / Scoring guide
I. Resource allocation			12	
Promote resource efficient planning and choice of projects	Efficiency in grant utilization by UPs	1.1 The UP allocates its development resources to a smaller number of relatively larger projects	5	<ul style="list-style-type: none"> • In the UP budget for FY(n), there is at least one project with a budget of over 30% of the total BBG grant amount for FY(n)
	Diversity in budget allocation	1.2 Projects selected in any given year include at least three different sectors	4	<ul style="list-style-type: none"> • In the UP budget for FY(n), there are projects for at least three different sectors (such as roads, education, health, water, natural resources, etc.)
	Broaden the decision-making base at UP level	1.3 Standing committees function as UP level preparatory and deliberating committees	3	<ul style="list-style-type: none"> • There is evidence that at least three standing committees have provided tangible input to the annual plan for FY(n)
II. Financial Management and Fiduciary			16	
Promote budgeting and expenditure control	Timely preparation of Financial Statements	2.1 UP prepares the annual financial statement within one month of the end of the FY, using the MIS system	5	<ul style="list-style-type: none"> • UP has prepared an AFS prior to the arrival of the auditor generated by the MIS system. Three points if such report is there but manually prepared
	Budget execution as per plan	2.2 Percentage of the unspent balance of annual development budget is less than 10%	3	<ul style="list-style-type: none"> • At the end of the FY (n-1), the balance of unspent development funds was below 10% of the budget for FY n-1 (hence over 90% of the budget spend)
Strengthen financial management and reduce fiduciary risk	A clean (unqualified) audit report	2.3 UP has a clean/unqualified audit report from the previous FY's audit	5	<ul style="list-style-type: none"> • For FY(n-1) the UP receives a unqualified (=clean) audit report reflecting outstanding financial management performance
	Audit queries are addressed	2.4 Having addresses audit queries as raised in previous year(s) audit	3	<ul style="list-style-type: none"> • 1 point if the audit report was tabled in the UP as evidenced by minutes of the meeting • 3 points if there is evidence that the UP has addressed <i>and</i> solved all outstanding audit queries (n-1 and before) as far as under its control

PBG - Indicator matrix Bangladesh – LGSP-III

Theme/ Objective	Sub-Theme	Indicator	Max. Points (total 40)	Means of verification / Scoring guide
III. Own-Source Revenues			8	
Promote ownership and accountability in UPs, and enhance financial sustainability	Tax Record Maintenance	3.1 UP has records of all properties in its holding tax base records	3	<ul style="list-style-type: none"> At the time of audit UP has an up-to-date property record.
	Enhanced Own-source Revenues	3.2 Percentage collection of estimated annual holding tax in previous FY	5	<ul style="list-style-type: none"> This indicator assesses the level of actual annual holding tax collection in FY n-1 as % of the budgeted amount <ul style="list-style-type: none"> >80%: 5points; 50%-80%: 3 points; below 50% : 0 points
IV. Transparency and Disclosure			4	
Strengthen accountability and good governance	Enhanced information sharing with citizens	4.1 UP Dissemination and public disclosure of summary of annual budgets, AFS (i.e., notice board, billboard), scheme details and scheme costs (i.e. on scheme board).	4	<ul style="list-style-type: none"> 2 points if there is evidence (as seen first-hand by the assessors themselves) that info is publicly displayed at the UP office 4 points to if the UP can show evidence of creative / innovative ways of sharing information with citizens
<p>Only the 50% best scoring UPs for each district will be considered for the PBG, provided their score is at least 18 points (out of 40) For those eligible for PBG thus established, the top-up (as a % of the BGG) is determined as follows:</p> <ul style="list-style-type: none"> The top 20% performers will get a 50% top up The second best performing group of 30% will get a 35% top-up The 50% lowest scoring amongst those eligible will receive a 25% top-up 				
9				

PBG - indicator matrix Tunisia

THEMES PRINCIPAUX :	1. Gouvernance	pts	2. Gestion	pts	3. Pérennité	pts
10 Sous thèmes et 26 indicateurs de performance:	I Approche Participative	12	IV Gestion des Ressources Humaines	10	VII Entretien des Biens	15
	1.1 Quatre réunions ordinaires du conseil municipal par année au minimum	4	4.1 Un plan d'action municipal pour renforcer des capacités (inclus dans le PARC)	6	7.1 Inventaire du patrimoine: Les deux registres en place et à jour avec indication de l'état de ces biens	3
	1.2 Réunions préparatoires aux réunions du conseil municipal avec la participation des citoyens	4	4.2 Les arrêtés d'affectation sont disponibles et revisités périodiquement	4	7.2 Budget pour l'entretien des biens (sous Titre I et II) par rapport au budget total pour Titre II	6
	1.3 Actions pour promouvoir la consultation, la co-décision et l'engagement avec la société civile.	4	V Gestion des Ressources Financières		7.3 Dépenses réalisées pour l'entretien des biens (sous Titre IV) par rapport aux dépenses totales du Titre II	6
	II Transparence et Accès à l'Information	8	5.1 Taux d'exécution financière des dépenses du budget annuel sous Titre I	4	VIII Assainissement des dettes	10
	2.1 Les documents clés de la commune sont accessibles aux citoyens par site internet	4	5.2 Taux d'exécution financière (des dépenses) du PAI	6	8.1 Un plan pluriannuel et exhaustif (en termes de montant et créanciers) d'assainissement des dettes est en place	3
	2.2 La commune utilise des moyens divers pour informer ces citoyens	4	VI Commandes publiques		8.2 L'inscription au budget des montants annuels prévus dans le plan d'assainissement des dettes	3
	III Mécanisme de Gestion des Plaintes	10	6.1 Un tableau de bord pour le progrès des commandes publiques est en place	2	8.3 Paiement de la totalité des dettes engagée dans le budget	4
	3.1 Point focal pour la gestion des plaintes nommé (comme "M/Mme performance")	2	6.2 Le calendrier des commandes publiques tel que publié sur site est respecté	3	IX Ressources propres	7
	3.2 Registre des plaintes et des réponses est en place et à jour	3	6.3 Les paiements des biens et des services sont faits dans un délai de moins de 45 jours	3	9.1 Mise à jour annuel du rôle de recouvrement des taxes sur les immeubles bâtis et les terrains non-bâti	2
	3.3 Pourcentage des plaintes traitées dans un délai de moins de 21 jours calendaires	5	6.4 Les délais de clôture définitifs des contrats des marchés publics sont respectés	2	9.2 Taux de recouvrement des ressources propres	3
					9.3 Taux de croissance des ressources propres	2
					X Sauvegardés sociales et environnementales	8
					10.1 Examen social et environnemental des projets	8
		Score maximum: 30		Score maximum: 30		Score maximum: 40

Review of DEMOS/PBGS

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Review of present DEMOS/PBGS system

Topics to look at

- Size of the grant
- **Objectives**
- Scoring
- Allocations
- Minimum conditions
- **Selected / used indicators**
- Menu of grant eligible activities

Objectives and indicators are –of course- closely linked

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Review of DEMOS/PBGS

Relative size of the PB-grant

- 2015 NAO: Total expenditures €388M / OSR €69M
- 2017: Total general grant to municipalities : € 150 M
- Education and Health grants: € 163 M + € 44 M

- DEMOS/PBG : € 1-2 M / yr (for 17 municipalities)
- PBG: Estimated 3 - 3.5 % of total municipal capital budget

- Municipalities indicated that financial incentive is small
- They value in particular the 'interactions and the TA'
- PBGS has drawn attention to 'municipal responsibility'
- Too early to judge whether the incentives worked (but we fear the indicator set is not 'robust' enough).

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Review of DEMOS/PBGS

Average scores over the years

DEMOS partner municipalities	2013 (in 2014)	2014 (in 2015)	2015 (in 2016)
Gjakovë	1.86	2.36	2.92
Gracanica	2.22	3.31	3.67
Hani i Elezit	1.92	2.56	2.42
Junik	2.28	2.42	3.06
Kaçanik	1.86	1.61	1.31
Kamenicë	0.94	1.78	1.58
Klokot	2.06	1.81	2.03
Lipjan	0.64	1.97	2.42
Novo Brdo	1.28	1.08	1.42
Parteš	2.39	1.72	1.94
Pejë	1.94	2.78	2.78
Prishtinë	2.25	2.42	2.89
Rahovec	1.11	2.19	2.00
Ranilug	2.25	2.19	2.03
Štrpce	1.67	2.06	2.25
Shtime	3.08	2.72	2.56
Viti	1.61	1.94	1.72
Average score	1.84	2.17	2.29
% out of max 6 points	30.7%	36.2%	38.2%

Review of DEMOS/PBGS Changes in scores from 2015 to 2016

	Financial Management	Property Tax	Parks & Squares	Public Lighting	Sidewalks	Roads	Waste (settlements with collection service)	Waste (% of payments)	Mayor's reporting	Publishing of Acts	
Partner Municipalities	Gjakovë	-41.67%	0.44%	2.93	15.84	1.07	6.76	24.28	5.66	1	42%
	Kaçanik	0.00%	-2.57%	0.21	0.19	1.47	2.27	-12.9	-5.16	-1	5%
	Kamenicë	-16.33%	-1.05%	0.66	4.62	-3.97	0.5	1.72	16.73	0	0%
	Lipjan	-8.33%	-2.46%	0.00	0.36	-1.13	3.82	-1.61	30.53	1	12%
	Novobërdë	8.33%	1.85%	0.06	0.71	1.62	0.42	0	-7.65	0	43%
	Rahovec	-41.67%	-0.50%	0.00	0.00	1.13	2.1	0	34.35	0	19%
	Pejë	-33.00%	-0.66%	0.50	1.85	-0.47	4.04	-2.56	-3.12	0	54%
	Prishtinë	-8.00%	2.22%	0.09	2.87	-0.01	0	0	3.36	-1	73%
	Shtime	-33.67%	0.60%	0.00	0.84	3.3	1.26	0	0.96	0	9%
	Shtërpçë	33.33%	2.20%	0.00	-42.06	94.05	-41.67	0	-0.69	0	5%
	Viti	0.00%	-2.65%	0.02	7.94	-0.65	10.14	5.13	0	2	0%
	Hani i Elezit	-8.00%	-3.63%	1.01	2.90	8.01	-9.87	8.34	-24.58	-1	0%
	Junik	0.00%	-2.05%	3.09	-26.79	11.53	4.76	0	-0.15	0	66%
	Kllokot	25.00%	-9.55%	0.23	-50.00	-21.07	-28.64	0	1.91	-1	8%
	Graçanicë	16.33%	-3.06%	0.14	-0.30	1.8	0.02	0	-22.76	1	4%
	Ranillug	-8.00%	1.54%	0.00	0.00	0.22	1.14	0	-5.14	-1	0%
	Partesh	25.00%	4.85%	-2.77	-10.51	-0.81	-0.94	0	4.13	-1	100%
Average	-5.33%	-0.85%	0.36	-5.38	5.65	-2.58	1.32	1.67	-0.06	25.91%	
MAX	33.33%	4.85%	3.09	15.84	94.05	10.14	24.28	34.35	2.00	100%	
MIN	-41.67%	-9.55%	-2.77	-50.00	-21.07	-41.67	-12.90	-24.58	-1.00	0.00%	

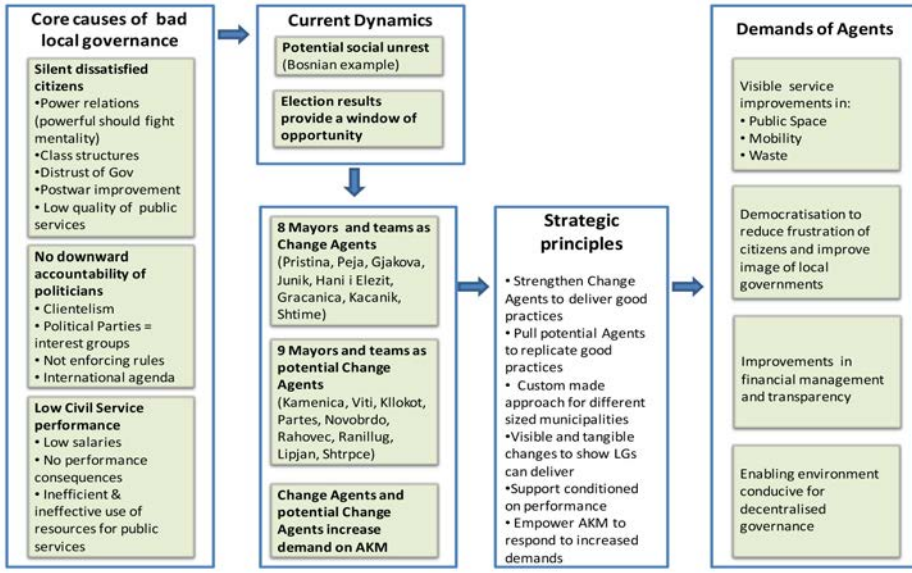
Review of present DEMOS/PBGS system Objectives of the grant

- Should focus be on Output or Processes?
- What is the vision for the grant ?
Is is project based prize money or the beginning of an institutionalised top-up for the general grant ?
- What is/are the specific performance problem(s) that we are trying to address?
 - Focus on self governing local governments ? or
 - Performance for particular sector or outputs ?
- DEMOS/PBGS has all the right components of a PB-grant but there is scope to solidify the design
 - need to better articulate the grant objectives
 - From there the indicators are to be derived

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From DEMOS ProDoc

Theory of change



From DEMOS ProDoc

Assessment methodology - PBGS



Indicators

% of recommendations of the general audit report from previous year fully addressed

% of collection of annual invoiced property tax

The area of parks/squares per capita in square meters (m²)

% of km of roads with public lighting - out of the total number - in urban and rural areas

% of kilometres of sidewalks regulated

% of local asphalted roads in the municipality

% of settlements included in waste collection service

% of waste fee invoices paid

Number of reportings of the mayor in municipal assembly meetings

% of published municipal assembly acts

Review of present DEMOS/PBGS system

Indicator set

- A PBGS is not to make the municipalities jump through certain (central level selected) loops – but to induce independent LGs into overall good behaviour
- DEMOS/PBGS indicators are more output than process oriented which means that scores are more influenced by history and environment rather than 'effort'
- Some indicators are beyond (direct) influence of the municipalities (e.g. road construction, waste)
- Some indicators are valid but not sufficiently well formulated (e.g. number of audit queries addressed – what if you did not have any ? or if a municipality had two difficult one as compared to 10 easy ones) – how does this indicator trigger changes in organisational behaviour?
- the current system tends to focus on short term outputs instead of longer term sustainable institutional improvements

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Review of present DEMOS/PBGS system

Minimum conditions

- MCs are non negotiable minimum safeguards to ensure proper use of the (public) grant money
- Some of present DEMOS/PBSG MCs are more suitable as Performance indicator

MC	Comments
Audit opinion	No comments (often used in other countries) as a safeguard
Minimum rate of property tax collection	Does it focus on the core safeguards?, could it be handled through a strong weight in a PM?
Membership fee to AKM	Not a safeguard – objective?
Necessary anticorruption strategy measures	Hard to define – needs sub-indicators (often as PMs instead)
Correct reporting in PMS	Hard to define - what if 90% correct?

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Review of present DEMOS/PBGS system

Menu of eligible activities

- Why do we sector earmark ?
 - Funds are fungible
 - and PBGS is relatively small
 - Municipalities do not really bother – they substitute
- Incentives of grant are stronger if LGs have more discretion on use
- DEMOS/PBGS is a 'generic/general' PBG – not a waste collection grant – nor a public spaces grant
- Suggestion: No earmarking - but cross sectoral grant
 - also makes institutionalisation easier (because then the grant can be seen as a top up to the General Grant)

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Part 3

Conclusions & Recommendations

- Relevance
- Effectiveness
- Scope for up-scaling
- Suggestions for immediate next steps

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Review of present DEMOS/PBGS system

Relevance

- It is official government policy to use local governments for important aspects of service delivery – largely funded by central government grants-
- In that context it makes, public sector management wise, sense to build into the grant mechanism elements of performance enhancement that are focussed on either critical weaknesses or crucial services
- competition works
- it allows to draw attention to issues considered important
- it guides technical support and capacity building
- it supports the establishment of autonomous LGs
- Relevance is best when the grant is used for institutional strengthening in the context of a system of fiscal decentralisation ('prizes' are too much project-based)

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Review of present DEMOS/PBGS system

Effectiveness

- there is scope to make the DEMOS/PBGS
 - more simple (in terms of overall design)
 - better prepared for institutionalisation (& sustainability)
 - with clearer link between objectives and indicators
- As much as the PMS data base is appreciated
 - it should not become a main determinant on what is possible and not possible in terms of improving the indicator set – an institutionalised PBGS is bigger than that
 - Issue of attribution – data base has useful data – but not all are attributable to present day performance
- There is a wealth of other data / more objective sources

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Review of present DEMOS/PBGS system **Alignment & harmonisation / Institutionalisation**

- The 'sector' does not seem to be that DP overcrowded
- on the contrary, many DPs seem luke warm at best
- **Option to work more with the government system**
- Definitely scope to see how to institutionalise the elements of the DEMOS/PBGS can be linked to the general grant
- Timing is good as MoF is reviewing the Municipal Grant system

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DEMOS Grant Conclusions and Recommendations

- Specify/articulate more clearly the objective of the grant
- For the sake of institutionalisation: Link it more clearly to Government systems & processes, and involve (next to MLGA)
 - MoF
 - NAO
- Rethink the size of the grant (3% of capital budget too small)
- Yes for all municipalities – No sector focus for use of grant
- Address the design (simplify and include issues above)
 - Relevant indicators – linked to objective and under LG control
 - Scoring – the scale is too narrow and too static
 - Allocation - relative scores to allocate the available pool
- Next phase: Re-design with the perspective of a country wide PBGS as top up to the General Grant that later (if liked) could be integrated into it (eg. 10% of GG as PBG)²⁶

Conclusions and Recommendations In terms of options for the next phase

Budget	MAIN OPTIONS	Pros	Cons	Pre-requisites
Same (SDC) budget	1. Continue with present 17 Municipalities and same amounts to perfect the system	<ul style="list-style-type: none"> Allows building a solid foundation but ... 	<ul style="list-style-type: none"> competitive element remains lacking Too slow 	
	2. 4-6 municipalities with larger amounts	<ul style="list-style-type: none"> Allows building the foundation whilst addressing issue of competition ...but 	<ul style="list-style-type: none"> difficult (if not impossible) to go back to a smaller universe Too small a number 	
	3. Present 17 municipalities but only 30-50% better scoring ones receive relatively larger amounts	<ul style="list-style-type: none"> Improves the system within the given budget envelope Stronger competition 	<ul style="list-style-type: none"> Weaker municipalities may ignore system or feel excluded 	
Extra DP Money	4. Present 17 municipalities with larger grant amounts (10-15% of capital budget)	<ul style="list-style-type: none"> Same universe with stronger incentives 	<ul style="list-style-type: none"> Needs more money 'just to improve the existing' 	<ul style="list-style-type: none"> Needs an additional budget of € 3.5 - 6.0M
Gov and/or extra DP monies	5. All 38 municipalities but only 25-40% better scoring ones receiving relatively larger amounts	<ul style="list-style-type: none"> National Much stronger competition Additional budget affordable for government 	<ul style="list-style-type: none"> . 	<ul style="list-style-type: none"> Needs an additional € 2 - 5 M
	6. All 38 municipalities being eligible to relatively larger grant amounts (10-15% of capital budget)	<ul style="list-style-type: none"> National Increased incentives 	<ul style="list-style-type: none"> Additional financial resources substantial 	<ul style="list-style-type: none"> Needs an additional € 10-15M
Extra 'Swiss' money	7. A dedicated grant budget line (conditional grant) for e.g. energy efficiency	<ul style="list-style-type: none"> Extra incentives Focus on fiscal decentralisation 	<ul style="list-style-type: none"> More complicated 	<ul style="list-style-type: none"> The concerned SDC domain 'gets on board'
Combi	8. Combination: Start with option 3 to evolve to option 5 or 6	<ul style="list-style-type: none"> Laying foundation Vision of institutionalisation and national ownership 	<ul style="list-style-type: none"> . 	<ul style="list-style-type: none"> Government interested and willing to co-finance

Concluding remarks

- As we are discussing the *options*
- there are other important issues that need to be addressed as well and maybe even first, on e.g.
 - major municipal performance gaps (to be addressed)
 - major municipal development agendas objectives (to be stimulated)
 - together forming the objectives of the grant
- Examples of Performance areas that may require attention
 - Democratic governance / Participatory planning
 - Communication and information
 - Transparency, anti corruption/integrity, gender, citizen satisfaction
 - Own source revenues (beyond the present indicator)
- Possible Development agendas (and could attract funding)
 - Local economic development
 - Environment, climate change, energy efficiency

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Suggested immediate next steps for preparation of DEMOS II

- Design DEMOS-II as a government project (with grants as part of a intergovernmental fiscal system rather than 'prizes')
- Explore and decide on one of the options - maybe best to be modest and get the basics right first – from option 3 to 5/6
- Have a facilitated process involving representative of all relevant agencies to develop a indicator set for Phase II (such a process will take weeks; requires strong facilitation ; see for example process that was followed in Tunisia)
- When designing DEMOS-II pay more explicit attention to
 - government decentralisation agenda (and part of the project may be to help government to shape that agenda)
 - loops between municipal performance – and TA/support
 - loops between municipal performance and policy agenda

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Thank you for your attention !
The floor is yours

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EXTRA SLIDES

From DEMOS ProDoc

Objectives - PBGS



- **Increase municipal ownership** for improvement of public services, good governance and financial management
- Contribute to **increasing collection of municipal own source revenues** (OSR), making municipalities more autonomous
- Enable more **focussed engagement** between local governments and civil society / citizens

- **Improve links between central and local governments** by generating data that can form a basis for policy making
- Support **weak performers** with **targeted technical assistance**

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Review of present DEMOS/PBGS system Indicator set

PFM Performance Indicators	Comments
1. % of recommendations of general audit report addressed	Useful indicator. Need to consider the severity of audit comments as well (size and types of comments) Could consider other PFM indicators as well (accounts up-to date, bank reconciliations, reporting, procurement systems, etc.)
2. % of <i>collection</i> of annual invoiced property tax	Useful, but does not cover many core aspects such as i) are the registers up to data ? ii) efforts on defaulters, publication, etc. What if there is low coverage of invoices compared to real potential? Property tax is ~ 5% of Municipal budget

Review of present DEMOS/PBGS system Indicator set

Service Delivery	Comments (some are more M&E indicators)
Area of parks/squares per capita in M2	<ul style="list-style-type: none"> - Is this a top priority ? need may differ from one municipality to another - May not reflect efforts of LGs, but rather framework conditions and economic strengths. - Other options: VfM audit, progress against targets, maintenance & supervision, standards, etc.
% of km of roads with public lighting	As above (and not all roads may need this equally)
% of Km of sidewalks regulated	As above (needs may not be the same)
% of local asphalted roads	As above (will depend on type of LG)
% of settlements included in waste collection services	As above (more in urbanized settings...)
% of payments made on waste	Need clear operationalization + could be combined with other efficiency factors

Review of present DEMOS/PBGS system Indicator set

Performance Measure on Governance	Comments
Number of reportings of the mayor in the municipal assembly meetings	May be combined with other core indicators such as procedures for conducting the meetings, level of consultations with citizens, operations of committees, etc.
% of published municipal assembly acts	<p>Useful, but.. What about publication of accounts, audit reports, OSR, etc.?</p> <p>Other indicators could be: citizens charters, user surveys, initiatives to involve citizens in planning, budgeting, progress implementation, initiatives on gender, etc.</p>



Review of present DEMOS/PBGS system
Extra slides on **Scoring and Allocations**

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Review of present DEMOS/PBGS system
Scoring



- A PBG system is all about 'sending a message' and hence it is about presentation
- The DEMOS/PBGS scoring system is unnecessarily complicated and the scale (6 points) too narrow
- Suggestion: Make a scale of 100 and reflect the different weights as differences in the Max points

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Review of present DEMOS/PBGS system Scoring

Indicator	Max score	weights	actual	why not something like this?
1	3	1.00	3.00	15
2	3	1.50	4.50	25
3	3	0.42	1.25	7
4	3	0.42	1.25	7
5	3	0.42	1.25	7
6	3	0.42	1.25	7
7	3	0.42	1.25	6
8	3	0.42	1.25	6
9	3	0.50	1.50	10
10	3	0.50	1.50	10
	30	6.00	18.00	100

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Review of present DEMOS/PBGS system From scoring to grant allocation

- Via a table
- Fixed amounts for each Municipality depending on Score (amounts based on population but arbitrary)
- Pros : seemingly simple
- Cons: no competition between municipalities
up-front the amounts to be spent unknown
- Were those the two reasons to introduce 'price money' ?
- It is possible to have a system that is less rigid (in terms of classes), has competition, allocates the total available amount and is proportional to score
- Such model is easier to be institutionalised

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Review of present DEMOS/PBGS system Allocations

An example with relative scores :

	Population		score		Population weighted		% pop x		Grant	per
	score	%	score	%	score	%	score	%	1,000.0 example	capita
1	100	5.0%	6	54.5%	600	17.6%	0.3	17.6%	176.5	1.8
2	400	20.0%	2	18.2%	800	23.5%	0.4	23.5%	235.3	0.6
3	500	25.0%	2	18.2%	1000	29.4%	0.5	29.4%	294.1	0.6
4	1000	50.0%	1	9.1%	1000	29.4%	0.5	29.4%	294.1	0.3
	2000	100.0%	11	100.0%	3400	100.0%	1.7	100.0%	1,000.0	0.5

Also here presentation matters !

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Conclusions and Recommendations In terms of options for the next phase

- Option 1 : Continue as is, to perfect the grant system
- Option 2 : reduce to 4-5 Municipalities with higher amounts
- Option 3 : Keep 17 but only top scoring 30-50% will get
- Option 4 : Keep 17 – with higher amount
- Option 5 : All 38 municipalities – only top 25-40% will get
- Option 6 : All 38 with larger amounts
- Option 7 : Separate energy saving grant line
- Option 8 : Combination: Start with Option 3 to evolve to option 5 or 6 with government co-funding

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- ?, *Clean Environment Race, Concept note*, Final version, undated

- Clive Grace, *Helping Kosovan Municipalities Improve, Developing the Performance Management system for Kosovan Municipalities*, December 2014
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List of Acronyms and Abbreviations

AKM	Association of Kosovo Municipalities
CD	Capacity Development
CER	Clean Environment Race (the GIZ supported grant scheme) related to waste)
CHF	Swiss franc
DP	Development Partner
EU	European Union
GG	General Grant (the by law established discretionary grant for all Municipalities in Kosovo)
GIZ	Gesellschaft für Internationale Zusammenarbeit /German Technical Cooperation Agency
HELVETAS	HELVETAS Swiss Intercooperation - Kosovo
KfW	German, government owned, development bank
LG	Local Government
MPMS	Municipal Performance Management System
MLGA	Ministry of Local Governance Administration
NALAS	Network of Associations of Local Authorities of South East Europe
O&M	Operation and Maintenance
OSR	Own Source Revenues
PB	Performance-based
PBG	Performance-based grant
PBGS	Performance-based grant scheme/system
PFM	Public Financial Management
PIU	Project Implementation Unit
PMS	Performance Management System
PoE	Publicly Owned Enterprise
ProDoc	Project Document
SDC	Swiss Agency for Development and Cooperation
Sida	Swedish International Development Corporation Agency
ToR	Terms of Reference
UN	United Nations
UNCDF	United Nations Capital Development Fund
USAID	United States Agency for International Development