

# Defining the Criteria of Local Government Institutions for Qualifying the Receipt of National and International Funding

*Professor Salahuddin M. Aminuzzaman*



## **PART I: BACKGROUND**

### **1. Introduction and background**

Recent research, analysis and literature on local governance and local finance have empirically validated that lack of resources is one the prime concerns of the local governments especially the rural based local government units like UP and Category C Pourashava<sup>1</sup>. The sources of external finance, apart from the conventional top down allocation in the name of Block grants, are far too limited. Even the potential of existing sources have not been explored or exploited.

Researchers and policy advocates argue that Local Governments (LGs), as constitutionally mandated government, should have the right to mobilize resources from various sources in addition to the conventional ones which are mostly top down, guided and controlled allocation of the central government. Such top down resources are generally tied and the local government have limited discretionary authority to use such resources. Empirical studies have also observed that, in general, local government do need additional resources to address the growing needs and demand for good and services at the local level. Furthermore, it is also argued that conventional sources local resources would hardly be enough to respond to the growing demand and expectation of the local community.

It is observed that the supply side of the additional resources is limited and also unrecognized. Reviews of research documents suggest that there are ambiguities in the LGs legal mandate and institutional access to draw and use external resources.

However, during last one decade, the LGs have been beneficiaries of various donor supported projects in capacity building, improvement of service delivery, water supply, health and sanitation through the line agencies or various projects of line agencies. In such cases, the LGs have very limited role and or no option in setting the priority options, design of the projects and or revising the project components. In most cases, such technical aspects have been 'standardized' by either by the donor agencies and or the implementing agency of the central government.

In addition, a number of international bilateral and multi lateral agencies are funding the NGOs for institutional capacity building of the LGs particular the UPs. In such case too, at receiving end, UPs have no say in the selection of the programme component being implemented by the NGOs.

Primary discussion with the local government representatives, and review of the existing institutional set up of development management at the grass roots level with particular focus to the Union Parishads indicate some uncertainties:

- LGs are not sure as whether they are institutionally eligible to draw external funding other than the government;
- LGs have no clear idea as to where to approach for external resources and assistance.
- LGs seem to be unsure about their capacity to effectively use such externally drawn resources, if any.
- LGs are also concerned about the possibility of too much control, monitoring and paper work in handling such external recourses.

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<sup>1</sup> For detail see Annex A

- LGs also recognized their institutional/ managerial limitations (mostly financial management and monitoring skill) in handling such external funds.

## **2 Methodology**

This review document is primarily based on the content analysis of available research materials and policy documents. In addition, consultative meetings<sup>2</sup> have been made with selected donor agencies. A number of officials of the ministry of local government, policy advocates and activists and Union Parishad Officials have been interviewed.

## **3 GOB Policy of Fund transfer**

During the recent months, the Government of Bangladesh has in principle agreed that there should be a single system of fiscal transfer to local governments. The design of the grant will take the existing block grant as its starting point. While all local governments will remain eligible for the current block grant, the intention is to gradually move all local governments to a larger, modified block grant over time. A system of self-selecting eligibility criteria will be used to determine which local governments move to the new system, with the intention of increasing their number by about 20% per year. In the interim, all other local governments will continue to receive the existing block grant at its current level of Taka 250,000. This existing grant will remain fully funded by government.

The total amount of resources required for the block grant will need to be determined on the basis of what is affordable at a national level, as well as what constitutes an acceptable minimum level of resources per local government.

Under the Local Governance Support Programme (LGSP), the Ministry of Local Government, Rural Development and Cooperatives (MLGRD&C) and Finance also plans to extend the benefits of a predictable and transparent allocation process to eligible local governments by publishing their individual grant allocations on a multi-year basis as part of the budget (ADP) documentation. Few principles have been set:

- Local governments should be made aware of the amount of funding they will receive by April of the preceding financial year. This would allow them to budget for these revenues, which is a key form of transparency.
- While a portion of the increases to the block grant may be funded through reprioritization of expenditure from other ADP programmes to local governments.
- LGs will be subjected to regular external audit.
- LGs will have to follow participatory processes in planning, budgeting and social monitoring.

## **4. Overview of Source of funds for LGIs (Particular focus to Union Parishad)**

### **4.1 Local sources**

As per the present legal and regulatory framework, The UPs are allowed to raise revenue locally from the:

- Annual tax on value of homesteads, known as the Union 'rate' or household tax.
- Taxes on professions, trades and callings.
- Taxes on cinemas dramatic and theatre shows, and other entertainment and amusements of like nature.

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<sup>2</sup> See Annex -2

- Fees for licenses and permits granted by the UP.

The UPs have three sources of revenue from central government:

- Annual revenue budget which contributes to costs of salaries and honoraria.
- 1% land transfer tax on land transfers within the Union boundaries (a land transfer tax of 2% is collected, and half of this now goes to the UPs).
- The Annual Development Programme (ADP) Block Grant for Union and Upazila Development from the central budget via the Ministry of Local Government.

The GOB has recently adopted measures to increase the revenue that flows to UP by reducing the proportion of the revenue transferred-to-central government by UPs from 35 to 25%; and increasing the lease value threshold at which a proportion of the lease revenue flows to Upazila, rather than union, level.

#### **4.2 Shared / Transferred Resources**

- Share of Lease money from specific markets (hats) and bazaars, *ghats* and ferries within the union boundaries as determined by the GoB.
- Share of the Lease money from specific water bodies (*jalmahals*) within the Union boundaries, as determined by the GoB.

#### **4.3 Other Sources of UP Income**

The other sources of UP income include:

- Subscription from individuals and organization;
- Rents and profits from properties;
- Profit from investments;
- Receipts from trusts; and
- Receipts from other governmental sources.

All proposals for levy of any tax, rates, tolls or fees must be considered and decided in a special meeting of the UP. The UP shall submit the proposal to the Deputy Commissioner for approval.

#### **4.4 Government Grants to UPs**

Types of Grants UP received are:

- Block Grants from Central Government;
- Grants to Salary and other allowances of the UP staff;
  - Honoraria of Chairman
  - Honoraria of Members
  - Salary of Secretaries
  - Salary of Gram Police
- Grants in aid for meeting tour expenses for Chairman/members;
- Grants to *Adarsha Gram/Guccha Gram*;
- Grants for deficit budget;
- Lump grant;
- Rural Works Programme grants;
- Project aid grant; and
- Various compensatory grants.

#### **4.5 Food aid**

UPs also receive resources under the food assisted projects, mainly Food for Work and Test Relief. The food assisted projects are channeled through Local Government Engineering Department (LGED) and the Ministry of Disaster management Relief. At the Upazila level, the Upazila Engineer (of LGED) and the Project Implementation Officer (PIO) are the key officials who handles and monitor the food assisted projects. The UNO has an indirect monitoring role for food assisted project implementation.

#### **4.6 Resources channeled through Selected Projects of National Government Line Agencies**

In addition to the above resources and project grants, various line ministries implement some of their projects in selected Union Parishads. Such projects are designed at the Ministries generally in consultation with donor agencies/ planning commission and other relevant agencies of the government. Such projects are merely implemented at the UP level. The Union Parishads do not have any direct involvement in design or even implementation of the projects. Community members are mere beneficiaries of such projects. In fact UPs role in design, implementation and monitoring such project are missing. In some cases, the UP Chair, however, are inducted for symbolic representation in the Upazila based management committees of such projects. Empirical evidence suggests that in most cases UP chair are not fully aware about such projects. In general, such projects are implemented with the assistance and collaboration of national or local NGOs. Some of these projects belong to the following ministries:

- Ministry of Education,
- Ministry of Youth Development
- Ministry of Environment
- Ministry of Relief and Disaster Management
- Ministry of Women and Children Development
- Ministry of Health and Family Welfare
- Ministry of Fisheries and Livestock

The projects run by different ministries covers health, nutrition, family planning, child immunization, micro credit for livestock, small scale income generation for the women and youth.

#### **4.7 Issues related use of UP fund/ Properties**

Discussion with the MLGRD reveals that by law UPs are allowed to lease public property as per rules of the government but are **not allowed to mortgage any public property**. The UPs however have full authority to use and manage its own resources and properties, which are being acquired or accumulated by its own income. In case of own resources, UPs could even mortgage for any viable project if needed.

However, existing rules permit the UPs to draw "subscriptions" from **individual and organization**. In such case, the term 'organization' has not been formally defined by the rules. This vagueness leaves an opening in the interpretation. It could very well include the following:

- a. Corporate sector / Multinational Companies;
- b. private education institutions;
- c. NGO
- d. Philanthropic organizations

Existing rules allow the UP to:

- a. draw profit from investment
- b. Rent and profits from properties.
- c. Receipts from trusts

Based on the above discussion it appears that UPs are not forbidden to invest, draw profit and seek subscription from individual and organizations. **At present there is no rule/**

**circular and or instructions that would allow UPs to borrow, receive grants from any organizations other than government.** However, under the existing rules, UPs can solicit fund as 'subscription' or 'donation' from any organization. This could include the corporate sector and private entrepreneurs and philanthropic bodies, NGOs etc.

Under the present regulatory framework and rules, drawing funds from external agencies especially from the donor agencies would not be possible. **As per present GOB rules, all foreign donation and grants have to be formally seek and negotiated only by ERD, Ministry of Planning.**

### **5 GOB Policy on Direct Donor support to LG**

At present there is no GOB policy which would permit the Donor agencies to directly channel the project grant to the Local bodies, even if the project are viable and in line with their programme priority or country support programme. Donor can only support the LG programmes that are sponsored and initiated by the line ministries of the government and being channel through the ERD.

Donor supported programmes for the LG are implemented by the GOB line agencies and NGOs. In case of the projects being implemented by the NGOs, approval of the NGO Affairs Bureaus is needed before the funds could actually be transferred. The NGO designed programmes are also being appraised by the national and international consultants being assigned by the donor agencies.

### **6. Donor Policies on Fund Transfer**

Discussions with international donor agencies reveal that at present there is no policy on allocation of grant directly channeled to the Local Government. All project aids and grants, bilateral or multilateral support, technical assistance and commodity aid to local government must be channeled through a respective ministry under the bilateral agreement.

Donor funding policy in general is guided by their respective country programme framework and the bilateral agreement with the government of Bangladesh. Each of the donors, however, has their own priorities areas of interest for bilateral support for Technical Assistance, Capital and commodity aid. Accordingly an agreement is signed between the donor agency and the ERD of the government of Bangladesh. Such Country Assistance programme is generally a 5 year agreement and is occasionally reviewed jointly by the GOB and respective donor agencies.

As far as Local government is concerned, following are the donor agencies that have direct programme interest in promotion of local government and local governance:

- World Bank
- Asian Development
- JICA
- Danida
- SDC
- USAID
- UNDP/ UNCDF
- EU
- DFID

## **6.1 Donor position on direct grant support to LG**

Observations drawn from the consultative discussions/ meetings with donor agencies, it appears that:

- In principle donor agencies have no objection is providing direct grant support to the Local Government bodies with particular emphasis to Union Parishads and Pourashavas.
- The donors, however, recognized that no such grant can be made available unless the Government of Bangladesh announce a clear policy in this regard.
- The donors have also raised their concern about the capacity, management skills, financial accountability, monitoring, and overall sustainability of the proposed projects.
- Donor would also expect to have a guarantee clause on the donation or grant so that the fund is rightly used and appropriately audited by the receiving agencies under the guidelines of the government or any other credible authority.
- Donor would however consider providing grant / aid and technical assistance to the UPs and LGIs under the active supervision and control of the proposed Local Government Commission.

## **6.2 Programme focus**

Subject to GOB policy, Donor agencies in principle would like to see the following priority areas to be addressed by the proposed project support grants:

- Projects that are in line with attainment of MGD goals of the Government;
- Projects that are in line with attainment of PRSP goals of the Government;
- Projects that ensures the extent and level of participation by the beneficiaries in design, implementation and monitoring; and
- Projects that have synergy with the sector programmes of the line agencies of the government

Consultations with donor further indicate that there are some core areas of interest and concerns of the international donor community. As a country policy focus for bilateral support, donor would prefer to have the following priority areas to be addressed:

- Projects with synergy with the existing programmes of the NGOs/ CBOs supported by the donors.
- Projects that directly and indirectly emphasize the following core areas of intervention:
  - development of women, children, disables
  - health delivery and services to the poorer section
  - Informal/ non formal and functional education
  - Creation of direct employment for the poor
  - directly make impact on the livelihood of the poor
  - gender issues and address human rights issues
  - maintain sustainable environment
  - Access to justice
  - Creation of voice of the disadvantaged groups
  - Enhance the overall quality of local level governance

### **6.3 Donor assessment criteria**

- Project complies with broader development goals of the funding agency/ donor;
- Project complies with broader development goals of GoB;
- Contribution of the LG in the total project cost;
- Evidence of any internal or external review of feasibility of the proposed project; and
- The project complies with the Instructions and Operational Guidelines of the respective donors.

Subject to a clear policy guideline, donor would prefer that the following design criteria in any proposed project:

- The project has a realistic budget;
- The overhead/administrative cost is at an acceptable level (i.e. less than 5 percent);
- The project has adequately addressed the issue of sustainability;
- The project is found realistic in its time-schedule; and
- The project has adequately assessed the risks involved in management and implementing and corresponding risk mitigation strategies are clearly spelled out.

### **7. Eligibility criteria for External Support**

In absence of a policy framework of the Government of Bangladesh, setting eligibility criteria found to be 'a premature move' by some selected donor agencies. However, of late World Bank has prepared a detail outline of the eligibility criteria for the Local Government to receive additional incentive block grant from the Local Governance Support Project (LGSP). The leading criteria includes: a. scores obtained by UP in the annual performance assessment of the MLGRD; b. The applicant LG must be audited by recognized audit companies; c. Concerned UPs have followed participatory planning mechanism, open budget and installed a system of social monitoring.

### **8. Funding from Financial and Banking Institutions:**

From the discussion meetings with the senior management of nationalized and specialized banks following observations can be drawn:

- a. Existing banking rules will not allow any bank to invest in any project being prepared by the LG without the permission of Central Bank as well as Ministry of Local Government.
- b. Given the political culture and the over all borrowing behaviour of the government institutions, Bank would find the LG as the risky borrower.

The Bank management, however, informed that if the UP could ensure collateral and matching fund, in principle, Bank would be interested to fund a viable project. In such case too, a clear policy guide line has to be issued by Bangladesh Bank



## 9. Window of opportunity: PKSP

One immediate possibility is to seek fund from the *Palli Kormo Sohayok Foundation* (PKSF). The PKSF was set up in 1990 by the government of Bangladesh with the overall objective of alleviating poverty and improving the quality of life of the rural poor, the landless and the assetless people by providing them with resources for the creation of self-employment to enhance their economic conditions. One of the prime objectives of PKSF is to:

"to provide various types of financial assistance to non-government, semi-government, and government organizations, voluntary agencies and groups, societies and **local government bodies**, so that as Partner Organizations (POs) and consistent with the Foundation's image and objectives, they can undertake activities with the goal of generating income and employment opportunities among the most economically disadvantaged groups in the society".

One of the basic operational strategies of the Foundation is to "provide greater thrust to institutional development". Furthermore "***it favors no particular model, instead it encourages innovations and different approaches based on experience***".

As a matter of fact, in principle UPs / LGIs qualify most of the criteria set by the PKSF. Some of the eligibility criteria however need to be addressed through institutional development support. Matrix below presents a comparison of the selection criteria of the conventional Micro Credit Institutions (MCIs) being funded by the PKSP vis a vis the institutional features and potential of the UP/LGIs.

Selection Criteria	Present status of the UPs
Nature and mandate of the organization;	Constitutional and legal status to serve people of rural and peripheral areas
Governance and management structure;	Different Acts / Ordinances clearly spelt out the governance and management structure
Quality and experience of the senior management staff;	At present UP has 13 members and a Chairperson. With One full time Secretary. Post of an Accountant is about to be in place.
Human resources;	UP officials and staff would need training. However under the LGSP, a comprehensive training programme is in pipeline with special focus to financial management and social accountability.
Geographic coverage;	UP's on average cover 10 to 15 village
Field activities including the profile of the poor and poorest clients;	A significant portion (about 70%) of the UP beneficiaries is poor.
Demonstrated performance;	UPs have been implementing the ADP project / Test Relief Projects/ Food for Work Projects since 1960s. Some pilot projects like SLGDP, EFCUP has shown potential and promise of UPs.
Management Information Systems;	UP maintains 38 different Registrars and files. Presently MIS is weak but GOB has plans to improve it soon.
Account and audit systems;	GOB has already started the annual audit system with the assistance of independent audit firms.
Portfolio and debt-equity ratio;	UPs have potential to put substantial amount of matching fund for a collaborative projects.

Furthermore, to qualify for PKSP funding, UP/ LGIs have to meet some key pre-conditions:

- Prepare detailed and separate sets of accounts manuals,
- Prepare terms of reference (TOR) for the internal control and audit system

- Prepare TOR for audits to be carried out by external and independent auditors.
- Prepare guidelines for the internal control system.

### **9.1 Window of opportunity: Cooperative Model**

The UPs can also explore the possibility of forming multi-purpose cooperative societies with the assistance from the Upazila Cooperative Officer. UP/LGIs could provide institutional and logistic support to the said cooperatives. By holding a substantial portion of the shares, LGIs can also steer the decision making and developmental activities of the cooperatives. Annual dividends drawn from the Cooperative could a good source of self generating fund for the UPs/ LGI. It is to be noted here that existing Cooperative Act 2001 and Cooperative Rules 2004 will not stand as a hindrance to form such cooperatives. In such case NGOs can play a catalyst role and provide technical assistance to the UPs in forming the Cooperatives.

### **9.2 Collaboration Program with NGOs/ Private Sector**

Over the last two decades there has been a significant expansion of the operations of the NGOs all over Bangladesh. Some NGOs have been working closely with UP and Pourashavas mostly in capacity building, community mobilization and technical support in financial management and budgeting. However there are enormous opportunities and potential for economic and business collaboration between the NGOs and the LGIs (Aminuzzaman, 2003).

#### **9.2.1 Empirical evidence of External Support to Union Parishad**

Evidence can be drawn from a CARE Bangladesh sponsored pilot project entitled *Enhancing the Financial Capabilities of the Union Parishad (EFCUP)*<sup>3</sup>. The pilot project substantiate the fact that in spite of UP's weak managerial capacity with some institutional support and capacity building initiatives, Union Parishads can generate resources if innovative approaches are developed and practiced.

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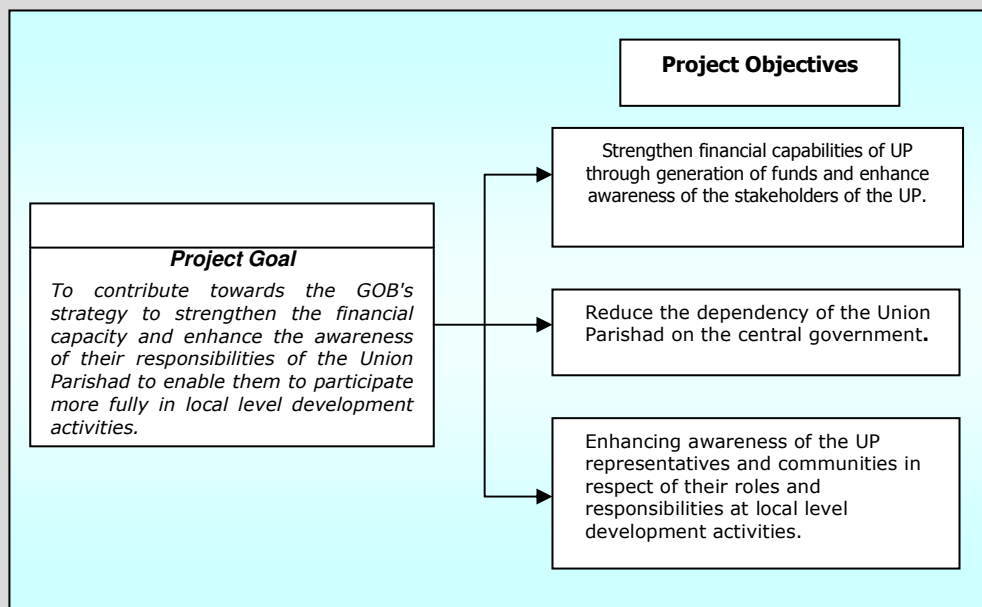
<sup>3</sup> For detail see, Salahuddin Aminuzzaman, *Enhancing the Financial Capabilities of the Union Parishad (EFCUP): An Impact Study*, PSU, CIDA, July 2002.

### **CASE STUDY ON EFCUP**

*Enhancing the Financial Capabilities of the Union Parishad (EFCUP)* EFCUP was a two and half years pilot project (February 2000 – July 2002) implemented in 24 Unions in 4 Upazilas of 4 Districts in Bangladesh. The main objectives of the project were to: a. reduce the dependency of the UP on the central government through increased fund, which could act as a safeguard towards sustainable development; b. enhance awareness of the UP representatives and the communities in respect of their roles and responsibilities at the local level development activities.

Under the project, the participating UPs received a maximum amount of Tk. 125,000 as credit from CARE to undertake some Fund Generating Activities (FGAs). The UPs were supposed to reimburse the credit amount to CARE including 3% service charge from the FGA income within the pilot period as per their reimbursement schedule.

The following schematic diagram illustrates the objectives of EFCUP



With exception to one, all Union Parishads have generated a substantial amount of net profit. The net profit ranges from 37.32 percent to 185.24 percent. Net worth of fund generated by the UPs ranges from Tk 37,206 to Tk. 2,29,090. With the then opportunity cost of capital the return of return was very encouraging.

The project directly served a total number of 877 beneficiaries. The participating Unions have implemented 13 different types of Fund generating Activities (FGAs).

The project has proved that with supportive fund and a strict financial monitoring system, UP even with its limited capability can undertake income generating projects.

Members of the community supported the project on the following grounds: a. It has created some employment; b. A good number of poor and needy have been benefited; and c. It has helped UP to generate some resources.

As secondary level impact, the project also to certain extent accelerated local agricultural development (seed distribution, power tiller) as well boosted the local economy by developing market infrastructure (construction of market).

#### **Key institutional learning**

- a. UPs are not as "hopeless" as generally perceived. UP's can generate resources if the project is properly planned, guided and monitored.
- b. Accountability and transparency of such projects would depend on the extent of community mobilization and awareness building activities.

c. There is enormous scope for UP-NGO collaboration in the areas of resource mobilization and management.

In summary, we may identify at least four windows of opportunities.

- UPs/LGI could approach the PKSf in line with project drawn from the experiences of the EFCUP model;
- UP/ LGIs could also generate resources through the formation of multi-purpose cooperative societies within the frame work of the existing cooperative rules.
- Collaboration program with NGOs/ Private Sector
- With extended capacity some of the Class A Pourashava/ City Corporations could even float bond.

Tactical strategies to be followed to activate the windows of opportunity:

<b>Options</b>	<b>Strategies to be taken/developed</b>
UPs/LGI could approach the PKSf in with viable projects focusing the employment and income generation for the poor and projects with pro-poor focus.	a. LGIs should immediately form a working committee to negotiate with PKSf.  b. Prepare the following tools/processes: <ul style="list-style-type: none"> <li>• Detailed and separate sets of accounts manuals.</li> <li>• Internal audit system</li> <li>• Install external and independent audit system.</li> <li>• Guidelines for the internal financial control system.</li> </ul>
Formation of multi-purpose cooperative societies	a. UP Standing Committee on Finance and Establishment should be assigned to develop the working papers.  b. Establish effective links with the Upazila Cooperative Officer for technical support  c. Liaise with the Upazila Development and Coordination Committee for advisory and institutional support.
Collaboration program with NGOs/ Private Sector	a. UP/ BUPF / MAB may form a task force to explore the technical processes and the regulatory framework for such collaboration with ADAB/FNB and local

	<p>Chamber of Commerce and Industries.</p> <p>b. Consultation with the NGO Bureau for designing the project development format for such collaborative ventures.</p>
<p>Floating Municipal Bond by some selected Class A Pourashava/ City Corporations.</p>	<p>a. Interested and potential Pourashava/ City Corporations should immediately get financial asset and resource assessment by a recognized and credible audit team.</p> <p>b. MAB should form a task force to start negotiation with SEC, Selected Stock Exchange.</p> <p>c. Engage a financial consultant to negotiate with concerned agencies.</p>

However the most important strategic option for the LGIs at this point is to form their respective federated bodies for UP, various tiers of Pourashava, Upazila Parishads, Zila Parishad and City Corporation.

Such bodies should operationalize the strategies that would suit their respective needs and priorities depending on their institutional strengths, capacity and other objective conditions.

## 12. Conclusions

Based on the above analysis, following broad conclusions can be drawn:

- Under the existing rule, UPs/ LGIs can not directly apply for external donor fund/ borrowing.
- UPs can only draw / seek fund from agencies like corporate sector/ private entrepreneurs/ individuals as 'subscription'; and 'donation'.
- UPs can however use its 'own resources'<sup>4</sup> as collateral or even mortgage its own resources for any business / productive venture.
- There are examples of success in using external resources for enhancing financial capacities of UP as well as serving the poor and disadvantaged.
- PKSF, by mandate, could be one of the potential sources for external borrowing.
- There is indeed scope to involve the NGOs to assist the LGIs in designing fund worthy projects
- Donor could channel their support to the UPs through the NGOs.
- Expertise of the NGOs could be used for the monitoring and capacity building of the UPs/ LGIs to run the income generating projects developed by the external grant/ loan or borrowed fund.
- At present there are at least four windows of opportunities.

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<sup>4</sup> Own resource means any property and resource being accumulated and generated by the UP itself . It must not include any public property under the custody of the UP.

- The UPs/LGI could approach the PKSf in line with project drawn from the experiences of the EFCUP model;
- UP/ LGIs could also generate resources through the formation of multi-purpose cooperative societies within the frame work of the existing cooperative rules.
- Collaboration program with NGOs/ Private Sector
- Floating Municipal Bond by some selected Class A Pourashava/ City Corporations.

### 13. Policy issues

**13.1 Absence of Legislative framework:** The present LG Acts neither formally allow nor restrict the LGIs to draw/ borrow direct grants/ loans from donor or other agencies. The regulatory framework thus needs to be examined and clear provisions have to be made to authorize the LGIs to borrow and receive direct grants. Different advocacy groups should approach the Ministry of LGRD & Cooperative to address the matter.

**13.2 Lack of clear policy:** There is no policy guideline for direct transfer of grant/ loan/ aid to the LG bodies in Bangladesh from external agencies. Under the present policy framework, all projects have to be signed with the implementing agencies/ ministries with the approval of the ERD. For external borrowing from the Bank with LGIs/ UPs own resources as collateral would also not be possible without a policy guideline from the Bangladesh Bank. Different advocacy groups should therefore approach the Ministry of GRD & Cooperative to address the matter.

**13.3 Lack of implementation capacity:** Donors are concerned about the practical problem of managing the direct grant to the LG bodies. Considering the number of potential applicants (UP, Pourashavas, City Corporation, Zila Parishad and Upazila Parishad), donors would find it difficult to make appropriate assessment and appraisal/monitoring of the potential projects. Furthermore donor would prefer to have a guarantee of monitoring / accounting of the fund from the Government of Bangladesh or any other relevant agency of the government.

### 14. Move forward

What is now needed is to initiate a **policy negotiation** with the government to open a window of opportunity for the LG bodies to apply for direct grants from the potential donor/ financial agencies. A new **policy regime has to be developed** in line with the broader framework of development assistance programme management in Bangladesh. In such case **negotiation should be started with ERD**. The Ministry of LGRD should also need to take proactive role to initiate necessary **modification/ clarification of the existing regulatory framework** to formally allow LG bodies to apply for such grant funds.

Furthermore, MLGRD should also approach the Ministry of finance and Bangladesh Bank to initiate necessary policy changes to make the LGIs eligible to apply for external borrowing and generation of fund.

## **PART II: Local Government Grant Guidelines (Proposed draft)**

15. The prime objectives of the Local Government Loan / Grant Programme is to provide opportunity and develop the functional and operational capacity of the LG to design and implement projects to provide goods and services with the efficient use of the external funds either as loan or grant.

The programme will be specifically targeted at those local governments where financial support of restructuring initiatives will provide benefits to national economic stability and development in the longer term, while mitigating the negative impacts that such initiatives might have on national social and economic welfare in the short term.

The loan/ grant funding will not be tied to the implementation of specific projects, but rather to the achievement of the broader goals of the country with specific national priority areas like poverty alleviation, MGD goals and pro-poor targeted programme initiatives or any project found to be viable. In terms of borrowed capital, the projects should be so designed that those create employment, good and services and profit to maintain the repayment schedule.

### **16. Assumptions on Grant funding**

The programme could be based on the following assumptions:

- Local resources are not always adequate enough to take targeted and priority programme
- The existing system of budget allocation system does not take into account projects for ultra poor and socially disadvantaged.
- Local Governments are capable to design and implement pro-poor and targeted projects
- Local Government grants would encourage the LGs to develop matching grants to qualify them to participate the programme and motivate them to generate local resources/ and mobilize local initiatives.
- The grant would provide incentive to localities to contribute local tax revenues for long term sustainable development programme
- The grant programme will develop confidence among the LG on their own initiatives and managerial skills for development management
- It will also improve local resource flexibility and provide opportunities for local governments to develop partnership with donor agencies/ private enterprise and financial agencies.

### **17. What can be funded?**

All projects that comply with Local governments may request for fund or matching funds for:

- Women, children, Adolescent development,
- Health delivery system / HIV - AIDS
- Capacity development of the LG bodies
- Directly Addressing the goals of MGD and PRSP
- Economic Empowerment of the rural poor and socially disadvantaged

- People with disability
- Primary Education / Non Formal Education
- Employment generation for the poor
- Empowering the poor and strengthening their voice and choice
- Water and sanitation
- Any other project that would generate income and employment for the poor, women and socially disadvantaged.

However there should a negative list which would identify the nature of projects/ project components which could not be supported by the proposed grant.

## **18. Selection and Compliance criteria for UP for the Grant support**

### **18.1 Who is eligible for the program?**

Applications for the Local Government Project Support Grant/ Borrowing are eligible for the following LG bodies:

- Union Parishad
- Upazila Parishad
- Pourashava
- City Corporation

### **18.2 Selection criteria of UPs/ LGIs**

Following selection criteria could be used:

- Scores obtained by UP/LGI in the annual performance assessment of the MLGRD
- The applicant LG is audited by recognized audit companies
- LGs organizational Capacity/Strengths in line with the proposed project
- Experience of relevant or similar types of projects by the LG
- Existence of official bank a/c
- Post of key administrative staff are filled
- Having financial management and procurement training
- Annual budget approved by UP council in open public meeting

LGs would be required to apply for the grant through submitting evidence of meeting these criteria and providing a signed copy of a council resolution that binds them to the terms and conditions of the grant program.

## **19. Application Limitations**

One application per local unit of government per year. However in exceptional case application for supplementary grant application may be made.

**20. Support Materials** – Grant Applicants are required to submit the following support materials:

- A notarized affidavit signed by the local government's operating officer (usually the Chairman) indicating that upon budget approval, local tax revenues will be used to match the requested amount and distributed as indicated in the application.



## **21. Monitoring**

The monitoring processes set out below will enable an assessment of the extent to which there has been an improvement in the implementation of the proposed project.

**22. Financial reporting of LGs:** LGs receiving grants will submit quarterly financial reports to the donor/ funding agency and MLGRD&C&C which will include information on receipts, expenditures and the balance of the grant funds. The LGs will also submit a copy of the report to the Upazila Nirbahi Officer (UNO)/ DCs. These reports will be required to be sent on a regular and timely basis and compliance will be monitored by the Monitoring & Evaluation (MIE) wing of the MLGRD&C&C and is a condition to remain eligible to continue to receive the grants.

### **22.1 Quarterly Reporting**

A report must be submitted by the LG to the Donor and Ministry of LGRD thirty days after the end of each calendar quarter for the period of the grant. These reports must provide:

- A. Comprehensive overview of the financial position of the LG, including: an analysis of actual financial performance for the quarter versus that budgeted for the quarter;
- B. An overview of progress in the implementation of the plan, including summaries of the targets for the quarter under review, reasons for non-achievement of the targets set for the quarter under review and the targets for the ensuing quarter;

### **22.2 Annual Performance monitoring**

The Donor or the funding agency may appoint a team to monitor grant compliance on an annual basis. This team will undertake:-

- Assess the grant based project and its link with the overall development plan and financial plan of the LG.
- Review of conditions associated with the grant, with a view to assessing their efficacy in pursuing the desired outcomes and recommending any changes that may be necessary.

**23. External audits of LGs:** The LGs will be audited annually by chartered accountants (CAs) procured by the Local Government Commission/ MLGRD&C. The audit report to be presented before the open meeting of the LGs as well as submit three copies of the audit report, one each to the Donor, LGC/ MLGRD&C.

## **24. Application Limitations**

One application per local unit of government per year. However in exceptional case application for supplementary grant application may be made.

The grant deadline may apply conditionally and confirm the application in writing to the granting authority.

## **25. Funding Limitations**

Funding will not exceed Tk XX and must be matched at least by 10 percent with local tax revenues through the local government's annual budget.

Funds awarded from the granting agencies and funds appropriated must be assigned specifically towards support selected priorities areas of the donor and which fall in line with the priority of the LGs.

## **26. Sanctions**

Sanctions could be applied in cases of non-compliance with the grant agreement, in particular the indicators and benchmarks against which disbursement will occur. There will be three situations that will give rise to the need for sanction: -

The imposition of sanctions should be subject to following proviso's:

- The Donor/ funding agency may, at its discretion, allow a variance to the maximum of 10% of each condition, indicator or benchmark figure, subject to this variance having no impact on future performance requirements in terms of the agreement;
- In the case of non-compliance due to factors outside of the control of the LG, the Donor may, at its discretion and subject to a detailed application from the LG, allow variance on a particular condition for a specified period.
  
- The Donor may, at its discretion and subject to the recommendation of the assessment team on the basis of its annual assessment, vary individual conditions or indicators;

## **27. Arbitration**

Should any dispute arise in the interpretation of the grant agreement, the Ministry of Local Government will make the arbitration move.

## **28. Requirements of Grant Proposals**

Grant proposal must demonstrate the following features:

- a. Clear goals / objectives and purpose
- b. Clearly spelt out put and outcomes with indicators
- c. Realistic budget
- d. Log frame with specific indicators of verification
- e. Sustainability plan
- f. Connectivity and synergy with other policies and sector programmes including PRSP and MDG.

### Part III: LG Development Project Loan/ Grant Proposal

<b>Project Title:</b>
<b>Sponsoring Local Government:</b>
<p><b>Background:</b> Briefly describe the LG unit including information concerning population, geographic location, demographics, economic considerations, etc.</p>
<p><b>Project Description:</b> What specific development goals does the local government have that will be facilitated by this grant?</p> <p><b>Statement of Need:</b> Narrative of the background of the project and its rationale in the light of the actual need and demand of the project.</p> <p><b>Objectives of Project:</b> Project Objectives- Specific objectives</p> <p><b>Output and Outcome of the Project:</b> Narrative statement of the output and outcome</p> <p><b>Linkages :</b> Linkages with similar other GO and NGO Projects:</p> <p><b>Impact on governance:</b> Qualitative and quantitative impact on local governance</p>
<p><b>Location of the Project:</b> Detail location and physical mapping of the project</p>
<p>Cost of the Project (in Million Tk)</p> <p>LG Contribution : Tk</p> <p>Donor Contribution : Tk</p> <p><b>Total                      Tk.</b></p> <p>Narrative Note on:</p> <p><i>What amount is the Local Government's match from local tax revenues?</i></p> <p><i>What is the amount requested from the granting agency?</i></p> <p><i>Who are the other grating agencies and amount already received and or in process of approval?</i></p> <p><i>The local government share must equal at least 20% of the total project cost. The rest can be made up of a combination of match.</i></p>

Specification / design of components <b>Component and estimated cost</b> summary (in Tk) Component 1: Tk Component 2: Tk Component 3: Tk Component 4: Tk Component 5: Tk
<b>Project Implementation period:</b> Date of commencement and completion
<b>Institutional arrangement for implementation of the project:</b>
<b>Whether any pre-appraisal study was done before formulation of this project:</b>
<b>Whether similar project have been implemented earlier/ or under implementation by the LG</b>
<b>Financial/ Economic Analysis of the project:</b> <ul style="list-style-type: none"> <li>• CBR Ratio</li> <li>• Net Present Value</li> <li>• ERR</li> <li>• Impact Analysis With or With out project benefits/outcome</li> </ul>
<b>Effect on Environment, women and children, employment, poverty alleviation and institutional productivity</b>
<b>Sustainability of the Project</b>
Recommendation and signature of the sponsoring UP Chairman with seal and date
Recommendation and signature of the Designated officer of the Ministry of Local Government with seal and date

- Annexure I : Project Management Set up
- Annexure II: Project Component: Schematic diagram
- Annexure III: logical framework outputs and programme components
- Appendix-IV: Procurement Monitoring and Reporting Arrangements
- Annexure V: Detailed Project Budget

## **CHECKLIST**

- 4 completed copies of the application
- One signed copy of the resolution of the Union Parishad/ concerned LG of the approval decision with detailed comments and observations.
- Detail Map and other annexure.
- Detail Financial/ Economic Analysis
- Detail Environmental Assessment/ Analysis

## **Annex-A**

### **References on Local Finance in Bangladesh**

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- Salahuddin Aminuzzaman, *Assessment of Alternative Models for working with Local Elected Bodies (LEB)*, Dhaka, The Asia Foundation 2001.
- Salahuddin Aminuzzaman, *Enhancing the Financial Capabilities of the Union Parishad (EFCUP): An Impact Study*, PSU, CIDA, July 2002.

Salahuddin Aminuzzaman, NGOs and the Grassroots Based Local Government in Bangladesh: A Study of their Institutional Interactions, in Susanna Myllyla Edited NGOS under Challenge – Dynamics and Drawbacks in Development, 2004.

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World Bank, Aide – Memoir - *Bangladesh Community-based Local Governance Support Project* 2005.

World Food Programme & Bangladesh Bureau of Statistics, *Local Estimation of Poverty and Malnutrition in Bangladesh*, 2004.

Zillur Rahman, *Rethinking Local Governance towards a Livelihoods Focus*, Dhaka: Power and Participation Research Centre. 2002

## **Annex B**

### **Persons Interviewed**

David Savage , World Bank  
Nilufar Ahmad (social scientist), World Bank  
Jeffrey Hammer (economist), World Bank  
Nicholas Perrin,(institutional specialist), World Bank  
V Rama Krishnan (financial management specialist) World Bank  
Durafshan Choudhury. UNDP/UNCDF  
A.R. Siddique UNDP/UNCDF  
Junaid Ahmed, Sector Manager, World Bank  
Shaila Khan, ARR, UNDP  
M. Moniruzzaman, DFID  
A.R. Siddiqui, UNDP  
Roger Shotton, UNDP  
Firoz Ahmed, ADB  
Nathaliao Fienberg, Deputy Head, Denmark Embassy  
Muntarin Mahal, Denmark Embassy  
Corinne Huser, SDC  
Jasper Steffensen, ADB/UNCDF

AHMA Qasem, Secretary MLGRD  
Jamshed Ahmed, Director, NILG  
M.Abul Kasem, DG, MIE, MLGRD  
Asok Madhab Das, MLGRD&Coop  
Azizul H Bhuyan, Registrar, Cooperastive  
Ferdousi Begum, General Manager, BKB  
Awlad Hossain, General Manager, Janata Bank  
M.A. Baqui Khalily, Executive Director, Institute of Micro Finance, PKSK  
Jashim Uddin, Deputy General Manager, PKSF

### **NGO Officials**

Rokshana Khandakar, Executive Director, Khan Foundation  
Taleya Rahman, ED, Democracywatch  
Mohsin Ali, Wave Foundation  
Jyoti Chattarjee, IED  
Rafiqul Islam, Rupantar  
Reza Chowdhury, COAST Trust  
Kartik Mondol, Program Manager, MJ  
H.K.Das, Program Coordinator, Care Bangladesh

### **BARD/ RDA/NILG**

Prashanto Roy, Director ( Program), NILG  
Jamshed Ahmed, Director ( Research) NILG  
Minzanur Rahman, Deputy Director, BARD  
Fauzia Nasreen Sultana, Deputy Director, BARD  
Abdul Mannan, Director General, Academy for Rural Development, Bogra  
Tarek Ahmed, Joint Director, Training ,Academy for Rural Development, Bogra

### **Upazila based officer**

Md. Mahbub Alam, UNO, Mithapukur, Rangpur  
Devabrata Chakraborty, UNO, Magura  
Md. Rashidul Hassan, UNO, Dhanbari, Tangail.



Md. Mahmudul Hasan, UNO, Dhobaura, Mymensing  
Mohammad Nazmul Abedin, UNO, Hossainpur, Kishoregonj

**UP Chairman**

Shahin M. Khan Chairman, Laohati Union  
Salina Hayat Ivy, Mayor, Narayanganj Pourashava  
Khorshed Alam, Purnimakhati, Ullapara  
Mahbubur Rahman Tulu, Shahapara, Gaibandha  
Golam Gilana, Bijoyanager, Comilla  
Abdul Razzak, Jagannathpur, Comilla  
Khalilur Rahman, Eklaipur, Begumganj  
Motiur Rahman, Bangala, Ullapara,  
Khaliquzzaman, Korotai, Tangail  
Ali Ahmed Mia, Nagbari, Kalihati

**UP Secretary**

Abul Kalam, Eklaipur, Begumganj  
Shahidul Huq, Bijoyanagar, Comilla  
Kabirul Alam, Kapalia, Dinajpur  
Abul Hashem, Ramnagar, Jessore  
Sabur Ali, Bijoyanager, Comilla