

District Development Funding (DDF) and Functional Organisational Assessment Tool (FOAT)

DISCAP Best Practices Conference

Sub-theme:

"Resource Mobilisation for Decentralised Management"

9th May, 2007

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Outline of the Presentation

Introduction and Recap

- Background and Context
- Rationale and Objective
- The FOAT (Design and Structure)
- DDF (Design & Structure)

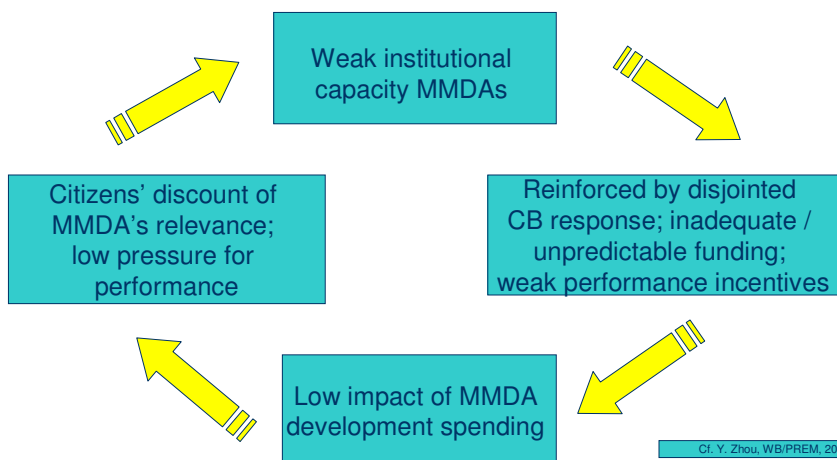
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BACKGROUND AND CONTEXT

- MMDAs agitating for more discretionary resources (service delivery, MDGs) and improvements in technical support
- **Response:**
 - Support to strengthen mobilisation of IGR
 - Increase in DACF from 5% to 7.5% (GPRS)
 - Projectised support from DPs (performance assessments, capacity building, investment funds)
- Central Government cautious with providing additional funds (e.g., DACF) because of MMDAs' weak financial management capacity and lack of linkage between performance and fiscal transfers

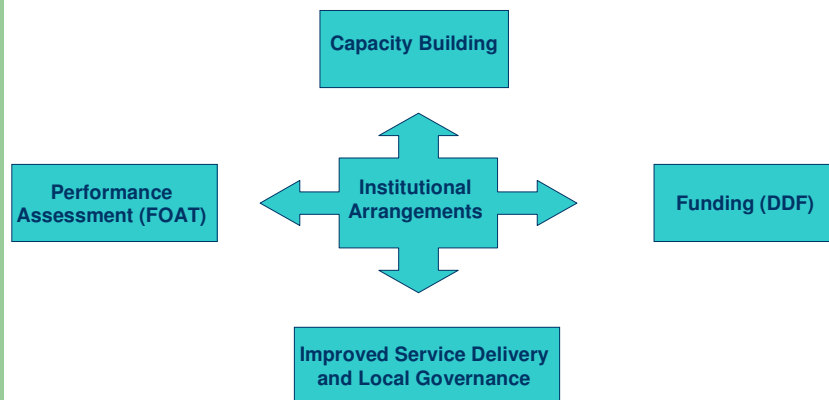
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Challenge: Negative Cycle of Ineffective Local Governance



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Components of the DDF-FOAT System and Linkages (NDAP)



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Rationale Behind the DDF-FOAT System

1. Need to **increase the volume of discretionary funding** to MMDAs
2. Ensure **efficient** and **judicious** use of discretionary funds at the MMDA level
3. Introduce a **link** between performance assessments, increased levels of funding and capacity building support
4. Introduction of **incentive structure** in the local government sector
5. Introduce **harmonised systems** for performance assessment, funding and capacity building (fully operating within GoG legal and regulatory framework for local government)
6. Address the concerns of the central government and the requirements of the MMDAs

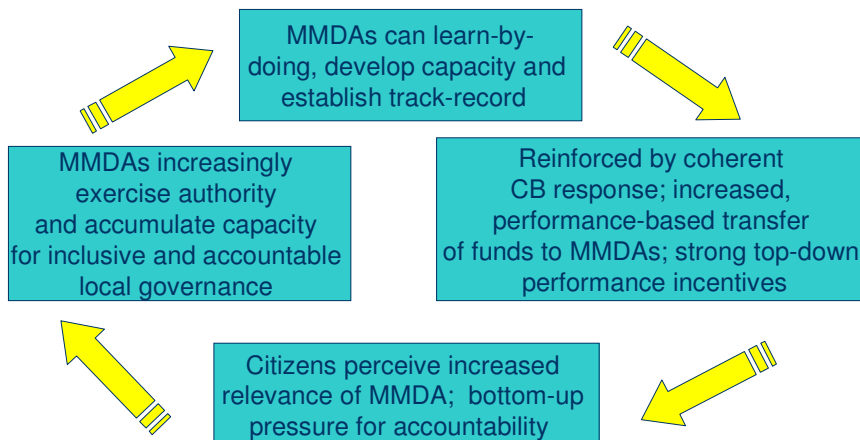
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Objectives of the DDF-FOAT System

- Strengthening institutional performance of MMDAs
- Harmonisation of disjointed approaches to implementation (systems development)
- Systematically improving district level service delivery and the quality of local governance (MDGs, GPRS II)

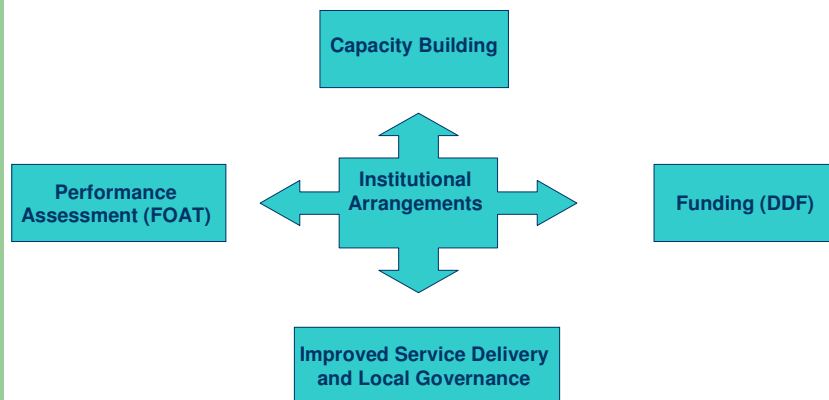
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Goal: Positive Cycle of Improving Local Governance



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Components of the DDF-FOAT System and Linkages (NDAP)



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Progress so far...

- Design documents for DDF and FOAT available submitted to Cabinet
- DCDs, Planning Officers, Budget Officers and Finance Officers of all 138 MMDAs sensitised (feedback mostly very positive)
- Reconfirmed commitment from MLGRDE and Development Partners
- Final Negotiations Ongoing
- Finalisation Operational Manuals ongoing

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The FOAT...

Tool and process to annually assess administrative and political compliance with existing legal, regulatory and policy frameworks in four broad areas:

1. Management & Organisation
2. HRD
3. Planning and Budgeting
4. Financial Management and Administration

Outcome of the assessment informs DDF allocation and identifies capacity building needs

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Key Features of the FOAT

- Assessment **strictly** against established legal, regulatory and policy frameworks
- Assessment **strictly** on issues within the direct control of MMDAs
- FOAT covers both the **administrative** and **political** structures of MMDAs
- Indicators subject to **periodical review**
- Distinction between **Minimum Conditions** and **Performance Measures**

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Minimum Conditions

Non-compliance With Primary MCs

No investment funds for the given year, but still eligible for capacity building support

Non-compliance With Secondary MCs

Two-month opportunity to rectify the signaled flaws

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Examples...

- No substantial adverse comments bordering on dishonesty in the Audit Report
- Medium-Term Development Plan prepared according to NDPC Guidelines
- National Public Procurement Guidelines available in District

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Performance Measures

- All MMDAs that meet MCs, are eligible for basic DDF allocation (determined by population, land size and an equal share)
- Scoring on Performance Measures determines whether MMDAs will receive a financial reward or sanction on their basic allocation

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Examples...

- Meetings in the political management institutions
- Involvement of key stakeholders in the preparation of plans and budgets
- Procurement Plan
- Size of the IGF
- Quality of financial administration

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The DDF...

- Funding component of the system
- Managed and administered under existing PFM rules and regulations
- Co-financed by GoG and DPs
- Actual releases to the MMDAs informed by outcome FOAT

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The DDF Pool...

- **Entitlement component (50%):**
 - (i) equal share – 15%, (ii) population – 80%, (iii) MMDA territory – 5%
- **Performance component (40%):**
FOAT (discretionary)
- **Capacity Building component (10%):**
Equal share (mandatory training requirements) and discretionary allocation (FOAT)
 - FOAT assessment to be financed from Capacity Building Grant (appr. 10% of CBG - or < 1% of the overall DDF pool)
 - 2% of Capacity Building Grant reserved to finance DDF Unit

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Development Menu - Principles

- Should identify eligible types of expenditure (MTEF / BPEMS)
- No sectoral conditionalities (MDGs, GPRS II, MTDPs)
- Should promote political prerogative MMDAs and budget autonomy
- Positive correlation between improvements in performance and higher degrees of discretion

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Frame of Reference: MTEF IV

Investment Activity Expenses		
Construction Works	Property Purchases	Rehabilitation Expenses\
Consultancy fees	Purchases of Plant, Equipment and Vehicles	Buildings
Contractors fees	Purchase of Plant & Equipment	Plant and Machinery
Site Preparation	Purchase of Vehicle	Other Assets
Compensation for land	Purchase of Furniture	Roads, Bridges & Signals
Permits and legal fees	Purchases of Motor Bike, bicycles etc	
Construction Materials	Purchase of Computers and accessories	
Sanitation Facility Only	Purchase of Airplanes	
Access Roads Only	Purchases of Trains	
Water System Only	Purchase of Ships and Vessels	
New Buildings	Other capital expenditure	
	Others	

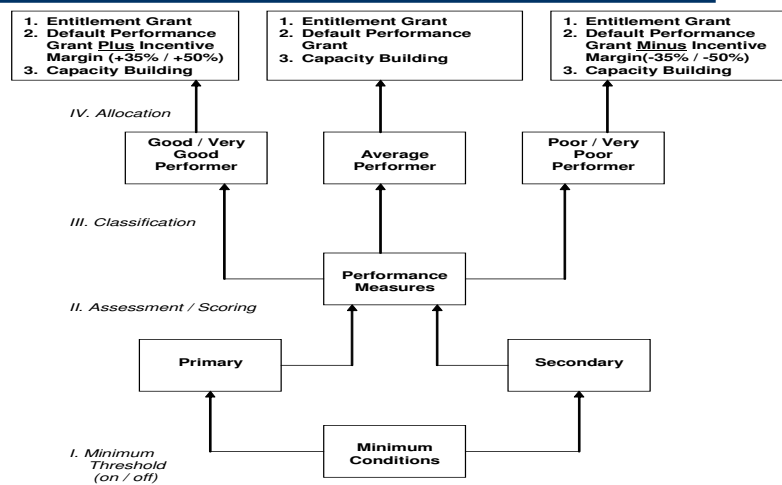
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Negative list

- Investments outside of the MTDPs and Annual Action Plans;
- Investments that are not backed up by O&M plans and budgets;
- Investments of a private nature;
- Purchase of luxury cars and similar consumption expenditure;
- Office equipment (except when justified by FOAT)
- Maximum 10% for maintenance.

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Allocation of the DDF



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Volume and Financing of the Pool

- USD 2,- per capita, roughly amounting to USD 48 million in first year of implementation
- **Outstanding:** details of the co-financing arrangement
- Longer term vision: integration with the DACF

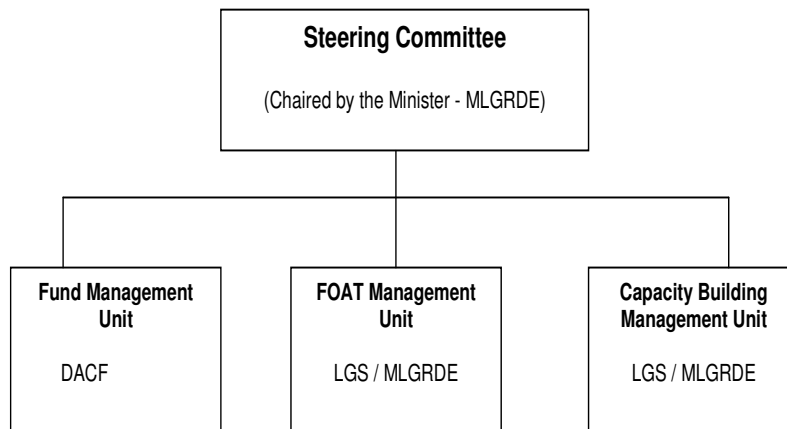
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Capacity Building

- ILGS to supply training modules (thematic areas FOAT)
- Capacity building grant disbursed by DACF (mandatory, demand driven)
- LGS/MLGRDE will accredit and categorise service providers (FOAT thematic areas)
- LGS/MLGRDE to ensure efficient use of service providers across the country
- LGS/MLGRDE to decide on a unit cost for the delivery of training modules
- MMDAs to contract capacity building support from a list of accredited providers

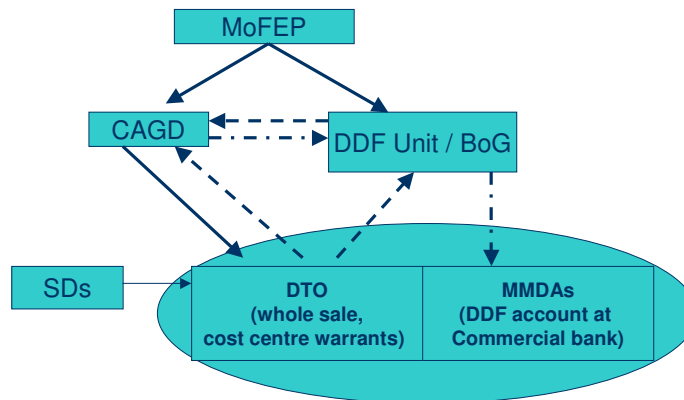
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Management Arrangements



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Financial Management Flow Chart



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