



**STRENGTHENING MUNICIPAL
GOVERNANCE THROUGH
PERFORMANCE-BASED BUDGET
ALLOCATION IN BANGLADESH**

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This brief was written by Norio Saito, principal urban development specialist, Urban Development and Water Division (SAUW), South Asia Department, Asian Development Bank (ADB), who processed the Third Urban Governance and Infrastructure Improvement (Sector) Project (UGIIP-3) in Bangladesh in 2014. During project processing, then ongoing Second Urban Governance and Infrastructure Improvement (Sector) Project (UGIIP-2) was reviewed in detail, and strengths, good practices, lessons, as well as issues requiring further improvement were identified and discussed extensively with the government. With the completion of UGIIP-2 in June 2015, and commencement of UGIIP-3 implementation in July 2014, this urban brief has been prepared to stock-take the achievements and analyze the successes made under the UGIIP series.

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I. Background

By 2020, there will be more people living in cities than in the countryside in Asia and the Pacific. In Bangladesh, urban population growth was at 3.5% in 2014, compared with a total population growth rate of 1.2%.¹ The country's urban population will reach about 110 million by 2035.² As urban population continues to swell, it should be a priority to improve the management of cities and towns.

Poor governance leads to lack of transparency and accountability, lack of participation and inclusiveness, poor resource mobilization, and unplanned and uncontrolled urban growth, which result in inadequate infrastructure, housing, and urban service delivery. The poorer and weaker sections of society bear the brunt of its impact. Urban poverty, therefore, becomes rampant. Assisting developing countries in improving governance is a strategic priority of the Asian Development Bank (ADB) to eliminate poverty in Asia and the Pacific. While addressing urban poverty means improving basic infrastructure and services, good governance is a critical factor to more effective and sustainable growth and poverty reduction.

In Bangladesh, *pourashavas* (secondary towns), which hold about 40% of the urban population,³ are an alternative destination for large cities such as Dhaka and Chittagong. They can ease the pressure on resources and infrastructure of bigger cities. However, especially with the influx of urban residents within the next decades, governments and development partners must lead these towns toward sound and balanced urban development. Developing *pourashavas* is crucial, but the importance of improving urban governance also needs to be emphasized. Physical infrastructure improvements cannot be sustained unless persistent governance problems are addressed.

In many of the *pourashavas*, communities lacked the voice to express what they wanted from their elected representatives and local officials. This is due to lack of institutional arrangement to involve residents in making decisions affecting them.

¹ World Bank. Data by Country. <http://data.worldbank.org/indicator/SP.POPTOTL> (accessed 8 October 2015).

² Asian Development Bank (ADB). 2011. *Country Partnership Strategy: Bangladesh, 2011–2015*. Manila.

³ ADB. 2012. *The Urban Governance and Infrastructure Improvement Project in Bangladesh: Sharing Knowledge on Community-Driven Development*. Manila.

There was also no means to make elected officials accountable to their communities, leading to lack of transparency in the work of *pourashavas*, and to their inability to provide key urban services, including water supply, waste collection and disposal, sanitation facilities, and public health and education facilities.

The financial capacity of most *pourashavas* was also low. They lacked the capacity to generate sufficient revenues and depended heavily on budgetary transfers from the central government, which accounted for more than half of the total revenues for most *pourashavas*. Tax collection was inefficient. From 2000 to 2002, only 29% of *pourashavas* collected more than half of their estimated holding tax, their most important revenue source.⁴ Human resources were limited, with many untrained staff and vacant approved posts. Consequently, *pourashavas* suffered from poor urban roads, inadequate drinking water, poor sanitation, unsafe streets and alleys, limited and unmanaged drainage systems, pavements littered with waste, and misuse of already limited resources.

⁴ World Bank. 2007. Bangladesh: Strategy for Sustained Growth. *Bangladesh Development Series Paper No. 18*. Washington, DC.

II. The Urban Governance and Infrastructure Improvement (Sector) Project

Pourashavas did not demonstrate good governance. They were not accountable and responsive to their citizens, nor transparent in their reporting on the use of public resources and in decision making. They also failed to create opportunities for participation in policy dialogue and service delivery. In Bangladesh, government funds and foreign aid over the past decades had not improved the performance of *pourashavas* in terms of governance, capacity, and performance in delivering services, a lesson aptly applied in ADB's Urban Governance and Infrastructure Improvement (Sector) Project (UGIIP).

The UGIIP aimed to improve *pourashava* infrastructure in urban transport, drainage, water supply, sanitation, municipal facilities, and solid waste management through a performance-based budget allocation strategy under the Urban Governance Improvement Action Program (UGIAP), a set of governance reform criteria critical to the success of the UGIIP. The UGIAP in the second UGIIP (UGIIP-2) aimed for six key results:⁵ (i) citizen awareness and participation, (ii) urban planning, (iii) women's participation, (iv) integration of the urban poor, (v) financial accountability and sustainability, and (vi) administrative transparency.

The first UGIIP (UGIIP-1) was implemented from 2003 to 2010 with a total cost of \$87.23 million (\$65.10 million from ADB and \$22.13 from the Government of Bangladesh and its *pourashavas*). It supported 33 *pourashavas*. Following its success, UGIIP-2, with a total cost of \$167.5 million, comprising \$87.0 million from ADB, \$36.1 million from KfW, \$4.7 million from GIZ, \$31.7 million from the government, and \$8.0 million from *pourashavas* and beneficiaries, was implemented from 2009 to 2015.⁶ The UGIIP-2 supported 51 *pourashavas*. The third UGIIP (UGIIP-3), approved in 2014, is now being implemented in 30 *pourashavas* until 2020. The project will cost an estimated \$236.0 million, with \$125.0 million from ADB, \$40.0 million from the OPEC Fund for International Development, \$68.9 million from the government, and \$2.1 million from *pourashavas*. Plans for additional financing to further scale-up the UGIIP-3 are expected in 2017.

⁵ The first UGIIP (UGIIP-1) focused on only five key results (excluding urban planning). The third UGIIP (UGIIP-3) added another pillar: (vii) provision of essential services.

⁶ The financing plan is at the time of project approval. Actual expenditures differ.

All three projects follow the same principle by placing governance improvement, detailed in the UGIAP, at the heart of the project, while supporting municipal infrastructure improvement in phases in line with the advancement of the governance reform. Details of the UGIAP were improved according to lessons learned from previous projects.



III. Implementing the Urban Governance Improvement Action Program

The UGIIP-2 was implemented in three phases, each with its own set of performance requirements, which fostered a culture of responsiveness and accountability toward good governance and became more stringent in each phase. The phased approach ensured motivation for continued governance reform while creating tangible development impacts in an integrated and holistic manner.

Municipalities that met the requirements received more of their allocation for infrastructure improvement. However, municipalities that did not meet the requirements within the given time frame were dropped from the project. The project provided management and implementation support, as well as capacity development and guidance to help *pourashavas* meet performance requirements under the UGIAP. Table 1 outlines the performance criteria for phases 1–3 of UGIIP-2.

Table 1: UGIAP Performance Criteria, Phases 1–3, UGIIP-2

Phase 1	<ul style="list-style-type: none"> • Formation of a town-level coordination committee (TLCC) • Formation of a ward-level coordination committee (WLCC) • Formation of a community-based organization (CBO) • Formation of a gender committee with a woman councilor as the chairperson • Establishment of an urban planning unit of the <i>pourashava</i> (secondary town) • Preparation of a <i>pourashava</i> development plan including a gender action plan and a poverty action plan • Continuation of the program to fix the holding tax for an interim period
Phase 2	<ul style="list-style-type: none"> • Citizen participation and accountability improvements, including <ol style="list-style-type: none"> (i) preparing and issuing a citizens' charter, (ii) initiating the conduct of "citizens' report card" surveys and publishing the results, (iii) establishing a customer and grievance redress cell, (iv) organizing regular town meetings for the implementation of the <i>pourashava</i> development plan process and other input and decisions, (v) opening up the budget proposal to the public and the TLCC, and (vi) establishing a mass communication cell. • Improvement of urban planning processes, including <ol style="list-style-type: none"> (i) hiring a full-time town planner for all class A <i>pourashava</i>, (ii) preparing or updating a base map and land use map, and (iii) preparing annual operations and maintenance work plans for subprojects supported under the UGIIP-2.

	<ul style="list-style-type: none"> • Promotion of gender equity and gender mainstreaming, including <ol style="list-style-type: none"> (i) finalizing a gender action plan, and (ii) allocating and spending a specific percentage of the <i>pourashava</i> budget on gender activities as outlined in the plan.
	<ul style="list-style-type: none"> • Integration of the urban poor, including <ol style="list-style-type: none"> (i) implementing the poverty reduction action plan, (ii) forming slum improvement committees in slums targeted by the project, and (iii) allocating a budget for the poverty reduction plan activities.
	<ul style="list-style-type: none"> • Financial accountability and sustainability, including <ol style="list-style-type: none"> (i) computerizing the accounting system, (ii) computerizing tax records and generating bills by computer, (iii) preparing financial statements and having them audited by the audit standing committee of the <i>pourashava</i> (internal audit) within 3 months of the closing of the financial year, (iv) undertaking an annual interim assessment of property taxes and increasing collections by at least 10% each year, (v) achieving annual increases in nontax revenue income that are at least equal to the inflation rate, (vi) repaying in full all debts owed to the government and other entities, according to schedule, and (vii) paying in full all outstanding bills, including electricity and telephone bills.
Phase 3 ^a	<ul style="list-style-type: none"> • Citizen awareness and participation, including <ol style="list-style-type: none"> (i) ensuring the TLCC and WLCC to effectively function and meet at least once every 3 months during Phase 3, with ensured and recorded active participation of women and the poor, (ii) conducting quarterly CBO meetings with recorded minutes, (iii) gradually sharing CBO expenditures with <i>pourashava</i> from their own resources, (iv) using the Citizen Charter effectively, as well as monitoring and reviewing the charter once a year for possible updates consistent with need, (v) conducting a citizen opinion survey once a year, discussing findings at TLCC meetings, and sharing findings with <i>pourashavas</i>, (vi) recording grievances, ensuring complaints are received and resolved in the monthly <i>pourashava</i> and TLCC meetings, (vii) comparing the annual <i>pourashava</i> budget proposal to previous year's budget, disclosing the budget proposal to the public for suggestions, and discussing it in TLCC meetings, and (viii) continuing activities under the Mass Communication Cell, evolving and implementing campaign plans financed by individual <i>pourashavas</i> from their own source.
	<ul style="list-style-type: none"> • Urban planning, including <ol style="list-style-type: none"> (i) formulating an annual operations and maintenance plan, and (ii) preparing, approving, and implementing budget requirements, with a minimum 5% increase over that of previous year.
	<ul style="list-style-type: none"> • Women's participation, including <ol style="list-style-type: none"> (i) meetings conducted monthly by a fully functional and effective gender committee and sending quarterly reports to the project management office (PMO), and (ii) identifying and allocating gender action plan (GAP) budget, ensuring at least 10% rise over that of previous year and implementing planned GAP activities.

	<ul style="list-style-type: none"> • Integration of the urban poor, including <ol style="list-style-type: none"> (i) conducting monthly Slum Improvement Committee meetings related to the poverty reduction action plan (PRAP) and submitting quarterly progress reports to the PMO; and (ii) earmarking a minimum of 5% of <i>pourashava</i> revenue budget allocation for PRAP, with at least 10% rise over the previous year, and ensuring its full utilization for planned PRAP activities.
	<ul style="list-style-type: none"> • Financial accountability and sustainability, including <ol style="list-style-type: none"> (i) continued practice of computerized accounting system and submitting computer-generated accounting reports to the <i>pourashava</i> council and the PMO; (ii) continued practicing of computerized tax-billing and submission of computer-generated tax-billing reports to the <i>pourashava</i> council and the PMO; (iii) preparing financial statements, auditing of <i>pourashava</i> accounts by the accounts and audit standing committee within 3 months after fiscal year-closure, and submitting audit report to the mayor and the PMO; (iv) carrying out regular interim tax assessments and increasing to and retaining collection at a minimum of 80%; (v) identifying and taking into account all nontax revenue, with increase in such revenue by at least equal the official inflation rate; (vi) settling all debts to the Government of Bangladesh and other entities, conforming to agreed schedule. (vii) settling outstanding service bills, especially to the government and service providers, and reporting compliance to the PMO; and (viii) computerizing water billing and revising and/or restructuring water tariff regularly (based on need) to ensure the system's operation at least on a no-loss basis and maintaining collection efficiency at a level that ensures no arrears.
	<ul style="list-style-type: none"> • Administrative transparency, including <ol style="list-style-type: none"> (i) ensuring active participation of elected representatives, <i>pourashava</i> officials, and concerned citizens in training programs; (ii) submitting progress reports on UGIAP (Phase 3) implementation and activities to the PMO on time; (iii) ensure that fully functional standing committees are committed to specific tasks; (iv) evaluating and monitoring the progress and quality of physical works, with <i>pourashava</i> support in such activities by the Local Government Engineering Department; and (v) initiating activities for e-governance, ensuring individual <i>pourashava</i> websites are designed and operational.

UGIAP = Urban Governance Improvement Action Plan; UGIIP-2 = Second Urban Governance and Infrastructure Improvement Project.

^a The UGIIP-2 project design initially did not have a UGIAP for Phase 3 to maintain and sustain the conformity level achieved by *pourashavas* at the end of Phase 2. The project management unit developed a UGIAP for Phase 3 based on the UGIAP administered for Phase 2. The project management unit split the allocable project fund in two with the other half linked to Phase 3 of the UGIAP.

Source: Asian Development Bank. 2012. The Urban Governance and Infrastructure Improvement Project in Bangladesh: Sharing Knowledge on Community-Driven Development. Manila

Project implementation units received capacity development support to implement the UGIAP through various activities, including the following:

- Training of *pourashava* urban planner and other concerned staff on urban planning;
- Introducing a computerized accounting system;

- Improving holding tax assessment and collection, rationalizing user charge, and tariff setting ;
- Training on financial management
- Forming town-level coordination committee (TLCC), ward-level coordination committee (WLCC), community-based organizations (CBOs), and slum improvement committees (SICs);
- Introducing and implementing citizen report card;
- Implementing communication campaign; and
- Introducing e-governance, such as web-based information management and disclosure.

The UGIIP understood that before *pourashava* officials can become responsive and be held accountable for anything, they must first have a clear understanding of what the town residents want. Therefore, for phase 1 of the project, a *pourashava* must meet requirements under the UGIAP that encouraged community participation prior to receiving 50% of its infrastructure allocation. Its bottom-up approach encouraged communities to organize as TLCCs, WLCCs, and SICs, creating a platform to voice out what they need from *pourashavas*.



For phase 2, *pourashavas* must achieve the minimum performance ratings within the allotted time frame. Otherwise, they are ineligible to move forward to the next phase and receive no further funding from the project. Achieving the minimum performance ratings in phase 2 allowed the *pourashava* to graduate to phase 3 and receive another 25% of its investment allocation. Fully satisfactory performance in phase 2 will entitle a *pourashava* 50% of its funding allocation and will be eligible for additional funds for infrastructure investments from the unused allocations of *pourashavas* that have not achieved the minimum or achieved only the minimum performance in their phase 2 milestones.

The UGIIP-2 project design initially did not have a UGIAP for phase 3 to maintain and sustain the conformity level *pourashavas* achieved at the end of phase 2. Therefore, the project management unit developed a UGIAP for phase 3 based on the UGIAP administered for phase 2. For *pourashavas* that earned the second half of their funding allocation at the end of phase 2, a portion of the budget provision was not provided until the last year of the project. This motivated *pourashavas* to implement the UGIAP developed for phase 3. This worked well and UGIAP implementation continued until the end of the project. It is also noteworthy that some *pourashavas* are continuing the UGIAP even after the project completion.



IV. Program Results

The implementation of the UGIAP and infrastructure improvement for UGIIP-2 created many significant tangible results. Aggregate achievements usually refer to 47 towns because after four of 35 initial *pourashavas* were dropped from the project for failing to meet phase 2 requirements, the project added another 16 *pourashavas*, which received limited support.⁷ Table 2 summarizes key achievements under UGIIP-2.

Table 2: Key Achievements, UGIIP-2

Activities	Performance Criteria	Achievements
A. Citizen awareness and participation		
1. Citizen charter approved by town-level coordination committee (TLCC) and displayed at the <i>pourashava</i> (secondary town) office	Citizen charter prepared and approved by TLCC	Citizen charter was approved by TLCC and displayed at the <i>pourashava</i> office in all 35 (later 47) <i>pourashavas</i> .
2. Citizen report cards (CRCs) prepared, approved, and implemented by TLCC	CRCs prepared and approved by TLCC The card is distributed and the result is compiled and disclosed at least twice.	Three CRC surveys were conducted in 31 <i>pourashavas</i> over the last 4 years of the project, and one survey in the new 16 <i>pourashavas</i> , with more than 12,000 respondents in each survey. There was a progressive rise in the people's level of satisfaction in <i>pourashavas</i> ' administration and service delivery.
3. Grievance redress cell (GRC) established with clear terms of reference and made functional	Complied with	GRC was established in all 35 (later 47) <i>pourashavas</i> . A total of 24,506 complaints were registered from FY2011 to FY2014, 64% of which were resolved quickly.
4. TLCC and ward-level coordination committee (WLCC) meetings held on a regular basis	Quarterly meetings held and minutes prepared	TLCCs and WLCCs held regular quarterly meetings and minutes were prepared.
5. Budget proposal compared with the budget and actual outlays in the previous year, displayed at the <i>pourashava</i> office, and discussed at TLCC	Complied with	Budget was discussed at TLCCs and displayed.

⁷ Three *pourashavas* were dropped for failing to settle electricity bills by the end of phase 2, and one was dropped as it was elevated from a *pourashava* to a city corporation during the project.

Activities	Performance Criteria	Achievements
6. Mass communication cell (MCC) established and campaign plan developed and implemented as planned	Complied with	MCC was established in all 35 <i>pourashavas</i> . MCC was instrumental in strengthening communication between <i>pourashavas</i> and citizens.
B. Urban planning		
1. Base map verified and updated; land use plan prepared	Complied with	Base map was verified and land use maps were prepared.
2. Annual operation and maintenance (O&M) plan, including budget requirement, prepared and approved as part of <i>pourashava</i> development plan (PDP)	O&M plan approved and the budget increased by 5% annually up to the required budget	O&M plan was approved as a part of PDP in all 35 <i>pourashavas</i> .
3. A full-time <i>pourashava</i> urban planner recruited (class A <i>pourashavas</i> only)	Complied with	Class A <i>pourashavas</i> have a town planner appointed by the Ministry of Local Government, Rural Development and Cooperatives. Planning unit was established.
C. Women's participation		
1. Gender action plan (GAP) prepared and included in the PDP ^a	GAP prepared and endorsed by TLCC and fully implemented; quarterly reports prepared	GAP was as a part of PDP endorsed by TLCC.
2. Budget to implement the GAP identified and approved	Complied with	Budget to implement the GAP was approved and spent.
D. Integration of the urban poor		
1. Slum improvement committees (SICs) established in targeted slums ^a	Complied with	195 SICs were established in 27 <i>pourashavas</i> .
2. Poverty reduction action plan (PRAP) prepared and included in the PDP ^a	PRAP prepared and endorsed by TLCC and fully implemented; quarterly reports prepared	PRAP was as a part of PDP endorsed by TLCC.
3. Budget allocation for PRAP	Budget to implement PRAP identified and approved	Budget to implement PRAP was allocated and spent. A total of 23,611 households benefited.
E. Financial accountability and sustainability		
1. Computerized accounting system introduced and computer-generated accounting reports produced	Complied with	Computerized system was introduced and computer-generated reports were produced.

Activities	Performance Criteria	Achievements
2. Computerized tax record system introduced and computer-generated bills produced	Complied with	Tax record system was computerized and computer-generated bills were produced.
3. Financial statements prepared, and audit carried out by accounts and audit standing committee within 3 months after the closure of fiscal year (FY)	Complied with	Accounts and audit standing committee carried out internal auditing of the financial statements within 3 months after the closure of FY.
4. Interim tax assessment carried out annually and collection increased	Interim tax assessment carried out and collection increased by more than 10% annually (up to 80% collection efficiency)	Interim tax assessment was carried out annually, and regular assessment every 5 years. Collection efficiency increased to 80% and above in 37 <i>pourashavas</i> .
5. Nontax own-source revenue increased at least at the same rate with inflation	Complied with	Up to FY2012, nontax revenue increased more than the inflation rate in 35 <i>pourashavas</i> .
6. All debts due to the Government of Bangladesh and other entities fully repaid according to schedule, and the ratio of debt servicing to annual revenue receipts remains less than 25%	Complied with	31 out of 47 towns availed loan facilities, mainly from the Bangladesh Municipal Development Fund. Repayment was made in accordance with the schedule.
7. All outstanding bills older than 3 months, including electricity and telephone, paid in full	Complied with	Three <i>pourashavas</i> that failed to settle electricity bills were dropped from the project.
F. Administrative transparency		
1. Development of adequate staff structure (according to size and needs) with detailed job descriptions to enable the <i>pourashava</i> to effectively undertake its current and future obligations	Complied with	35 towns identified required a number of staff and officers for improved service delivery.

Activities	Performance Criteria	Achievements
2. Elected representatives, <i>pourashava</i> officials, and concerned citizens actively participated in training programs	Complied with	21,479 people at <i>pourashavas</i> , of which 36% were women, actively participated in training programs, orientation, and workshops.
3. Progress report on Urban Governance Improvement Action Program implementation and other activities submitted on time to project management office (PMO)	Complied with	Consultants ensured the timely submission of progress reports to PMO.
4. Standing committees established and/or activated	Complied with	Ten mandatory standing committees on various issues and areas were established and/or activated: ^b (i) Establishment and Finance (ii) Tax Assessment and Collection (iii) Accounts and Audit (iv) Urban Planning, Urban Services and Development (v) Law and Order and Public Security (vi) Communication and Physical Infrastructure (vii) Women and Children (viii) Information and Culture (ix) Market Price Monitoring and Control, and (x) Fisheries and Livestock
5. Ensuring evaluation and monitoring by regional Local Government Engineering Department (LGED) on progress and quality of physical works	Complied with	Regional LGED offices evaluated and monitored progress and quality of physical works.
6. Activities for e-governance initiated	Complied with	All <i>pourashavas</i> launched their respective website with assistance from the consultants, and uploaded required information and documents. Prior to the project, no <i>pourashava</i> had a website.

UGIIP = Urban Governance and Infrastructure Improvement (Sector) Project.

^a If a *pourashava* already has developed plans equivalent to a PRAP or GAP, or established a committee equivalent to an SIC, the municipal performance review committee may assess that portion of the criteria as complied with without the preparation of new plans or committees to avoid redundancy.

^b While standing committees were activated and made functional under the project spectrum, more extensive and rigorous training was necessary to raise their effectiveness.

Source: Asian Development Bank.

A. Governance improvement

1. Citizen awareness and participation

Notable achievements in this area were the regular (normally quarterly) TLCC and WLCC meetings in all the *pourashavas*. Up to December 2014, 24,249 people (34% women) participated in TLCC meetings in 47 *pourashavas*, conforming to the specified sex ratio (33% women). The WLCC meetings held regularly served as a venue to convey major issues from and to the TLCC at a more local level. Through this process, the voices of the poor and women were raised, and their concerns were discussed at an appropriate level. All major decisions on *pourashava* administration and development required endorsement at the TLCC. Lively participation of and representation from all social classes made the administration of *pourashavas* more accountable and transparent. It also heightened citizens' ownership in *pourashava* development activities.

A citizens' charter is another feature of good governance. It includes information of services provided by *pourashavas*, directions for access to the services, responsible sections and persons for their provision, and service fees. The TLCC endorsed a citizens' charter, which was displayed at the *pourashava* office premises and other important locations within the town for the convenience of citizens.

2. Urban planning

Pourashavas updated base and land use maps and developed *pourashava* development plans (PDPs), including annual operation and maintenance (O&M) plans. The PDPs, which include *pourashava* priority investment plans, were developed through community consultation and participation, giving citizens a sense of ownership. Class A *pourashavas* have a town planner appointed by the Ministry of Local Government, Rural Development and Cooperatives.⁸

Urban planning still needs further improvement because the achievements did not lead to more controlled and organized development of *pourashavas* in line with land use plans and building standards. The master plans that were prepared with support from another project were neither finalized nor gazetted. Moreover, the developed land use plans were a mere reflection of existing land uses. There was also lack of clarity and capacity in implementing the land use plans to regulate development.

⁸ According to the *pourashava* organogram, only Class A *pourashavas* have the position of an urban planner.

3. Women's participation

A gender action plan (GAP) was prepared in all towns as a part of each PDP. The *pourashavas* used their own sources to finance the implementation of their GAPs. From FY2011 to FY2014, 47 *pourashavas* spent Tk119 million (\$1.5 million) for women's awareness raising, training, and material or cash support. Women now have separate toilets in *pourashava* office buildings and other public places such as bus terminals. Female ward councilors now also have separate seating arrangements.

Active participation of women in the TLCC, WLCC, CBO executive committees, and SIC helped to build their confidence and empower them. In the SIC, 79% of members were women. Female chairs also proved more effective in making sure that SICs utilize their funds efficiently. The introduction of a separate "women's section" at each *pourashava*, where women received active assistance, established a positive link between the *pourashava* and its women.

Importantly, the issue of holding tax was discussed regularly in the quarterly courtyard meetings to raise awareness among women on the exigency of tax and its timely collection. Raising their awareness would lead them to remind and motivate their male counterparts to improve settlement of taxes.

4. Integration of the urban poor

A poverty reduction action plan (PRAP) was prepared in all towns as a part of the PDP. From FY2011 to FY2014, 47 *pourashavas* spent Tk200 million (\$2.6 million) from their own sources to implement the PRAPs. These were mainly for the infrastructure development activities SICs undertook. Table 4 summarizes infrastructure improvement in slums areas implemented by 195 SICs in 27 *pourashavas*.

Slum dwellers actively participated in the programs. During the project, primary groups held 38,060 meetings and SICs held 4,933. The *pourashavas* also provided different awareness-raising and training programs and material and cash support for the poor, making it possible for the poor to access employment and *pourashava* services. A total of 23,611 households benefited from the slum improvement subprojects.

5. Financial accountability and sustainability

Raising taxes and nontaxes are always an unpopular agenda and, therefore, present challenges. However, *pourashavas* made remarkable achievements in increasing their own-source revenue under the project. Table 3 summarizes the project towns' increase in own-source revenue during 2009–2015.

Table 3: Increase in Own-Source Revenue, UGIIP-2 Towns

Fiscal Year	Holding Tax (HT)			Non-Holding Tax (Tk million)	Combined Rev (HT+ NHT) (Tk million)	Increase from the previous year %	% increase over base year (2009–2010) %
	Demand (Tk million)	Collection (Tk million)	Collection Efficiency %				
2009–10	654.29	297.42	45.46	714.56	1,011.98	-	-
2010–11	728.45	398.57	54.71	963.32	1,361.89	34.6	34.6
2011–12	736.80	620.56	80.00	1,243.75	1,864.31	36.9	84.2
2012–13	712.85	594.37	83.38	1,404.95	1,999.32	7.2	97.6
2013–14	724.18	609.62	84.18	1,623.20	2,232.82	11.7	120.6
2014–15	790.12	653.76	82.74	1,634.90	2,288.66	2.5	126.2

NHT = non-holding tax, Tk = Bangladesh taka, UGIIP = Urban Governance and Infrastructure Improvement (Sector) Project

Note: There were 35 project towns from 2009–2010 to 2011–2012, 47 from 2012–2013 to 2014–2015.

Source: Local Government Engineering Department, Bangladesh. 2015.

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Pourashavas took specific measures that led to significant increases in the first 2 years. Such measures included

- (i) reassessing holding tax with little waiver or reduction of the assessed amounts;
- (ii) improving holding tax collection efficiency through awareness raising and campaigns;
- (iii) renting *pourashavas*' assets (e.g., markets) at raised rates through competitive processes or other methods;
- (iv) increasing revenues through increased asset base (e.g., construction of multistoried public markets, which may have been funded by the project); and
- (v) raising water tariffs and improving collection efficiency.

Although the rate of increase in own-source revenue slowed in the last 3 years of the project, the overall increase over the 5 years reached 126.2%, much

higher than the inflation rate during the same period, which was 42.4%. For the 47 UGIIP-2 project towns, the average collection efficiency of holding tax was 84.2% in FY2014, which is a stark contrast to the average of randomly selected 17 non-UGIIP-2 towns during the same period, which was only 51.6%. The commendable and remarkable increase in own-source revenue helped *pourashavas* meet their required expenses, settle all debts, and provide funds for a wider range of development activities and better services to citizens.

The UGIAP required an annual 10% increase in holding tax collection efficiency until achieving 80% collection efficiency. However, with the effective persuasion and insistence of the project management office (PMO) and more highly motivated mayors, *pourashavas* achieved 80% collection efficiency as early as in FY2012 (Table 3).

Other than increases in own-source revenue, improvements were made in the computerization of account systems, preparation of financial statements and internal audits, and full payment of electricity and telephone bills.

6. Administrative transparency

Elected representatives, *pourashava* officials, and concerned citizens actively participated in the training programs. During project implementation from 2009 to 2015, 48,494 participants took part in training programs, workshops, or seminars, of which 31.4% were women. At the *pourashava* level, 21,479 people participated. Standing committees for accounts and audits played an important role in improving administrative efficiency, accountability, and transparency. These activities activated and strengthened the administrative functions of *pourashavas*.

B. Infrastructure improvement

All 35 *pourashavas* reached the second phase and received capital investment funding for infrastructure improvement. While 31 towns proceeded to phase 3 and received additional funding for improvement, the project added 16 new towns, which received limited funding for improvement. Infrastructure development in *pourashavas* followed the priority in each *pourashava* as indicated in the PDPs. In addition to slum improvements, municipal infrastructure improved under the project included roads; drainage; water supply and sanitation; solid waste management; and other municipal facilities such as bus and truck terminals, municipal and kitchen markets, slaughterhouses, and street lighting. Table 4 summarizes outputs achieved in 51 UGIIP-2 towns, including the four towns dropped after phase 2.

Table 4: Infrastructure Improvements, UGIIP-2 Project Towns

Sector	Unit	Total
Municipal Facilities		
Kitchen markets	nr	23
Municipal markets	nr	4
Slaughterhouses	nr	11
Street lights	nr	5,353
Electric poles	nr	461
Community centers	nr	4
Slum Improvements^a		
Footpaths	km	54.8
Drains	km	25.8
Community toilets	nr	4,644
Hand tube well	nr	937
Water supply pipelines	km	0.7
Dustbins	nr	189
Solid Waste Management		
Transfer stations	nr	73
Disposal grounds	nr	3
Dustbins	nr	146
Compost plants	nr	2
Urban Transport		
Roads	km	1,083.6
Road dividers	km	4.5
Terminals and parking for buses/trucks	nr	4
Parking areas	nr	10
Water Supply and Sanitation^b		
Water supply pipelines	km	30.4
Production tube well improvements	nr	9
Hand tube well improvements	nr	177
Public toilets	nr	56
Community latrines	nr	16
Drains	km	130.8

km = kilometer, nr = number, UGIIP = Urban Governance and Infrastructure Improvement (Sector) Project.

Note: Numbers are aggregate of all project towns.

^a Slum improvements made by 195 slum improvement committees in 27 *pourashavas*.

^b Figures do not include improvements made in slums.

Source: Local Government Engineering Department, Bangladesh. 2015. Project Completion Report: Second Urban Governance and Infrastructure Improvement (Sector) Project. Bangladesh.

A detailed assessment was conducted in 15 project *pourashavas* in June 2014. The assessment found that (i) 92% responded positively regarding travel time saving from one's residence to *pourashava* downtown areas, (ii) 98% said drainage improvements reduced mosquito problems, (iii) street lighting improved safety and security for vehicular and nonvehicular movement, and (iv) traffic safety increased. As a result, business activities, the transport of goods, and values of residential and commercial land increased.

Infrastructure design also incorporated climate change concerns. Concrete roads, for example, were built instead of bituminous roads to withstand effects of higher temperature variations and expected increased in waterlogging due to climate change. Designs also included wider drains to accommodate additional flow from more intense and frequent rainfall.



V. Factors Leading to Success

Several factors contributed to the success of the project. First, *pourashava* mayors and citizens worked together to raise awareness on the responsibilities and accountability of *pourashavas*. The close involvement of TLCCs and WLCCs, which include elected representatives (mayor and ward councilors) and representatives of citizen groups, played a major role in disseminating the scope of the UGIAP and the obligations and benefits of meeting the governance criteria. This consultative and participatory mechanism was the driving force for *pourashava* officials to meet the required criteria. It helped officials ensure that they did not miss the opportunity to receive investment funding to improve municipal infrastructure and services.

Mayors, elected every 5 years by citizens, were motivated to meet the requirements and improve infrastructure because it gave them a better chance to win the next election. With many of the infrastructure improvement subprojects expected for completion within 1–2 years, mayors were able to demonstrate the improvement within their tenures. Although the governance criteria included measures that were unfavorable to citizens, such as increasing holding tax collection efficiency and increasing nontax own-source, no major objections were reported in the project. This is likely because citizens were aware that the targets were mostly on increasing the collection efficiency and enlarging the tax net to improve fairness, not to drastically increase the rate itself. Citizens were also aware that such measures would bring additional budget allocation from the project to improve infrastructure and services.

Pourashavas had low technical and managerial capacity. They needed intensive technical support from the project (through the PMO and consultants) to achieve the requirements. Support included preparation of the PRAP and GAP; preparation of citizen report cards; establishment of and operationalizing grievance redress cell; and installation of software for accounting, holding tax, trade license management, and water billing management. Training programs and workshops increased awareness, understanding, and technical skills of *pourashava* officials and elected representatives (including mayors) and representatives of CBOs, women's groups, and the SICs.

The central government assessed the performance of project *pourashavas*. The municipal performance review committee (MPRC), chaired by the secretary of the Local Government Division, evaluated the performance and decided whether the *pourashavas* met the requirements. During implementation, the PMO continued to encourage the *pourashavas* to meet the requirements within a given time line and reminded them that they would not be entitled to additional budget allocation if they failed to meet the requirements. Dropping *pourashavas* in UGIIP-1 for failing to meet requirements made it clear to *pourashavas* in UGIIP-2 that they must strictly adhere to requirements if they need the funding.

After evaluations clarified the reasons for the disqualification of a *pourashava* for the next phase and confirmed by the MPRC, the dropped *pourashava* was notified. The MPRC was able to avoid political intervention to favor particular *pourashavas*. Although dropping the *pourashavas* in the middle of the project is not desirable, the project considered this discipline indispensable in pushing *pourashavas* to improve governance and achieve the project objectives.

Lastly, the large scale of the project intervention motivated *pourashavas* to adhere to the UGIAP requirements. *Pourashavas'* financial resources are very limited. They rely heavily on fiscal transfer from the central government, but the annual block grant allocated to each *pourashava* is only about Tk6 million (\$77,000).⁹ Under the project, *pourashavas* received an average of Tk158 million (\$2.0 million) over 5 years, mostly in the form of grants if they proceeded to phase 3.¹⁰ Other grants that did not require *pourashavas* to improve governance were limited.

Other development partners supporting *pourashavas* emulated ADB's governance-centered approach based on its success. For example, the KfW used the same UGIAP to cofinance the project. The Japan International Cooperation Agency (JICA) also adopted the same program in the Northern Bangladesh Integrated Development Project approved in 2013. The World Bank also introduced performance-based budget allocation to *pourashavas* under its Municipal Governance and Services Project approved in 2013, using simplified governance criteria.¹¹ Although ADB adjusts the degree and criteria based on the nature and objectives of the project, all projects for *pourashavas* require governance improvements.

⁹ BMB Mott MacDonald & Engineering & Planning Consultants Ltd. 2011. *Analysis of Issues and Options 1 -Preparing Frameworks for Municipal Development Interventions (Module A)*. Dhaka.

¹⁰ The maximum amount was Tk308 million, and the minimum was Tk50 million. The amount received by 16 *pourashavas* that joined in phase 3 was relatively smaller.

¹¹ For the World Bank's Municipal Governance and Services Project, *pourashavas* will receive the majority of the funding regardless of the governance performance. Only a portion of budget allocation is linked to performance.

VI. Conclusion and Way Forward

A. Remaining challenges

Introducing performance-based budget allocation, i.e., placing governance reform as a condition to receive budget for infrastructure improvements, brought a successful paradigm shift among local governments in Bangladesh. Citizen awareness and participation in the administration of *pourashava* is stronger. *Pourashavas'* operations are now more inclusive, involving women and the poor, with specific budget provision. Financial management and accountability improved, while the administration of *pourashavas* is more transparent.

Increase in own-source revenue enables additional budget allocation for the operation and management of infrastructure built. Awareness, understanding, and skills obtained through various training programs will enable *pourashava* officials to provide more efficient and effective services to citizens. The mechanism can be self-sustaining and reinforcing because improved administration and services to the citizens enhances their willingness to pay for services, which allows continued improvement in service delivery.

However, there remain some challenges to make the mechanism more sustainable and self-enforcing. The first challenge would be the overall budget limitation of the *pourashavas*. The central government provided a significant amount of funding through the project. The existing fiscal transfer mechanism to *pourashavas* is not well based on governance performance; and since the amount is so limited (Tk4 million–Tk7 million) (\$51,000–\$90,000), *pourashavas* will not have strong incentive to continue governance improvement outside the project.¹² The government should consider developing a performance-based block grant budget allocation mechanism by developing a unified set of objective performance criteria, similar to the UGIAP, which can be applied to all *pourashavas*. ADB and the government agreed on this direction; toward this end, the government will roll out the performance-based fund allocation to all class A *pourashavas* under the third UGIIP (UGIIP-3), using the simplified version of the UGIAP. It is yet to be seen if the government is able to allocate performance-based block grant large enough to incentivize the *pourashavas*.

¹² To clarify, the author is not recommending making fiscal transfer that is entirely performance-based. Regardless of the performance, budget needs to be provided based on such factors as population and the level of poverty.

The second challenge is the capacity of *pourashava* officials. Central government employs and assigns all *pourashava* officials above the level of class I and II.¹³ The government fixes that *pourashava* organogram and does not allow *pourashavas* to have additional officials, even at their own cost. While this system has certain benefits, such as career progression of staff, avoidance of excessive staff, and avoidance of local political intervention in staff employment, it has some disadvantages, such as lack of continuity of staff, shortfall in timely recruitment of staff with necessary skills, and difficulty in accommodating specific needs of *pourashavas*. The UGIIP-2 observed frequent and unexpected transfer of key staff, and some staff positions continued to be vacant.

Salary scales fixed by the central government makes it difficult to retain qualified, experienced, and motivated senior staff. To address staff capacity issue, a revision of *pourashava* organogram is currently in the final stage of government approval. Once approved, it will allow *pourashavas* to strengthen their functions in urban planning and management of water supply systems. Providing flexibility to *pourashava* mayors in hiring capable senior staff through transparent and accountable processes may help attain a more professional management.

The third challenge is attaining more controlled and organized development through land use plans and planning and building bylaws, including building standards. Preventing development in areas of high disaster risks, promoting and facilitating development in areas of least risks, and reserving sufficient land for necessary infrastructure and natural assets (e.g., open spaces, ponds) by enforcing land use plans and planning and building controls to stop ongoing haphazard urbanization are necessary. With climate change and increasing disaster risks, controlled and guided urban development is vital to reduce damage and losses in people's assets and lives. The UGIIP-3 incorporated some criteria for stronger control of development activities in its UGIAP. This includes controlling building construction and preventing encroachment on public lands. Support to *pourashavas* for implementation is underway.

The fourth challenge is to increase the absolute amount of own-source revenue. Although the amount of own-source revenue increased significantly in the project towns, the revenue per capita is still low. Holding tax collection has great potential to increase revenues since many *pourashavas* often artificially fix the value of holdings at a very low level. A third party assessment of the value of holdings started on a sample basis in UGIIP-3. Initial findings indicate that the real value assessed by the third party is many times more than the value placed by the *pourashava*. This is expected to raise awareness of *pourashava* leaders on the potential for further revenue enhancement, which will be possible with continued infrastructure and service delivery improvement.

¹³ The government will soon refer to these classes as "grades," a change that has yet to be finalized.

B. Concluding remarks

The Government of Bangladesh and ADB started UGIIP-3 by incorporating experience and lessons learned from UGIIP-1 and UGIIP-2 into the project design. While further efforts are being made to overcome the remaining challenges, performance-based budget allocation to *pourashavas* proved very effective. The UGIIP's innovation to internalize governance reform as part of the project has great potential to improve sustainability after project implementation. The project strengthened the technical and financial capacity of the *pourashavas* and raised people's awareness on the importance of paying taxes and tariffs during implementation. Empowerment of citizens, including women and the poor, made decision making in *pourashavas* more participatory and inclusive. All this led to more transparent and accountable management of *pourashavas*. Projects in other developing countries in Asia can replicate a similar approach. Supporting decentralization and strengthening functions and financial capacity of local governments are a common issue in many countries.

Strengthening Municipal Governance through Performance-Based Budget Allocation in Bangladesh

This publication details results from the Urban Governance and Infrastructure Improvement (Sector) Project which aimed to improve infrastructure of *pourashavas* (secondary towns) in urban transport, drainage, water supply, sanitation, municipal facilities, and solid waste management through a performance-based budget allocation strategy. In Bangladesh, *pourashavas*—home to about 40% of the urban population—are an alternative destination to large cities. However, with the influx of urban residents within the next decades, governments and development partners must lead *pourashavas* toward sound and balanced urban development. The project strengthened the technical and financial capacity of *pourashavas* and raised awareness on the importance of paying taxes and tariffs. Citizen empowerment made decision making in *pourashavas* more participatory and inclusive, leading to more transparent and accountable town management.

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