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Report No: PAD2102

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR221.70 MILLION
(US\$300.00 MILLION EQUIVALENT)

TO THE

PEOPLE'S REPUBLIC OF BANGLADESH

FOR A

LOCAL GOVERNANCE SUPPORT PROJECT – 3

JANUARY 9, 2017

Social, Urban, Rural and Resilience Global Practice
South Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective Nov 30, 2016)

Currency Unit = Bangladesh Taka (BDT)

BDT 79.40 = US\$1.00

US\$1.35 SDR 1.00

FISCAL YEAR

July 1 – June 30

ABBREVIATIONS AND ACRONYMS

ADP	Annual Development Program
BBG	Basic Block Grant
BGCC	Block Grant Coordination Committee
C&AG	Comptroller & Auditor General
CPF	Country Partnership Framework
DC	Direct Contracting
DDLG	Deputy Director of Local Government
DF	District Facilitator
DPP	Development Project Proposal
EBG	Expanded Block Grant
ECNEC	Executive Committee of the National Economic Council
ESMF	Environmental and Social Management Framework
FAPAD	Foreign Aided Projects Audit Directorate
FMR	Financial Management Report
FY	Fiscal Year
7 th FYP	Seventh Five Year Plan
GoB	Government of Bangladesh
GRM	Grievance Redress Mechanism (GRM)
HLC	Horizontal Learning Centre
HLP	Horizontal Learning Program
ICAB	Institute of Chartered Accountants, Bangladesh
ICB	International Competitive Bidding
IDA	International Development Association
IEC	Information, Education and Communication
IPF	Investment Project Financing
ISA	International Standards on Auditing
KPI	Key Performance Indicators
LGD	Local Government Division
LGSP-1	First Local Governance Support Project
LGSP-2	Second Local Governance Support Project
LGSP-3	Local Governance Support Project - 3
M&E	Monitoring and Evaluation
MDG	Millennium Development Goals
MIE	Monitoring, Inspection and Evaluation
MLGRD&C	Ministry of Local Government, Rural Development and Cooperatives
MoF	Ministry of Finance
MTBF	Medium-Term Budgetary Framework
MTR	Mid-term Review
NCB	National Competitive Bidding
NGO	Non-government Organization
NILG	National Institute of Local Government
NPD	National Project Director

PBG	Performance Based Grant
PDO	Project Development Objective
PMU	Project Management Unit
SEC	Special Environmental Clauses
SEG	Small Ethnic Group
SEGPF	Small Ethnic Group Planning Framework
SIC	Scheme Implementation Committee
SoE	Statement of Expenditures
SSC	Scheme Supervision Committee
UNO	Upazila Nirbahi Officer
UP	Union Parishad
UPDF	Union Parishad Development Fund
UPOM	Union Parishad Operations Manual
URT	Upazila Resource Team
WC	Ward Committee
WDF	Women Development Forum

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BASIC INFORMATION

Is this a regionally tagged project? No	Country(ies)	Lending Instrument Investment Project Financing
<input type="checkbox"/> Situations of Urgent Need of Assistance or Capacity Constraints <input type="checkbox"/> Financial Intermediaries <input checked="" type="checkbox"/> Series of Projects		
Approval Date 31-Jan-2017	Closing Date 31-Dec-2021	Environmental Assessment Category B - Partial Assessment
Bank/IFC Collaboration No		

Proposed Development Objective(s)

The project development objectives are to institutionalize the Union Parishad (UP) fiscal transfer system, and introduce a fiscal transfer system for Pourashavas on a pilot basis.

Components

Component Name	Cost (USD Million)
Institutionalization of UP Fiscal Transfers	648.20
Audits and Performance Assessments, and Management Information Systems	5.14
Expanded Block Grants to Pilot Pourashavas	9.88
Capacity Development and Project Implementation Support	32.91



Organizations

Borrower : Government of Bangladesh

Implementing Agency : Local Government Division, Ministry of Local Government, Rural Development and Cooperatives

<input checked="" type="checkbox"/> Counterpart Funding	<input type="checkbox"/> IBRD	<input checked="" type="checkbox"/> IDA Credit <input type="checkbox"/> Crisis Response Window <input type="checkbox"/> Regional Projects Window	<input type="checkbox"/> IDA Grant <input type="checkbox"/> Crisis Response Window <input type="checkbox"/> Regional Projects Window	<input type="checkbox"/> Trust Funds	<input type="checkbox"/> Parallel Financing
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Total Project Cost:

696.13

Total Financing:

696.13

Financing Gap:

0.00

Of Which Bank Financing (IBRD/IDA):

300.00

Financing (in USD Million)

Financing Source	Amount
Borrower	396.13
IDA-59460	300.00
Total	696.13

Expected Disbursements (in USD Million)

Fiscal Year	2017	2018	2019	2020	2021	2022
Annual	25.00	60.00	70.00	80.00	50.00	15.00
Cumulative	25.00	85.00	155.00	235.00	285.00	300.00



INSTITUTIONAL DATA

Practice Area (Lead)

Social, Urban, Rural and Resilience Global Practice

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Low
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● High
6. Fiduciary	● Substantial
7. Environment and Social	● Low
8. Stakeholders	● Low



9. Other

10. Overall

● Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any waivers of Bank policies?

Yes No

Safeguard Policies Triggered by the Project

Yes

No

Environmental Assessment OP/BP 4.01

✓

Natural Habitats OP/BP 4.04

✓

Forests OP/BP 4.36

✓

Pest Management OP 4.09

✓

Physical Cultural Resources OP/BP 4.11

✓

Indigenous Peoples OP/BP 4.10

✓

Involuntary Resettlement OP/BP 4.12

✓

Safety of Dams OP/BP 4.37

✓

Projects on International Waterways OP/BP 7.50

✓

Projects in Disputed Areas OP/BP 7.60

✓

Legal Covenants

Sections and Description

Project Operations Manual (Section I.B.1 of Schedule 2 to the Financing Agreement)

The Recipient shall: (a) by no later than April 1, 2017, update the existing UP Operations Manual in a manner satisfactory to the Association; and (b) by no later than March 1, 2018, adopt the Pourashava Operations Manual in a manner satisfactory to the Association.



Sections and Description

Institutionalization of UP Fiscal Transfer Key Steps (Section I.D. of Schedule 2 to the Financing Agreement)

The Recipient shall carry out the UP Fiscal Transfer Institutionalization Key Steps in accordance with the following terms and conditions:

- (a) Use of existing UP Development Fund budget line for the institutionalization of BBG’s fiscal transfers: By no later than July 1, 2018, the Recipient through LGD shall ensure that the existing UP Development Fund budget line reflected in the LGD’s MTBF is used for the BBG fiscal transfers starting from fiscal year 2021-2022 onwards in a manner satisfactory to the Association;
- (b) Regulatory framework for BBGs and UP audits for fiscal year 2021-22:
 - (i) By no later than January 1, 2019, the Recipient through LGD shall prepare the guidelines and/or regulations for: (i) managing the relevant BBG budget line in the LGD’s ADP; (ii) disbursing the BBGs; and (iii) carrying out the financial audits and performance assessments of UPs, in a manner satisfactory to the Association; and
 - (ii) By no later than March 1, 2019, the Recipient through LGD shall issue the guidelines and/or regulations referred to in paragraph (b) (i) above in a manner satisfactory to the Association;
- (c) BBG management: By no later than July 1, 2019, the Recipient through LGD shall: (i) prepare an action plan for maintaining an efficient and transparent system for administrating the BBGs starting from fiscal year 2019-2020 onwards in a manner satisfactory to the Association; and (ii) implement such action plan throughout the implementation of the Project in a manner satisfactory to the Association.

Sections and Description

Safeguards (Section I.G. of Schedule 2 to the Financing Agreement)

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Environmental and Social Management Framework (“ESMF”), the Small Ethnic Groups Planning Framework (“SEGP”) and the relevant Safeguard Assessments and Plans.

Conditions

Type	Description
Disbursement	Withdrawal Conditions; Withdrawal Period (Section IV.B.1 of Schedule 2 to the Financing Agreement)



Notwithstanding the provisions of Part A of Section IV in the Financing Agreement, no withdrawal shall be made

- (a) for payments made prior to the date of this Agreement;
- (b) under Categories 3(b), (c), and (d) unless the Recipient has submitted evidence, in a manner satisfactory to the Association, the action plan specified in Section I.D.1(c) of this Schedule for maintaining an efficient and transparent system for administrating the BBGs from fiscal year 2019-2020 onwards;
- (c) under Category 3(c) unless the Recipient has submitted evidence, in a manner satisfactory to the Association, showing that BBGs for fiscal year 2019-2020 have been transferred to UPs; and
- (d) under Category 3(d) unless the Recipient has submitted evidence, in a manner satisfactory to the Association, showing that BBGs for fiscal year 2020-2021 have been transferred to UPs.

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Shenhua Wang	Team Leader(ADM Responsible)	Sr. Urban Specialist	GSU12
Zahed H. Khan	Team Leader	Sr. Urban Specialist	GSU12
Tanvir Hossain	Procurement Specialist(ADM Responsible)	Procurement Specialist	GGO06
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A. D. C. Godavitarne	Team Member	Consultant	GSU12
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Jorge Luis Alva-Luperdi	Counsel	Senior Counsel	LEGES
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Santanu Lahiri	Team Member	Capacity Building Specialist	GWA06
Satish Kumar Shivakumar	Team Member	Finance Officer	WFALA
Soma Ghosh Moulik	Team Member	Lead Water and Sanitation Specialist	GWA06
Teen Kari Barua	Team Member	Social Specialist	GSU06
Extended Team			
Name	Title	Organization	Location
Gerhard Van't Land	Local Governance/Fiscal Specialist	DEGE Consult	



BANGLADESH
THIRD LOCAL GOVERNANCE SUPPORT PROJECT (LGSP 3)

TABLE OF CONTENTS

I. STRATEGIC CONTEXT	10
A. Country Context	10
B. Sectoral and Institutional Context	11
C. Higher Level Objectives to which the Project Contributes	13
II. PROJECT DEVELOPMENT OBJECTIVES.....	13
A. PDO	13
B. Project Beneficiaries.....	13
C. PDO-Level Results Indicators	13
III. PROJECT DESCRIPTION.....	13
A. Project Components.....	13
B. Project Cost and Financing.....	14
C. Lessons Learned and Reflected in the Project Design.....	15
IV. IMPLEMENTATION.....	16
A. Institutional and Implementation Arrangements.....	16
B. Results Monitoring and Evaluation	16
C. Sustainability	17
V. KEY RISKS	17
A. Overall Risk Rating and Explanation of Key Risks	17
VI. APPRAISAL SUMMARY.....	18
A. Economic and Financial Analysis	18
B. Technical	18
C. Financial Management.....	18
D. Procurement.....	19
E. Social	19
F. Environment.....	20
G. World Bank Grievance Redress	21



VII. RESULTS FRAMEWORK AND MONITORING	22
ANNEX 1: DETAILED PROJECT DESCRIPTION	31
ANNEX 2: IMPLEMENTATION ARRANGEMENT	45
ANNEX 3: IMPLEMENTATION SUPPORT PLAN	56



I. STRATEGIC CONTEXT

A. Country Context

1. The past decade has witnessed Bangladesh's remarkable progress in reducing poverty and advancing growth and development. Despite daunting challenges, Bangladesh has moved up in the income bracket and changed its status to a lower-middle income country in 2014, and its annual per capita income continued to increase to US\$1,212 in 2015. The country has made impressive strides in meeting the Millennium Development Goals (MDGs) with respect to reducing headcount poverty and the poverty gap ratio, increasing enrolment at primary schools, lowering the infant mortality rate and maternal mortality ratio, improving immunization coverage and reducing the incidence of communicable diseases. These commendable achievements notwithstanding, widespread poverty, limited employment opportunities, and socio-economic inequalities are still among Bangladesh's most significant development challenges. The long-term link between good governance and economic growth is inarguable, along with the increasingly evident positive relationship between local public sector spending and development goals.
2. Local governments in Bangladesh are a key element of the overall governance landscape, and have the statutory responsibility for the provision of services to local communities. However, they operate in a constrained policy and institutional environment. The lowest unit of the rural system of the local government hierarchy, Union Parishads (UPs), totals around 4,550¹ nationwide, 95 percent of which have a population in the range of 10,000 to 40,000, and are relatively uniform in terms of their administrative capacity and scale. The limited discretion for raising local revenue, the weak tax base and the low collection rate of own source revenue at the UP level have resulted in the 'vertical fiscal gap', which contributes to the inconsistency between the *de jure* functional responsibilities mandated in the 2009 UP Act and the *de facto* assignment of functions performed by UPs. As in many other countries, the vertical fiscal gap is filled by intergovernmental fiscal transfers, which constitute the major portion of funding provided from the center, as an equitable share of the national resource pie to enable local governments to perform their functions and improve service delivery at the local level.²
3. The Government of Bangladesh (GoB) has made significant efforts to reform the local governance system over the past decade - devolving powers to lower levels through more autonomy and increased allocation of resources. In 2009, GoB revised local government ordinances to facilitate the transfer of additional expenditure responsibilities and enhanced fiscal resources to UPs. These reforms enabled a transparent and predictable fiscal transfer system for UPs to be introduced and established by the two Bank-supported Local Governance Support Projects (LGSP-1 and LGSP-2). Fiscal transfers supported by these projects have enabled UPs to execute their assigned expenditure mandate as per the 2009 UP Act. Further, they also provided UPs nationwide the discretion to decide their spending priorities through a participatory process, while being held accountable for their performance through a number of accountability measures.

¹ The exact number of UPs changes from year to year as some UPs are converted into municipalities and some new ones are created.

² "The local Government System in Bangladesh: A Comparative Analysis of Perspectives and Practices, 2014"



4. GoB has recently re-affirmed its decentralization and local government agenda through the Seventh Five Year Plan (7th FYP – FY16-20)³ and the 2015-2016 Budget Speech of the Minister of Finance⁴, under the overarching theme of “Accelerating Growth, Empowering Citizens”. While the long-term commitment of the Government to administrative and fiscal decentralization in Bangladesh remains clear, it is nonetheless a relatively low priority in the short-term fiscal policy and public expenditure agenda. Fiscal resources allocated to UPs remain relatively small. Since FY 2013, the UP grants funded through LGSP-2 have been between 5-6 percent of total LGD Annual Development Program (ADP) expenditure. Over the years, the total GoB development budget and the ADP for the Local Government Division (LGD) have shown considerable growth, which is much greater than the growth of total UP Grants, and the government’s share of Basic Block Grant (BBG).

B. Sectoral and Institutional Context

5. Prior to LGSP, the intergovernmental fiscal transfers to UPs had been made in a conventional way that lacked transparency, predictability and efficiency: (i) transfers were made through intermediate administrative levels, i.e., Upazila Parishads, in the absence of any direct link established between UPs and the central government; (ii) the grant funding pool was determined by the central government in an *ad hoc* and opaque manner; (iii) rules/conditions that govern the allocation of funds among the eligible UPs were not equitable, and were not used as an instrument to incentivize improved governance and accountability performance; and (iv) degree of discretion for utilization of funds often was conditional or funds were ear-marked. The drawbacks of such a system included a cumbersome process resulting in delays in the transfer of funds, and the potential for manipulation of fund flows by political and institutional interference, which in turn resulted in unpredictability in the receipt of funds at the local level.
6. The two consecutive phases of LGSP have successfully established a formula-based intergovernmental fiscal transfer system to UPs that ensures enhanced transparency and predictability. The key features of the system are: (i) formula-based BBGs, based on population and area, transferred directly to UP bank accounts from the central government in two tranches/year; (ii) consistency with GoB’s Medium Term Budgetary Framework (MTBF) by announcing in advance three years’ indicative BBG ceilings to facilitate forward planning; (iii) annual financial audits and performance assessments of all 4,550 UPs conducted by private audit firms, as a condition for access to funds; (iv) performance-based grants to incentivize UPs for better performance in governance, accountability, and financial management; (v) full discretion in the use of funds that allows local expenditure and investment priorities to be determined by communities, within the parameters of their legal mandate; and (vi) the flexibility to rollover unspent balances of BBGs/Performance Based Grants (PBGs) to subsequent fiscal years.
7. LGSP-1 and LGSP-2 have registered important achievements to date. Under the decade-long support from the previous two phases, total funds available for discretionary spending by UPs have grown significantly in absolute terms: an increase from the flat annual amount of about BDT200,000 that each UP received in FY2006, irrespective of size or socio-economic profile, to an average annual allocation of about BDT 2.23 million per UP in FY2016. This transparent and predictable fiscal transfer system has played a vital role in promoting participatory planning, budgeting and expenditure management at the UP level, as well

³ <http://www.plancomm.gov.bd/7th-five-year-plan-final-draft/>

⁴ http://www.mof.gov.bd/en/budget/15_16/budget_speech/speech_en_15-16.pdf



as efficient service delivery that better responds to local public needs, and strengthening the accountability linkage between UPs and their citizens.

8. The key policy objective underlying the proposed operation is the institutionalization and mainstreaming of BBGs and its principal features, based on the successful UP grant reforms introduced through LGSP-1 and LGSP-2 over the last decade. The envisaged BBG institutionalization entails the following key elements: GoB fully financing the total BBG funding pool through national budgetary allocations; GoB undertaking UP annual financial audits and performance assessments as part of GoB's regular procedures; and administration and management of BBGs and associated processes by the Local Government Division (LGD).
9. Under LGSP-3, BBG will be fully funded by GoB starting from the fourth year (FY2019-20) of the project, and will be budgeted in LGD's Medium-Term Budgetary Framework (MTBF). Furthermore, BBGs will be channeled through the existing UP Development Fund budget line in the ADP with a set of guidelines for managing BBG fiscal transfers beyond the project. GoB has expressed its commitment to institutionalizing the systems developed under LGSP operations and sustaining BBG funding levels beyond Year 3, and therefore, to adopt BBG arrangements and funding levels as part of its regular ADP funding for BBGs.
10. LGSP-3 aims to introduce the improved fiscal transfer mechanisms to the next tier of local government institutions, i.e., Pourashavas (or municipalities). Pourashavas, which are urban local governments, are facing constraints similar to those faced by UPs due to low capacity, limited fiscal autonomy and decision-making powers, insufficient own-source revenues, and weak accountability systems. Although rapid urbanization has positively impacted economic performance of the country, it has also exerted great pressure on basic municipal service delivery and urban living. Currently, all Pourashavas receive annual ADP grants from LGD, calculated as an equal shares amount that varies depending on the class of Pourashava. Most smaller Pourashava have received little (if any) project support from donors, and are inadequately equipped to respond to the growing demand for infrastructure and service improvements in Bangladesh's emerging towns and small cities.
11. Pourashava grants supported by LGSP-3 will be used to improve service levels, with local discretion over decision-making consistent with the existing legal framework. The same processes and principles underlying UP grants, established under LGSP-1 and LGSP-2, will be piloted in selected Pourashavas, by testing a system of Expanded Block Grants (EBGs). The objective of EBGs is to strengthen financial accountability and to significantly increase the size of annual block grants to Pourashavas that provide municipal services in small urban centers. Through EBGs, Pourashavas will access greater resources with which to respond to local service delivery priorities and needs.

C. Higher Level Objectives to which the Project Contributes

12. The proposed LGSP-3 is fully aligned with the World Bank's Bangladesh Country Partnership Framework (CPF) FY2016-20 and the World Bank's twin goals of ending extreme poverty and promoting shared prosperity. It will contribute to the growth pillar of the CPF through improving local governance, revenue enhancement and urban services via enhanced performance and service delivery. More specifically, this will be achieved through a performance-based incentive mechanism for UPs that demonstrates sustained progress in planning, public finance management, revenue mobilization and social accountability. The



proposed LGSP-3 will also support the second CPF pillar of social inclusion through community based initiatives and strengthened role of women in decision-making in community organizations.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

13. The project development objectives are to institutionalize the Union Parishad (UP) fiscal transfer system, and introduce a fiscal transfer system for Pourashavas on a pilot basis.

B. Project Beneficiaries

14. Direct beneficiaries of UP grants are the population in the 4,550 UPs, estimated to be about 115 million, and about 0.5 million in the participating Pourashavas (of which 58.97 million and 0.26 million respectively are estimated to be women). Indirect beneficiaries include UP and Pourashava functionaries and district and central government agencies managing UP grants and audits.

C. PDO-Level Results Indicators

15. The proposed key result indicators for the project are:
 - (i) Institutionalization of UP fiscal transfer system
 - (ii) Institutionalization of annual financial audits and performance assessments in all UPs
 - (iii) Share of beneficiaries, disaggregated by gender, agreeing that UPs are meeting local priorities
 - (iv) Number of EBG tranches released on a transparent and predictable basis to participating Pourashavas.

III. PROJECT DESCRIPTION

A. Project Components

16. A summary of project components is provided below. A detailed description of components is provided in Annex 1.

Component 1. Institutionalization of UP Fiscal Transfers (Total US\$648.20 million, of which US\$260.55 million is IDA financing)

This component will provide Basic Block Grants and Performance Based Grants to eligible UPs to carry out sub-projects and will support the institutionalization of the UP Fiscal Transfer, which are detailed in Annex 1.

During the first three years of LGSP-3, BBGs will be funded jointly out of GoB's contribution and the IDA credit. From Year 4 onwards (FY2019-20), BBGs will be funded entirely out of GoB budgetary resources, as a critical step towards institutionalization of UP fiscal transfers. The PBG annual funding pool will be financed entirely out of the proceeds of the proposed IDA credit. UPs will access PBG allocations on the



basis of fulfilling the minimum conditions and their annual performance assessments. The grant funding pool projections of BBG and PBG for the five-year period are provided in Annex 1.

Component 2. Audits and Performance Assessments, and Management Information Systems (Total US\$5.14 million, entirely IDA financing).

This component will support the institutionalization of UP audits and performance assessments (PAs), and operationalization of Management Information Systems (MIS), including through: (i) strengthening the process of carrying out of UP's annual financial audits and performance assessment systems, strengthening the readiness and preparation processes of annual financial statements, developing, reporting financial audits and appeal hearing guidelines, and enhancing the performance assessments conducted by auditors; (ii) supporting the carrying out of Pourashavas' annual financial audits to facilitate their access to the Expanded Block Grants; and (iii) establishing a fully functional management information system within UPs and LGD, a data center and a management information system help desks, and an information communication technology cell within LGD to manage the infrastructure, and providing associated training, hardware and software.

Component 3: Expanded Block Grants to Pilot Pourashavas (US\$9.88 million, of which US\$4.94 million is IDA financing).

Expanded block grants (EBG) will be provided to qualified Pourashavas to carry out sub-projects on a pilot basis. EBGs will be provided to 16 Pourashavas in eight Divisions, with population less than 60,000, on a pilot basis. Pourashavas will qualify for EBGs upon satisfying Minimum Conditions (a satisfactory annual financial audit report, a functioning Town Level Coordination Committee, a published annual report, a citizens' charter, an approved budget, and submission to LGD - from Year 3 of the project - the last two six monthly financial and progress reports.) Pourashava EBGs will use the same processes and principles underlying UP grants, and will commence in the second year of the project. The ADP block grant allocations for the qualified pilot Pourashavas will be blended, in the LGSP-3 EBG bank account, with an equal amount from the IDA Credit to form the EBG funding pool for all qualified pilot Pourashavas. Provision will be made in the project to permit a scaling up during implementation, if the pilot proves successful.

Component 4. Capacity Development and Project Implementation Support (US\$32.91 million, of which US\$ 29.37 million is IDA financing)

This component will support capacity building, project management and implementation support through: (i) capacity building activities for UP and Pourashava Officials, including Deputy Directors of Local Government (DDLGs) and District Facilitators (DFs); (ii) training on public financial management; and (iii) technical assistance to the Project Management Unit (PMU) to carry out project management and implementation support activities.

B. Project Cost and Financing

17. The estimated project cost and financing plan by component are provided in the table below (in US\$



million).

Table 1. Project Cost and Financing

Project Components	Project cost	IDA Financing	Counterpart Funding
<i>Component 1: Institutionalization of UP Fiscal Transfers</i>	648.20	260.55	387.65
<i>Component 2: Audits and Performance Assessments, and Management Information Systems</i>	5.14	5.14	-
<i>Component 3: Expanded Block Grants to Pilot Pourashavas</i>	9.88	4.94	4.94
<i>Component 4: Capacity Development and Project Implementation Support</i>	32.91	29.37	3.54
Total Costs	696.13	300.00	396.13

C. Lessons Learned and Reflected in the Project Design

18. The proposed LGSP-3 builds on experience from the implementation of previous phases of LGSP, as well as the Bank's substantial global experience with local government institutional strengthening projects. Key lessons learned and reflected in the project design are summarized below:

(a) Proven success of the inter-governmental fiscal transfer system to UPs under LGSP-1 and LGSP-2 makes it imperative that the system is sustained through institutionalization of BBGs. Transparency and predictability of fiscal transfers constitute a major step in local government fiscal decentralization, which underpins the design of LGSP-3.

(b) Annual UP audits, pioneered by LGSP-1 and successfully rolled out nationwide under LGSP-2, have proved to be the key plank in the accountability strategy of the two phases. Such arrangements will be maintained and strengthened under LGSP-3.

(c) Performance assessments introduced under LGSP-2 were intended to incentivize improved UP performance in tax revenue enhancement, enhanced peoples' participation, transparency and accountability, planning and budgeting, reporting, and village court functioning. However, the mechanism rewarded the top 75 percent performers at Upazila level on a graded scale and did not provide sufficient incentive to improve performance. Performance assessment under LGSP-3 has therefore been enhanced in the following aspects: (i) use of scalable and weighted indicators to reward incremental effort and generate stronger incentives; (ii) inclusion of indicators on local infrastructure / scheme outputs to encourage investment efficiency and sustainability; (iii) application of the graded scale at the district level to ensure a more equitable basis for competition; and (iv) rewarding the top 65 percent performers instead of the top 75 percent, to foster competition.

(d) Full operationalization of the effective and functional MIS developed under LGSP-2. The MIS will



move to a web-based reporting system. LGSP-3 will also encourage the UP procurement and financial management functions to be carried out through the MIS, drawing on lessons from good practice in other Bank operations.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

19. LGD will be responsible for project implementation. The Project Steering Committee (PSC), chaired by the Secretary, will have members from all relevant ministries, and will facilitate policy discussions, inter-agency coordination, and overall project monitoring and oversight. The Project Management Unit (PMU) will be headed by the National Project Director, and will have the responsibility for the following core functions: grant administration including disbursement, financial management, procurement, training, program evaluation, policy development, credit withdrawals, reporting to the PSC. In addition, the PMU will be managing and coordinating all field based activities, field based monitoring and reporting, coordinating with DDLGs and DFs, and ensuring linkages and coordination with other line agencies and the National Institute of Local Government (NILG). The PMU will disburse BBGs in the first three years, after which LGD will take on this responsibility from Year 4.
20. Pourashavas will be responsible for the use of the EBGs to improve service levels according to norms described in the Pourashava Operations Manual (Pourashava OM). The Town Level Coordination Committee of Pourashavas will have a role to ensure that investments selected by wards benefit a larger population beyond individual wards. A Pourashava OM will be developed in line with the Pourashava Act (2009) taking into account the specific requirements associated with EBGs; the Pourashava OM will be completed and adopted by March 1, 2018, before commencement of EBG disbursement.

B. Results Monitoring and Evaluation

21. The primary tool to monitor and evaluate project results will be the Results Framework, detailed in Section VII. The PMU will consolidate information from the six-monthly reports from UPs and other data reported through the MIS. The primary focus of monitoring will be progress towards achieving the development objective of institutionalization of UP BBGs and the piloting of Pourashava grants. Other monitoring will include monitoring of physical progress, investment planning, financial management, scheme details, scheme supervision, procurement, credit utilization, etc. The PMU will prepare and furnish to GoB and the Bank semi-annual progress reports, as under LGSP-2. These reports will provide timely and up-to-date information on project implementation and any hurdles encountered, as well as achievement of outcomes and outputs.
22. Mid-term Review. A mid-term review (MTR) of the project will be conducted jointly by GoB and IDA, to assess overall implementation progress towards meeting the PDO, and to take any necessary corrective measures. The MTR will be conducted no later than June 30, 2019. Prior to the MTR the PMU will prepare a report describing implementation progress and progress towards meeting the PDO, as well as remedial



measures to address any hurdles faced.

C. Sustainability

23. The project includes legal covenants that require LGD to implement specific actions to achieve this goal. Once the established UP fiscal transfer system becomes part of the GoB annual budgetary framework, it is likely to be continued, except in the case of adverse macroeconomic conditions or serious resource constraints. However, the total transfers to UPs are estimated to be less than 2 percent of the total GoB annual budget and the achievements of LGSP-3 are likely to be sustained.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

24. The overall project risk is rated as Substantial. The main risks associated with the achievement of the PDO are related to political and governance, sector policies, fiduciary, and institutional capacity. The principal risks and risk mitigation measures are discussed below.

(a) Sector Strategies and Policies. While there is overall policy commitment to decentralization, the extent to which this translates into actual implementation is uncertain. This will be addressed through ongoing and wider policy dialogue with GoB and through other Bank-supported initiatives.

(b) Political and Governance. Risks associated with the overall policy environment relate to shifting priorities of the Government and the priority accorded to decentralization and local governance. In the absence of built-in mechanisms, fiscal transfers from central to local governments are susceptible to arbitrary decisions on which local governments benefit and how much each local government receives. This risk will be mitigated through continued engagement with GoB to broaden support for local government reforms. In particular, LGSP-3 includes the introduction of a fiscal transfer system for Pourashavas on a pilot basis.

(c) Institutional Capacity for Implementation and Sustainability. Project design has built-in features to facilitate the achievement of the institutionalization of the BBGs, the annual financial audits and performance assessments, and the UP fiscal transfer system developed under LGSP-2. The risk to sustainability is mitigated through dated implementation covenants.

(d) Fiduciary. There are substantial fiduciary risks due to the sheer number of UPs and pilot Pourashavas, and the multiple financial management units or cost centers. These risks will be mitigated through the project's comprehensive approach to UP and Pourashava audits, as well as through the operationalization of a country-wide Management Information System for robust tracking of sub-national financial operations.



VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

25. LGSP-3 will contribute to GoB's shared growth and decentralization efforts by institutionalizing UP fiscal transfers nationwide and by introducing EBG to Pourashavas on a pilot basis. The average annual allocation for each UP by LGSP-2 completion will be maintained under LGSP-3. While small in nominal amount, these grants are a significant discretionary share in the total revenues of UPs and pilot Pourashavas and will thus equip them for better local service delivery and investments, which are prioritized and selected by the primary beneficiaries. These small investments typically have significant rates of return. The institutionalization of the UP BBG from FY2019-20 onwards (when GoB is expected to fully fund BBGs from its own resources) will also produce non-quantifiable benefits by deepening decentralization reform and strengthening the institutional and fiscal system of the local government institutions.
26. Continued moderate growth rates for overall GoB development budgets will raise the GoB/BBG budget considerably. These increases show GoB commitment to decentralization and UP funding; however, the total amounts remain relatively modest compared to the total development budget. Even with full institutionalization, the BBG budget remains a relatively small and manageable part of LGD's total development budget. Under the counterfactual scenario - where GoB moves forward without LGSP-3 - there is less likelihood that GoB will continue the same level of grant support to UPs after the completion of LGSP-2.

B. Technical

27. Project design builds on the experience under LGSP-2 and responds to the technical challenges of establishing a sustainable and enduring national framework for fiscal transfers to UPs. The introduction of the fiscal transfer system to Pourashavas on a pilot basis, concurrently with the mainstreaming of the system to UPs, is considered appropriate. This will require that Government in general, and LGD in particular, undertake a number of sequenced actions – culminating in the full integration of BBG principles and processes into regular GoB budgeting and fund flow procedures. LGSP-3 financing is technically sound as it has been structured to provide incentives to GoB to implement and monitor the implementation of specific steps (see UP Fiscal Transfer Institutionalization Key Steps in Annex 1) required in this process.

C. Financial Management

28. A fiduciary assessment for LGSP-3 indicates that the main FM risk is the relatively weak financial capacity in UPs and selected Pourashavas. This risk is being mitigated by community involvement, guidance from the Project Steering Committee, strengthened monitoring by Upazila Nirbahi Officer (UNOs), DDLGs and LGD's Monitoring, Inspection, and Evaluation Wing, and clear incentives and sanctions for UP level compliance. Project funds will be disbursed through well-established commercial banks. The partnership between LGD and the private sector audit firms, supplemented by the quality assurance efforts of the Comptroller & Auditor General (C&AG), is expected to further mitigate the financial risks. The project includes a strong capacity building component to address weak systems and capacities for accounting and reporting at all levels. Specific efforts to improve the systems and processes of public financial



management, as well as the insistence on independent external audits on a regular and timely basis, will mitigate control risks to a certain extent. Overall, the agreed financial management arrangements of the Project are adequate to account for and report on the sources and uses of project funds, as well as to meet the Bank's fiduciary requirements. The executing Ministry has been in compliance with the auditing requirements of IDA funded projects so far with no pending audit report.

D. Procurement

29. Procurement will be carried out in accordance with the World Bank's "New Procurement Framework (NPF) for the Borrower 2016". As per the requirement of the NPF, a comprehensive Project Procurement Strategy for Development (PPSD) has been developed with support from the Bank. An intermediate result indicator is included to measure the progress made by UPs in operationalizing the MIS procurement module, with the target of 80 percent of UP procurements to be carried out through the procurement MIS system.
30. The PMU will conduct the major procurement of goods and services for the PMU and for the UPs. The procurement capacity and risk assessment determined that the PMU has sufficient capacity based on the experience of successful implementation of LGSP-2. UPs and Pourashavas will undertake procurement using community construction, quotations, direct procurement, and open tendering. The primary risk, value for money, will be mitigated by: (i) sustainable procurement; (ii) best and final offer; (iii) Key Performance Indicators (KPIs) for contract management; and (iv) prospective bidders' awareness and readiness through consultation, and comprehensive training for the implementing agencies.
31. A draft procurement plan for the first 18 months of project implementation has been prepared and finalized. The procurement plan will be disclosed on the project website and the Bank's external website. Further details on procurement are provided in Annex 2.

E. Social

32. Participatory preparation. During the preparation of LGSP-3, consultations were organized across the country with a wide range of stakeholders. Additional analytical work was also carried out for assessing UP performance, community satisfaction, and challenges faced in LGSP-1 and LGSP-2. The UP social audit, household surveys and other assessments found that the majority of residents were highly satisfied with UP service delivery improvements and the project's support for greater participation by women and the poor.
33. Gender. The project places a strong emphasis on gender equity, on the aspect of participatory planning, budgeting, scheme selection, etc. As a continuation of LGSP-2, at least one third of the nine Ward Committees (WCs) will be chaired by UP women members, one third of WCs and Scheme Supervision Committee (SSC) members will be women, and 30 percent of the grants will be earmarked for schemes prioritized by women. A Women Development Forum (WDF), comprising all elected women members, have been organized at Upazila level to facilitate capacity building and women's empowerment in local development.



34. **Social Accountability.** Partnership with civil society organizations will be further strengthened and social accountability measures and communication activities will be expanded for enhancing transparency and improving engagement between UPs and residents. This will be complemented by initiatives in social accountability facilitated through trust funds and in partnership with other entities, including donors, non-government organization (NGOs), community-based organizations, and academia.
35. **Indigenous Peoples.** The project triggers OP/BP 4.10 on Indigenous Peoples as sub-project implementation at the UP/Pourashava level could impact the cultural and traditional ways of indigenous peoples' and they may not receive culturally compatible benefits from the project. In order to address these concerns, a Small Ethnic Group Planning Framework (SEGPF), acceptable to the Bank, has been prepared. The SEGPF includes principles, policies, and guidelines to ensure that schemes selected, designed, and implemented do not threaten SEG culture and traditional way of life, and that they receive culturally compatible project benefits. Many of the schemes are expected to be land-based. Nevertheless, OP/BP 4.12 on Involuntary Resettlement is not triggered as the acquisition of private lands and involuntary resettlement of people is not envisaged. UPs may follow simple guidelines founded on the principles of community cooperation and good governance to use small amounts of public and private lands in cases of critically important sub-projects.
36. **Citizen Engagement.** This is a key aspect considered in the project social assessment and carried out during the project preparation: extensive consultations were organized across the country with a wide range of stakeholders. Public consultation has and will continue to draw on local people's engagement and feedback in line with the project objectives. Community participation will be further enhanced through the open budget meetings and 'Ward Shavas' that provide citizens with an important tool to participate in the local affairs. Moreover, LGSP-3 will support the Information, Education, and Communication (IEC) activities with a wider range of stakeholders and beneficiaries, including citizens, the media, NGOs, local government institutions, and central government agencies, with features to respond to queries of UP and Pourashava functionaries and citizens. The citizen engagement will be ensured throughout the project implementation and the progress will be tracked through a core indicator in the Results Framework: Share of beneficiaries agreeing that UPs are meeting local priorities.

F. Environment

37. UPs and the selected Pourashavas will use block grants to implement small-scale community infrastructure and other schemes, including rehabilitation/construction of small-scale community infrastructure, e.g., rural roads, culverts, and irrigation and drainage systems. Environmental impacts from these sub-projects are likely to be minor, but could include: (i) arsenic and bacterial contamination in drinking water; (ii) unplanned road construction causing drainage blocks; (iii) improper sanitation and sewage systems; (iv) inadequate solid waste management; (v) noise and air pollution; and (vi) water pollution resulting from discharge of waste and spills and leaks of oils/ chemicals into water bodies. These impacts are mostly temporary and limited within the site boundary.
38. The project triggers Bank Environmental Safeguard Policy OP4.01 Environmental Assessment and is classified as Category 'B' in accordance with OP 4.01. The LGSP-2 ESMF has been revised for LGSP-3. The ESMF contains a Negative List of environmental and social attributes that would make sub-projects with such negative attributes ineligible for financing. All schemes will be subjected to an environmental and



social screening to ensure that activities with significant negative impacts are not implemented. The Environmental, Health, and Safety (EHS) Guidelines of the World Bank Group will be applicable to the project. The ESMF was disclosed in country at the LGSP website and in national newspapers on November 2, 2016 and in the Bank InfoShop on October 25, 2016.

39. The expected environmental impacts will be mitigated through implementation of scheme specific environmental management plans or environmental code of practice, as appropriate. The Environmental Management Plan (EMP) with a set of special environmental clauses (SECs) will be included in the technical specification of bidding documents. Implementation of the EMP during the construction phase will be supervised by the construction supervisor and contractor personnel.
40. Climate and Disaster Risk Screening. The Project has been screened to identify and address any potential climate and disaster risks. They are rated moderate to the overall PDO risk with possibly 'slightly reduced impact' due mainly to the possibility of extreme precipitation/flooding, strong winds, earthquake, and landslide. As a mitigation measure, the Project will support: rehabilitation of facilities (for example, rehabilitation and construction of culverts/footbridges, drainage systems, water and sanitation facilities, and rain or spring water harvesting); and capacity-building and training activities that help prepare for and cope with hazards or build longer-term resilience.

G. World Bank Grievance Redress

41. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. Information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), is provided in: <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, is provided in www.inspectionpanel.org.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY : Bangladesh

Local Governance Support Project - 3

Project Development Objectives

The project development objectives are to institutionalize the Union Parishad (UP) fiscal transfer system, and introduce a fiscal transfer system for Pourashavas on a pilot basis.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Institutionalization of UP fiscal transfer system		Yes/No	N	Y	Annual	LGD MTBF, ADP, relevant Government Order	LGD
Description: Institutionalization of UP BBGs that are fully funded out of GoB budget, before the closing of LGSP-3							
Name: Institutionalization of Annual financial audits and performance assessments for all UPs		Yes/No	N	Y	Annual	Auditors reports, audit reviews, relevant Government Order	LGD



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description: Annual UP audits and PAs to be managed by LGD and fully funded by GoB							
Name: Share of beneficiaries, disaggregated by gender, agreeing that UPs are meeting local priorities		Percentage	55.00	70.00	Beginning, mid-term and end of project	Baseline, Mid-term Review, and Final Evaluation	LGD
Share of beneficiaries, disaggregated by gender, agreeing that UPs are meeting local priorities (Female)		Percentage	55.00	62.00			
Share of beneficiaries, disaggregated by gender, agreeing that UPs are meeting local priorities (Male)		Percentage	66.00	70.00			
Description: Measures the extent to which UPs are being responsive to local priorities, results are disaggregated by gender.							
Name: Number of EBG tranches released per year on a transparent and predictable basis to participating Pourashavas		Number	0.00	2.00	Annual	Pourashavas Audit reports	LGD, Pourashavas



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description: Measures the efficiency of Fiscal transfer pilot for Pourashavas. The grants need to be formula based (transparency), announced in advance and disbursed in 2 tranches annually (predictability)							

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: The budget line item for BBG allocations reflected in the LGD’s MTBF for fiscal year 2021-2022 onwards		Yes/No	N	Y	Annual	LGD MTBF	LGD

Description: Include the budget Line item for UP BBGs in LGD’s FY 2018 MTBF, indicating LGD commitment to GoB-funded BBG line item in regular ADP starting in FY 2021-22

Name: UP Wing at LGD administers UP fiscal transfer system		Yes/No	N	Y	Annual	MIS	LGD
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Description: UP Wing at LGD to take over the fiscal transfer system that entails budget and allocation processes, disbursement and fund flow of the UP grants.

Name: BBGs to Eligible UPs disbursed 100% out of GoB budget in accordance with		Yes/No	N	Y	Annual	LGD MTBF, Audit report, MIS	LGD
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Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
the issued guidelines and/or regulations							
<p>Description: During the first three years of the project, BBGs will be funded jointly out of GoB's contribution and the IDA credit. From Year 4 onwards (FY2019-20), BBGs will be funded 100 percent by GoB, and budgeted in LGD's Medium-Term Budgetary Framework (MTBF).</p>							
Name: UP annual audits and performance assessments managed and carried out by LGD in accordance with the issued guidelines and/or regulations		Yes/No	N	Y	Annual	Auditors reports, audit reviews, relevant Government Order	LGD
<p>Description: UP annual audits and performance assessments will be managed and carried out by LGD starting from year 3</p>							
Name: Annual Pourashava financial audits conducted in participating Pourashavas		Number	0.00	1.00	Annual	Pourashavas Audit reports, audit reviews	LGD, Pourashavas
<p>Description: Annual financial audits to be established in selected Pourashavas</p>							
Name: The average performance score of UPs nationwide (Based on 40 point scale)		Number	0.00	30.00	Annual	UP audits and performance assessments	LGD



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description: To assess and measure the improved governance, accountability, and service delivery performance by UPs							
Name: Percentage of UP procurement reported using the procurement MIS system		Percentage	0.00	80.00	Annual	MIS	LGD, UPs
Description: UPs to demonstrate enhanced data collection and information flow through comprehensive MIS platform							
Name: Annual percentage increase in UP own- source revenues		Percentage	0.00	5.00	Annual	Annual financial audits report	LGD, UPs
Description: Improved revenue mobilization at UP level (excluding shared revenue)							
Name: Percentage of UPs implementing at least one larger scheme using 25% of their annual BBG allocation		Percentage	0.00	50.00	Annual	Annual performance assessment and financial audits report	LGD, UPs
Description: Measures UPs' enhanced investment efficiency and sustainability							
Name: Percentage of the schemes selected by women annually		Percentage	30.00	38.00	Annual	DDLG annual report, MIS	LGD



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description: To measure the increased percentage of schemes supported under the project to be prioritized by women							
Name: Number of new UP functionaries participated core training (cumulative)		Number	0.00	50000.00	Annual	LGD, NILG	LGD
Description: Core training for LGSP-3 builds on and strengthens the existing Union Digital Centers. Through these centers, training will be conducted more effectively							



Target Values

Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Institutionalization of UP fiscal transfer system	N	N	N	N	Y	Y	Y
Institutionalization of Annual financial audits and performance assessments for all UPs	N	N	N	N	Y	Y	Y
Share of beneficiaries, disaggregated by gender, agreeing that UPs are meeting local priorities	55.00			63.00		66.00	70.00
Number of EBG tranches released per year on a transparent and predictable basis to participating Pourashavas	0.00		2.00	2.00	2.00	2.00	2.00
Share of beneficiaries, disaggregated by gender, agreeing that UPs are meeting local priorities (Female)	55.00	55.00		58.00		62.00	62.00
Share of beneficiaries, disaggregated by gender, agreeing that UPs are meeting local priorities (Male)	66.00	66.00		68.00		70.00	70.00

**Intermediate Results Indicators**

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
The budget line item for BBG allocations reflected in the LGD's MTBF for fiscal year 2021-2022 onwards	N	N	N	Y	Y	Y	Y
UP Wing at LGD administers UP fiscal transfer system	N	N	N	N	Y	Y	Y
BBGs to Eligible UPs disbursed 100% out of GoB budget in accordance with the issued guidelines and/or regulations	N	N	N	N	Y	Y	Y
UP annual audits and performance assessments managed and carried out by LGD in accordance with the issued guidelines and/or regulations	N	N	N	N	Y	Y	Y
Annual Pourashava financial audits conducted in participating Pourashavas	0.00	1.00	1.00	1.00	1.00	1.00	1.00
The average performance score of UPs nationwide (Based on 40 point scale)	0.00	18.00	21.00	24.00	27.00	30.00	30.00
Percentage of UP procurement reported using the procurement MIS system	0.00	10.00	30.00	50.00	70.00	80.00	80.00
Annual percentage increase in UP own-source revenues	0.00		5.00	5.00	5.00	5.00	5.00



Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Percentage of UPs implementing at least one larger scheme using 25% of their annual BBG allocation	0.00	10.00	20.00	30.00	40.00	50.00	50.00
Percentage of the schemes selected by women annually	30.00	30.00	32.00	34.00	36.00	38.00	38.00
Number of new UP functionaries participated core training (cumulative)	0.00		20000.00	30000.00	40000.00	50000.00	50000.00



ANNEX 1: DETAILED PROJECT DESCRIPTION

Bangladesh: Third Local Governance Support Project (LGSP 3)

Introduction

1. The Project Development Objectives of LGSP-3 are to institutionalize the Union Parishad (UP) fiscal transfer system, and introduce a fiscal transfer system for Pourashavas on a pilot basis. The main policy objectives are to consolidate and institutionalize the key local governance and fiscal reforms introduced through the two predecessor operations over the last decade – LGSP-1 and LGSP-2 - namely, Basic Block Grants (BBGs) and their principal features, as well as to further extend the scope of such reforms to the next tier of Bangladesh’s sub-national governments.
2. Institutionalization of BBG is expected to take the form of three main elements: (i) full GoB financing of the total BBG funding pool, starting from the fourth year of the project (FY2019-20), using national budgetary allocations; (ii) integration of key BBG processes (UP access conditions, disbursement procedures, etc.,) in regular GoB budgetary and public financial management frameworks; and (iii) official adoption and financing of administration and management of the BBG system as a whole, including conduct of annual financial audits and performance assessments of all UPs.
3. In addition, the proposed operation will pilot basic reforms to fiscal transfers to Pourashavas that provide municipal services in small cities and middle-sized urban settlements. These reforms will be similar to those adopted at the UP level: expanded block grants (EBGs) allocated to Pourashavas on the basis of a formula from a funding pool jointly financed by GoB/ADP resources and IDA resources from the project, and made available to Pourashavas that have fulfilled a set of minimum conditions.
4. The project will consist of four Components:
 - Component 1: Institutionalization of UP Fiscal Transfers
 - Component 2: Audits and Performance Assessments, and Management Information System
 - Component 3: Expanded Block Grants to Pilot Pourashavas
 - Component 4: Capacity Development and Project Implementation Support
5. The total budget for the proposed project is estimated at US\$ 696.13 million, of which IDA financing would be US\$300.00 million. The table below provides a summary of the estimated project costs by Component, along with the financing of each component.

Table 1.1 LGSP-3 Costs and Financing

Component	Sub-Component	Cost (US\$ million)		
		Total	GoB	IDA
1. Institutionalization	1.1. BBGs to UPs	539.07	387.65	151.42



of UP Fiscal Transfers	1.2. PBGs to UPs	109.13	-	109.13
	Sub-totals	648.20	387.65	260.55
2. Audits & Performance Assessments, and Management Information System	2.1. UP Financial Audits and Performance Assessments	4.09	-	4.09
	2.2. Pourashava Financial Audits and Performance Assessments	0.06	-	0.06
	2.3. Management Information Systems	0.98	-	0.98
	Sub-total	5.14	-	5.14
3. Expanded Block Grants to Pilot Pourashavas		9.88	4.94	4.94
4. Capacity Development and Project Implementation Support	4.1. Capacity Building & IEC for UPs and Pourashavas	3.65	-	3.65
	4.2. Project Implementation Support	29.26	3.54	25.71
	Sub-total	32.91	3.54	29.37
Totals		696.13	396.13	300.00

Component 1: Institutionalization of UP Fiscal Transfers

6. Component 1 comprises two Sub-Components: (i) Basic Block Grants (BBGs) to UPs; and (ii) Performance-Based Grants (PBGs) to UPs. The table below provides a year-by-year cost estimate for each of these two Sub-Components.

Table 2. Annual Cost Estimate for UP BBG and PBG

Years	Sub-Component 1.1: Annual BBG funding pool (US\$ million)			Sub-Component 1.2: Annual PBG funding pool (US\$ million)		
	Total	GoB	IDA	Total	GoB	IDA
Year 1 (FY 2016-17)	100.76	52.69	48.07	19.26	-	19.26
Year 2 (FY 2017-18)	105.79	55.32	50.47	20.46	-	20.46
Year 3 (FY 2018-19)	110.83	57.95	52.88	21.75	-	21.75
Year 4 (FY 2019-20)	110.83	110.83	-	23.11	-	23.11
Year 5 (FY 2020-21)	110.86	110.86	-	24.55	-	24.55
Total	539.07	387.65	151.42	109.13	-	109.13

Basic Block Grants (BBGs)

7. The BBG allocation formula, conditions of access, and disbursement modalities will be similar to those under LGSP-2. Twenty-five percent of the BBG funding pool will be allocated as equal shares to all UPs, and the remaining 75 percent of the BBG funding pool will be allocated to UPs on the basis of: (i) population size; and (ii) area (km²). UPs will be able to access their BBG allocations on the basis of meeting a set of minimum conditions:



- a. The UP's accounts for the previous FY are audited and have received either an unqualified or a qualified audit report.
 - b. The UP has prepared an annual plan and budget for the FY that has been prepared in a participatory manner.
 - c. The UP has submitted bi-annual financial and physical progress reports on a timely basis.
8. **Funding.** During the first three years of LGSP-3, BBGs will be funded jointly out of GoB's contribution and the IDA credit. From Year 4 onwards (FY2019-20), BBGs will be funded entirely out of GoB budgetary resources.
9. **Fund Flows.** BBG funds will be transferred directly to UP bank accounts in two six-monthly tranches from the LGSP-3 bank account; any unspent BBG balances at year end will be carried over in UP accounts to the following year until FY 2018-19.
10. **Fund Utilization.** BBG/PBG funds will be provided through LGSP-3, that would be used for any purpose or functions that are assigned to UPs as per the UP Act, 2009, with exceptions of the schemes in the negative list. In addition, up to 10 percent of the BBG may be used to finance demand responsive capacity building activities (e.g., specialized training). UPs will be able to use their block grant allocations to finance a wide range of developmental expenditures / small-scale infrastructures across the sectors of transportation, water supply, health, education, etc., e.g., construction/rehabilitation of rural roads, bridges, installation of community-managed tube wells, piping, and rehabilitation of pre- and primary, secondary schools and colleges, etc. There is a list of schemes that will not be implemented by BBG/PBG, e.g., salaries, wages and benefits for UP Members or staff, schemes that are linked with any religious institutions, schemes that have negative environmental/social impacts. The UP Operations Manual will provide UPs guidance on eligible and non-eligible expenditures and would be in place before commencement of disbursement of BBGs.
11. **Institutionalization Plan.** The Institutionalization Plan will require that Government, in general, and LGD, in particular, undertake a number of sequenced actions – culminating in the full integration of BBG principles and processes into regular GoB budgeting and disbursement (or fund flow) procedures before the completion LGSP-3. The UP Fiscal Transfer Institutionalization Key Steps (see Attachment 1 to this Annex) is summarized below:
 - a. **UPDF⁵ (Union Parishad Development Fund) Budget Line for BBG Fiscal Transfer.** GoB contribution to the BBG funding pool (along with the IDA contribution) will be included as part of the LGSP-3 project line item in LGD's ADP. By the third year of the project (FY 2018-19), the existing UPDF budget line will be in the LGD's MTBF and will be used for the BBG fiscal transfers starting from FY2021-22.
 - b. **Issuance of Official Guidelines.** LGD will establish and issue official guidelines or norms for the management of the relevant BBG line item, which will have been drafted, agreed upon, and issued as official GoB guidelines by the third year (FY 2018-19) of the project, and will be fully applied from FY2021-22 onwards. These official guidelines will include the principles underlying the calculation of the total BBG funding pool, the allocation formula, conditions of access to BBGs, fund flow and

⁵ UP Development Fund is an existing budget line under LGD for fund allocated for the development of UPs.



disbursement arrangements.

- c. **Administration of BBG.** From Year 4 onwards (FY2019-20), the administration and management of BBGs will be taken on by LGD; until then the PMU will be responsible for BBG administration.

Performance-Based Grants (PBGs)

12. The PBG annual funding pool will be financed entirely out of the proceeds of the proposed IDA credit. UPs will access PBG allocations on the basis of fulfilling the minimum conditions (pre-requisite) and their annual performance assessments. The size of PBG allocated to each UP will be determined by its score on the set of performance indicators, assessed annually as part of the financial audit. UP performance areas and indicators are summarized in the table below.



Table 3. Performance Assessment Indicators

Theme/Objective	Sub-Theme	Indicator		Max points (total = 40)
I. Resource allocation				12
Promote resource efficient planning and choice of projects	Efficiency in grant utilization by UPs	1.1	The UP allocates its development resources to a smaller number of relatively larger projects	5
	Diversity in budget allocation	1.2	Projects selected in any given year include at least three different sectors	4
	Broaden the decision-making base at UP level	1.3	Standing committees function as UP level preparatory and deliberating committees	3
II. Financial Management and Fiduciary				16
Promote budgeting and expenditure control	Timely preparation of Financial Statements	2.1	UP prepares the annual financial statement within two month of the end of the FY, using the MIS system	5
	Budget execution as per plan	2.2	Percentage of the unspent balance of annual development budget is less than 10 percent	3
Strengthen financial management and reduce fiduciary risk	A clean (unqualified) audit report	2.3	UP has a clean/unqualified audit report from the previous FY's audit	5
	Audit queries are addressed	2.4	Having addresses audit queries as raised in previous year(s)' audit	3
III. Own-Source Revenues				8
Enhance financial sustainability and accountability	Tax Record Maintenance	3.1	UP has records of all properties in its holding tax base records	3
	Enhanced Own-source Revenues	3.2	Percentage increase in the collection of annual holding tax compared to the amount collected in previous FY	5
IV. Transparency and Disclosure				4



Theme/Objective	Sub-Theme	Indicator		Max points (total = 40)
Strengthen accountability and good governance	Enhanced information sharing with citizens	4.1	UP Dissemination and public disclosure of summary of annual budgets, annual financial statements (i.e., notice board, billboard), scheme details and scheme costs (i.e. on scheme board).	4



13. Performance assessment under LGSP-3 has been enhanced in the following aspects: (i) use of scalable and weighted indicators to reward incremental effort and generate stronger incentives; (ii) inclusion of indicators on local infrastructure / scheme outputs to encourage investment efficiency and sustainability; (iii) application of the graded scale at the district level to ensure a more equitable basis for competition; and (iv) rewarding the top 65 percent performers instead of the top 75 percent, to foster competition.
14. **PBG Allocation and Disbursement.** The annual performance assessment of all UPs will be carried out along with the annual financial audits. Provided they achieve a minimum threshold score (of 18 points out of 40), the top scoring 65 percent of UPs in each District will be awarded PBGs as a top-up to their BBG allocations, with higher scoring UPs receiving commensurately larger PBG top-ups. Of the best performing 65 percent of UPs in each District, the top 20 percent will receive a PBG increment estimated at 40 percent of the amount of their BBG, the next 30 percent will receive a 30 percent increment on their BBG, and the remaining 50 percent will receive a 20 percent top-up to their BBGs. *PBGs will be disbursed to qualified UPs along with their second BBG tranche.* Disbursements will be made directly to UP bank accounts, and any unspent PBG funds will be carried over in UP accounts to the next FY until closing date. Details will be specified in the UPOM.

Component 2: Audits & Performance Assessments and Management Information Systems (MIS)

UP Audits and Performance Assessments

15. Annual UP audits and performance assessments (PAs) will continue to be undertaken under LGSP-3 and beyond. Improvements to the arrangements under LGSP-3 include:
 - Readiness and Preparation of UP Annual Financial Statements. UP financial statements, along with relevant evidence and books of account, will need to be in place in full and final form and approved by the UP's administration prior to the start of the auditors' field visits.
 - Financial Audits. The Terms of Reference for auditors will be updated and revised so as to provide clear guidelines for reporting that are in line with established international practice for audit qualification/audit report classification (e.g., the extent of materiality that determines whether the auditors' opinions should be adverse, qualified or unqualified).
 - Audit Appeal and Hearing Process. The Terms of Reference (or guidelines) for the audit report appeal and hearing process will be updated and revised so as to enhance and standardize the quality of audit reviews.
 - Performance Assessments. Auditors have been trained to conduct performance assessments of UPs to determine their eligibility for performance-based grants. Robust assessments are crucial if PBGs are to provide adequate incentives for improved performance. This will be addressed through improved indicators as well as through better preparation of the auditors.
16. **Institutionalization of UP audits and PAs.** During Years 1-3 of LGSP-3, audits and PAs of all UPs will be managed by the PMU and financed by the project. Quality assurance arrangements will remain the same as in LGSP-2, but with a gradual movement towards Institute of Chartered Accountants, Bangladesh (ICAB)



assuming greater responsibility for overseeing the quality of the audit process.

17. From Year 4 onwards UP audits/PAs will be managed by LGD's UP Wing, financed out of UP BBG allocations, quality assured by the C&AG and ICAB, and regulated by an official LGD order (or instruction). The LGD UP Wing and Audit Cell will be responsible for managing the appointment of auditors to undertake UP audits/PAs. The PMU will provide capacity building support to the LGD UP Wing and Audit Cell prior to Year 4 through familiarization and mentoring. LGD will strengthen staffing levels in its Audit Cell by recruiting additional clerical or administrative assistants. Starting in Year 4, payments to auditors will be made directly by LGD from each UP's BBG allocation; the same financing mechanism will be used by LGD to cover the costs of quality assurance. UP audit requirements and standards used in LGSP-2 will apply throughout LGSP-3. However, and in order to ensure full institutionalization after project completion, LGD will draft and agree on official UP audit guidelines by the end of Year 4, strengthening and detailing the audit provisions that are already included in the UP Act (2009). These will be fully applied from FY 2021-22, following project completion. More details are provided in the UP Fiscal Transfer Institutionalization Key Steps (see Attachment 1 to this Annex).

Pourashava Audits: Financial and Assurance Level

18. LGSP-3 will undertake annual financial and assurance level audits of a selected number of Pourashavas. Private audit firms will be contracted by LGSP-3 to carry out audits of Pourashavas. Financial audits will be conducted every year and will focus on the annual financial statements of Pourashavas; assurance level audits will be carried out in Pourashavas that have accessed EBGs for one or more years and will assess compliance with safeguards and procurement procedures. Only those Pourashavas for which financial and assurance level audit reports are satisfactory will qualify or re-qualify for pilot EBGs.

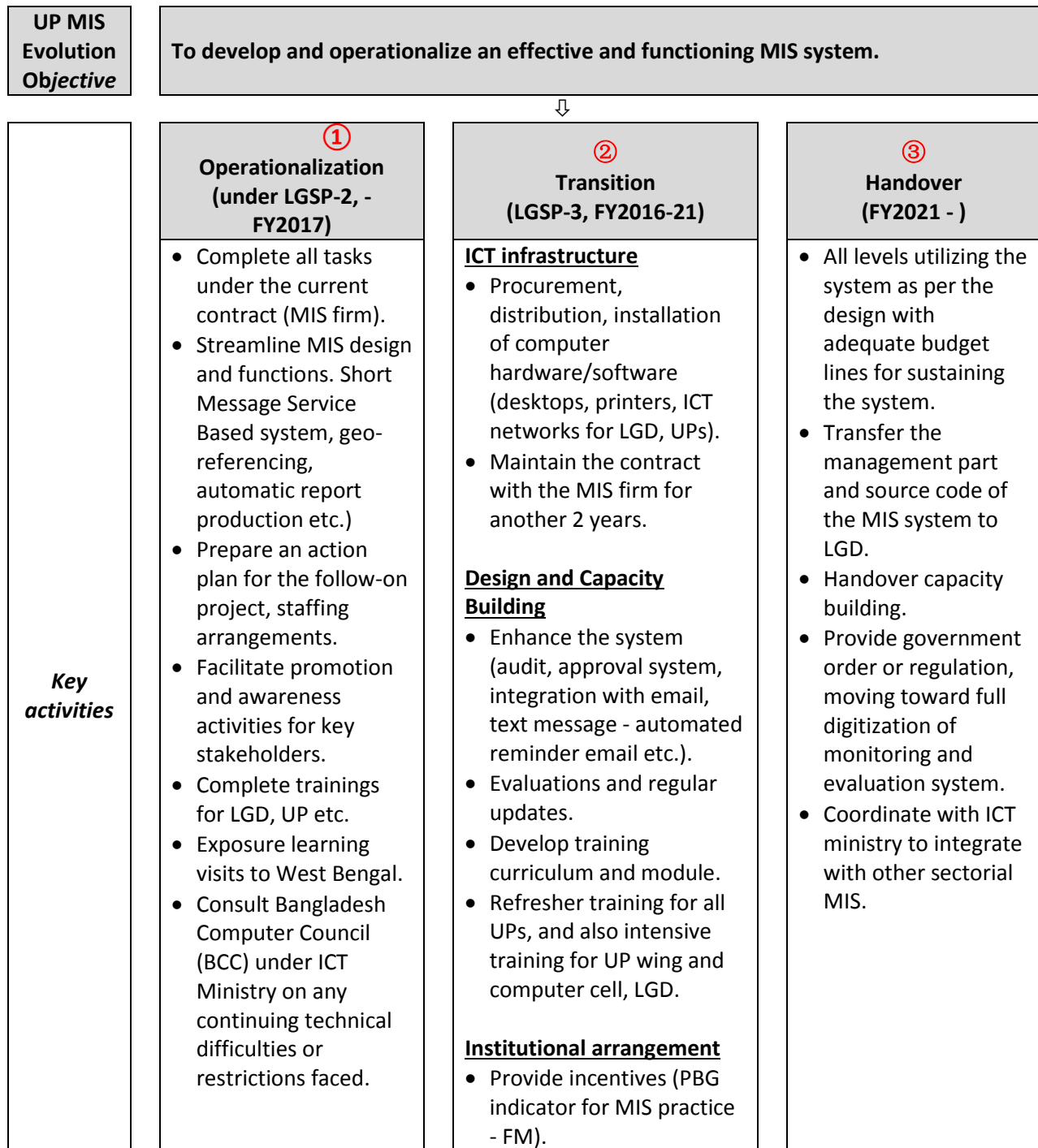
Management Information Systems

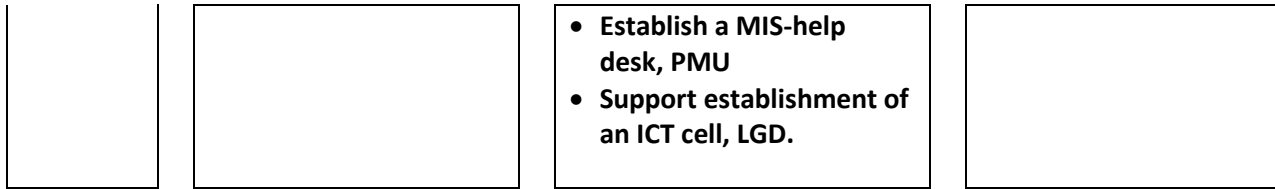
19. An effective and fully functional UP MIS will be established and operationalized under LGSP-3. The Management Information System (MIS) designed under the LGSP-2 will be a crucial instrument for monitoring and evaluating ongoing project activities at the PMU level under LGSP-3 and capacity building at UP levels. This tool will enhance efficiency in data collection, entry, processing and analysis as well as information dissemination. Four UP Modules have been developed: UP Planning and budgeting, Asset Register, Procurement and Accounting, and UP Training manual.
20. MIS activities to be undertaken under LGSP-3 will include: (i) provision of computer hardware/software for LGD and all UPs; (ii) provision of computer for all UPs secretaries. (iii) continuation of the contract with the MIS firm under LGSP-2 for another two years for better MIS design, regular evaluation, and updates; (iv) enhancement of the MIS design, including audit, approval system, and integration with email and text messages; (v) completion of refresher training for all UPs and for the UP Wing and Computer Cell in LGD; (vi) addition of an indicator on UP performance for MIS use in financial management to provide incentives for UPs; (vii) provision of consultant support to establish an MIS Help Desk to support UPs by providing an effective, primary point of contact for timely and consistent response to MIS system related issues and requests; and (viii) support for the establishment of an ICT Cell that will manage the MIS and source code.
21. Operationalizing the MIS will require capacity building at both the central level and UP levels simultaneously as well as intergovernmental collaboration. Competent experts and up-to-date resources (hardware and



software) within the LGD Computer Cell are necessary to maintain the MIS functions and MIS-Help Desk. The district and UP-level officials will mobilize training on a daily basis for improved management of UP functions. The detailed steps that need to be taken to ensure full operationalization of the UP MIS are indicated in the figure below.

Figure 1.1 MIS Development under LGSP-3





Component 3: Expanded Block Grants to Pilot Pourashavas

22. The processes and principles underlying UP grants will be piloted in small Pourashavas (or municipalities) by testing out a system of Expanded Block Grants (EBGs). Through EBGs, Pourashavas will access additional resources on top of their current ADP block grant allocation to respond to local service delivery priorities and needs. The pilot will provide EBGs to up to 16 Pourashavas (two in each Division, selected by LGD during Year 1 of the project) from among Pourashavas serving towns of 60,000 people or less. The pilot may be scaled up if the initial results demonstrate success.
23. Selected pilot Pourashavas would qualify for EBGs if they satisfy a number of basic minimum conditions, as specified below:
- a. A satisfactory annual financial audit report provided by a private audit firm.
 - b. An established and functioning Town Level Coordination Committee (TLCC).
 - c. A published Citizens’ Charter, as prescribed by the Government.
 - d. An annual plan/budget, approved by the Pourashava Council and submitted to GoB authorities.
 - e. An annual report for the previous year, published by 30 September of the following year.
 - f. Starting the third year, last two six monthly financial and progress reports submitted to LGD.
24. **Minimum Access Conditions.** Annual financial audits and performance assessments would cover all selected Pourashavas. In addition, after the second year of the project, Pourashava audits and assessments would also include quality assurance, aimed at monitoring compliance with LGSP-3 safeguards and procurement requirements. Details would be in the Pourashavas OM.
25. **EBG Funding Pool.** The Government’s ADP block grant allocations for qualified pilot Pourashavas will be blended (in the project’s EBG bank account) with an equal amount from the proceeds of the Credit to constitute the annual pilot EBG funding pool. On average, qualified Pourashavas will be provided an annual EBG of around USD130,000, jointly funded by GoB and the proceeds of the IDA Credit. Any pilot Pourashava that fails to qualify for an EBG allocation will continue to receive its ADP block grant allocation.
26. **EBG Allocation.** The formula for EBG allocation will comprise two main elements: (i) an equal shares component (25 percent of the total funding pool), divided equally among all qualified Pourashavas; and (ii) a population-based component (75 percent of the total funding pool), to be divided among qualified Pourashavas.



27. **Fund Disbursement.** Disbursements of EBGs to qualified Pourashavas will be made directly from the project to Pourashava bank accounts in two six-monthly tranches. Unspent year-end EBG balances would be carried over into the budgets of qualified Pourashavas in the following FY until closing date.
28. **Fund Utilization.** Qualified pilot Pourashavas will be able to use their EBG allocations to finance a range of non-payroll, operational, and developmental expenditures, such as road maintenance, solid waste collection and disposal, other municipal services, etc. EBGs are not intended to be, and will not be large enough to finance substantial infrastructure investments. The eligible investment menu for EBGs will be included in the Pourashava EBG Operations Manual, along with a list of non-eligible expenditures. Pilot Pourashavas will also benefit from a set of support activities (training, mentoring, IEC.) LGSP-3 will draw on substantial experience from other projects (Municipal Governance and Service Project, Urban Governance and Infrastructure Improvement Project, Strengthening Pourashava Governance Project, etc.,) in order to implement this component.

Component 4: Capacity Development and Project Implementation Support

Capacity development and IEC (information, education and communications) for UPs and Pourashavas

29. The capacity building sub-component is aligned with the National Basic Capacity Development Framework for Union Parishads, approved by LGD, and agreed upon by the main development partners that provide support for local governance in Bangladesh. Similarly, the capacity building of pilot LGSP-3 Pourashavas is in line with the National Strategy for Pourashava Governance Improvement (2016-2025), which is awaiting approval by LGD. Compared to LGSP-2, LGSP-3's approach to capacity building will be much less focused on "classroom-type" training sessions, more reliant on audio-visual aids and interactive facilitation for the delivery of basic orientation, more demand-responsive, and much more sensitive to on-the-job support.
30. The existing UP Operations Manual (UPOM) will be reviewed and updated in line with relevant government circulars and project implementation requirements. The revised UPOM will serve as the basis for all UP-focused training and other capacity building activities. A video series will be developed based on the UP/OM project implementation procedures, and uploaded to relevant websites, and shared with all UPs and Digital Centers.
31. A Pourashava Operations Manual will also be developed in line with the Pourashava Act (2010) and will take into account the specific requirements associated with Expanded Block Grants (EBGs). The Pourashava OM will be made available (through online videos) to all pilot Pourashavas.
32. UP and Pourashava capacity building activities will be delivered in the form of: (i) core, supply-driven training; (ii) demand-driven and specialized training; and (iii) Helpline, troubleshooting, and on the job support and mentoring. The PMU will be responsible for providing core training to UP functionaries using



the video series. The DFs and available Upazila Resource Team Members will be utilized to provide core training to UP functionaries using the video series. The PMU will also be responsible for specialized training for LGD, DDLGs, District Facilitators, as well as training on environment and social safeguards (which will be organized through District Facilitators under the guidance of DDLGs and DLGs). NILG will be responsible for ensuring demand-responsive capacity building, especially on ‘troubleshooting’ through the UP/LG Helpline, as well as horizontal learning. The three types of capacity-building support that will be provided by the project are summarized in the text box below.

Text Box 1.1 LGSP-3 capacity building support for UPs and Pourashavas

Core, supply-driven training

Core training for LGSP-3 builds on and strengthens the existing Union Digital Centers. Through these centers, training will be conducted more effectively with proper facilitation. An IEC firm will produce three sets of training videos for: (i) UP functionaries; (ii) Ward Committee and Scheme Supervision Committee members; and (iii) specialized training on environment and social safeguards. With guidance and support from District Facilitators, UPs and their respective WC and SSC members will learn from these videos. A similar process will also be followed for Pourashavas.

Demand-driven and specialized training

In response to needs and demand, the PMU will organize special training courses for target UPs and pilot Pourashavas, as required. Depending on the theme to be covered, resource persons will be hired to impart these specialized training courses. NILG will not be involved in such specialized training and the PMU will be the sole responsible agency to organize such specialized training with the help of experts. As in LGSP-2, UPs and Pourashavas will be able to use up to 10 percent of their BBG/EBG allocations to pay for demand responsive capacity development activities.

Helpline, troubleshooting, and on the job support and mentoring

UPs, WC, and SSC members, as well as pilot Pourashavas, TLCCs and WLCCs may encounter a wide range of practical problems and will be able to discuss these and seek solutions through the LG Helpline. To operate the LG Helpline, a pool of experts will be established by NILG and the PMU to support the LG Helpline operators to respond to queries. The LG Helpline is housed at NILG and operates on a pay and use basis by LGSP-3.

Horizontal learning

NILG’s Horizontal Learning Centre (HLC), acts as a secretariat for the Horizontal Learning Program (HLP) run by LGD and is funded by a number of development partners. Through the HLC/HLP, UPs and Pourashavas will be able to identify good practices, share them among peers, learn from the field, and replicate them with the support of peers. LGSP-3 will leverage this process for identifying good practices and link the learner with the trainer among local government institutions (LGIs). As in LGSP-2, UPs and Pourashavas will be able to use up to 10 percent of their BBG/EBG allocations to pay for activities related to HLP i.e., demand responsive capacity development activities.

LGSP-3 District Facilitators

The ToRs of District Facilitators will be revised to ensure that:

- DFs take on the responsibility for facilitating UP/Pourashava Video Training Courses, including participation in question/answer sessions.
- DFs facilitate the horizontal learning program for identifying good practices and support outcome based peer learning.



33. The LGSP-3 IEC strategy will focus on a wide range of stakeholders, including citizens, the media, NGOs, local government institutions, and central government agencies. Key IEC activities will include:
- Proactive disclosure of information on fiscal transfers, tax collection, use of funds, and other local development issues concerning UPs and Pourashavas.
 - Response to queries of UP and Pourashava functionaries and citizens.
 - Advocacy to showcase good practices.

Project implementation support

34. Project implementation support will be provided in three main areas: (i) the Project Management Unit (PMU); (ii) District Administrations; and (iii) LGD administration.
35. The PMU will be structured to operate as under LGSP-2, but with an added focus on providing capacity building support to LGD's UP Wing and Audit Cell, which will assume full responsibility for the administration and management of the BBG funding pool and UP audits/performance assessments. The project will finance PMU consultants, incremental operating costs, study tours, and logistics.
36. In order to facilitate LGSP-3 activities at the sub-national level, project funds will be provided for the continued employment of District Facilitators (DFs), and the procurement of motor cycles for DFs.
37. The project will also finance: (i) short-term consultant support to LGD's UP Wing, to prepare guidelines/regulations for UP grant administration and management, and manage the audit process; (ii) short-term consultant support to LGD's Audit Cell to assist in the procurement of auditors and audit review firms; (iii) training of auditors, organized by ICAB; (iv) support for workshops and training seminars for UPs; and (v) equipment for LGD to support the above activities. The IDA-GoB parallel financing arrangement applies to the component of project implementation support, under which certain items will be financed by GoB, such as workshop allowances; cash per diem, honoraria; vehicle, motor cycles, and fuel; while the non-consulting services, consulting services, Incremental operating costs that are not financed by GoB will be financed by the Bank.



Attachment 1: UP Fiscal Transfer Institutionalization Key Steps

Elements of institutionalization	Preparatory actions	End situation and deadline		FA Reference
		Deadline	Action	
Preparation of regulatory framework for BBGs and UP audits (to be applied starting in FY 2021-22)	<ul style="list-style-type: none"> Discussions by LGD, Finance Division, C&AG, and ICAB concerning BBG and UP audit guidelines and regulations Detailed drafting of guidelines/regulations 	January 1, 2019	Draft guidelines and/or regulations <u>prepared</u> by LGD for: <ul style="list-style-type: none"> (i) Managing the relevant BBG budget line in the LGD's ADP; (ii) Disbursing the BBGs; (iii) Carrying out the financial audits and performance assessments of UPs 	Section I. D (b)- (i) of Schedule 2 to the Financing Agreement
Use of relevant BBG Line Item in LGD MTBF	<ul style="list-style-type: none"> Include relevant budget Line item for UP BBGs in LGD's FY 2021-22 MTBF, indicating LGD commitment to GoB-funded BBG line item in regular ADP starting in FY 2021-22 	July 1, 2018	LGD to ensure that the existing UP Development Fund budget line reflected in the LGD's MTBF is used for the BBG fiscal transfers starting from fiscal year 2021-2022 onwards	Section I. D (a) of Schedule 2 to the Financing Agreement
Issue of regulatory framework for BBGs and UP audits (to be applied starting in FY 2021-22)	<ul style="list-style-type: none"> Submit official guidelines and/or regulations to appropriate GoB authorities for approval 	March 1, 2019	Official guidelines and/or regulations <u>issued</u> by LGD for: <ul style="list-style-type: none"> (i) Managing the relevant BBG budget line in the LGD's ADP; (ii) Disbursing the BBGs; (iii) Carrying out the financial audits and performance assessments of UPs 	Section I. D (b)- (ii) of Schedule 2 to the Financing Agreement
Action Plan for BBG management and UP audits & PA	<ul style="list-style-type: none"> Prepare additional staffing plans for UP Wing and Audit Cell Provide capacity building support to UP Wing and Audit Cell 	July 1, 2019	Prepare an action plan for maintaining an efficient and transparent system for administrating the BBGs starting from Fiscal Year 2019-2020 onwards	Section I. D (c) of Schedule 2 to the Financing Agreement



ANNEX 2: IMPLEMENTATION ARRANGEMENT

Bangladesh Third Local Governance Support Project (LGSP 3)

IMPLEMENTATION ARRANGEMENTS

1. Most of the institutional arrangements in LGSP-2 will be maintained in LGSP-3. LGD will be the agency responsible for project implementation. The Project Steering Committee (PSC), chaired by the Secretary LGD, will have members from all relevant ministries, and will facilitate policy discussions, inter-agency coordination, and overall project monitoring and oversight. The Project Management Unit (PMU) will be headed by the National Project Director at the Additional Secretary level, who will be assisted by two full-time Deputy Project Directors (DPDs) and specialist consultants. The PMU will be responsible for a set of core functions, that includes grant administration and management, program monitoring and evaluation, policy development, financial management, procurement, and capacity building. In addition, it is also responsible for reporting to the PSC, managing and coordinating all field based activities, field based monitoring and reporting, coordinating with Deputy Directors of Local Government (DDLGs) and District Facilitator (DFs), and ensuring linkages and coordination with other line agencies and the National Institute of Local Government (NILG).
2. The PMU will disburse BBGs during the first three years, and the LGD'S UP Wing will have this responsibility from Year 4 onwards. The PMU will disburse PBGs and Pourashava grants directly to Pourashava bank accounts during the entire project period. The PMU will also manage UP financial audits and performance assessments of UPs for the first three years and Pourashava audits during the entire project period.
3. **UP Standing Committees.** The Standing Committee at the UP level will be activated for an expanded role of ensuring investment efficiency, specifically to vet the investments proposed by ward committees. UPs will continue to be responsible for the planning, budgeting and implementation of service delivery activities.
4. **Pourashavas** will be responsible for the use of EBGs to improve service levels in accordance with the norms described in the Pourashava Operations Manual. The Town Level Coordination Committee of Pourashavas will have a role to ensure that investments selected by wards benefit a larger population beyond individual wards.
5. **Operations Manual (OM).** The UPOM has been revised in line with the UP Act (2009), proposed LGSP-3 design, other relevant government circulars and orders for operationalizing LGSP-3 in UPs, and will serve as the basis for all UP-focused training and other capacity building activities. In addition, a Pourashava OM will be developed in line with the Pourashava Act (2010) and will take into account the specific requirements associated with EBGs.

FINANCIAL MANAGEMENT



6. Financial management arrangements of LGSP-3 build on experience under LGSP-2 and use country fiduciary systems to the extent that they meet essential fiduciary requirements. These arrangements are documented in the Financial Management (FM) section of the Operations Manual, and are assessed as adequate to account for and report on sources and uses of project resources and meet Bank fiduciary requirements. Two consultants, one for accounting and financial reporting and the other for audit management, will be engaged to support financial management of the project. They will be supported by four accounting and auditing staff.
7. **Risk Assessment and Mitigation.** The overall financial management risk is rated substantial. The mitigation of project-level inherent risks has been built into the project design by way of community involvement, guidance from the Project Steering Committee, strengthened monitoring by UNOs, DDLGs and LGD's MIE Wing, and clear incentives and sanctions for UP level compliance. In addition, the partnership between LGD and the private sector auditing industry, supplemented by the quality assurance efforts of C&AG, is expected to further mitigate the financial risks. The project includes a strong capacity building component to address weak systems and capacities for accounting and reporting at all levels. Specific efforts to improve the systems and processes of public financial management, as well as the insistence on independent external audits on a regular and timely basis, will mitigate control risks to a certain extent.
8. **Accounting and Financial Reporting.** Accounting policies and procedures of the project will be governed by the Operations Manual.
9. The PMU will be responsible for recording transactions of the project in separate books of account, preferably in the MIS installed for the purpose. The Tally software purchased under LGSP-2 will continue to be used until the MIS starts to provide the required outputs in an acceptable manner. Interim Unaudited Financial Reports (IUFR) will be prepared in the agreed format and will be submitted to the Bank within 45 days from the end of each quarter. The project will continue to prepare annual financial statements for external audit.
10. **Management Information System (MIS).** The MIS will comprise four UP modules (UP Budgeting and Planning, Asset Register, procurement, accounting) and nine PMU modules (Asset Register, Human Resource Management, Grant Management, Capacity Building, Monitoring and Evaluation, Accounts, Audit, Procurement and website). The MIS design will be reviewed and streamlined to ensure that data entry, processing and analysis, and reporting, as well as information dissemination, are efficiently supported through a functional and user friendly interface.
11. **Planning and Budgeting.** A budget will be maintained for the entire term of the project, and detailed budgets for each fiscal year will be produced to provide a framework for financial management. The annual budget will be prepared on the basis of the procurement plan and any other relevant annual work plans. These budgets will be monitored periodically to ensure that expenditures are in line with budgets, and to provide inputs for necessary revisions. The existing capacity of the agency to prepare and submit such budgets is adequate, subject to having appropriate tools, such as the budgeting module in the MIS.
12. **Internal Control.** Filing and record keeping of all project procurement records and documents will be in accordance with the provisions of the Public Procurement Act 2006 (PPA 2006) and the applicable OM. These records will be made available, on request, for audit, investigation, or review by the government and IDA. All



(b) UP audits		100% in each Fiscal Year up to and including 2018-2019 0% in each Fiscal Year thereafter
(2) Basic Block Grants (“BBGs”) under Part 1 of the Project for Fiscal Years 2016-17, 2017-18 and 2018-19	111,850,000	47.7% in each Fiscal Year up to and including Fiscal Year 2018-2019 0% in each Fiscal Year thereafter
(3) Performance-based Grants (“PBGs”) under Part 1 of the Project for:		100%
(a) Fiscal Year 2016-17 and Fiscal Year 2017-18	29,400,000	
(b) Fiscal Year 2018-19	16,050,000	
(c) Fiscal Year 2019-20	17,100,000	
(d) Fiscal Year 2020-21	18,150,000	
(4) Expanded Block Grants (“EBGs”) under Part 3 of the Project for Fiscal Years 2017-18, 2018-19, 2019-20 and 2020-21	3,650,000	50%
TOTAL AMOUNT	221,700,000	

17. **Funds Flow.** IDA funds will flow into two designated accounts: Designated Account (DA1) in US Dollars will be used solely for Component 1 and 3 expenses; and another Designated Account (DA2) in Bangladesh Taka for Components 2 and 4. DA1 funds will be transferred to a Taka denominated operating bank account, to be opened in a nationalized commercial bank. GoB part of the funds will also flow to this account and will be blended. Funds will then be disbursed through a single check to the UP or Pourashava on a six-monthly basis upon approval by the National Project Director (NPD).



18. Funds transferred to UPs will be considered as advances. The project will compile biannual UP financial reports, review them and prepare a consolidated annual report showing the aggregate utilization of grant funds at the UP and Pourashava levels. Interim un-audited financial reports (IFRs) will include an annual report on utilization of the grant funds at the UP and Pourashava levels. Unspent IDA funds for grants for any year will be adjusted by disbursements for the following year until the final year, except for BBGs that can be spent till FY2018-19. Any Grant funds provided by IDA that are not fully utilized by UPs and Pourashavas by the Closing Date of the project will be refunded to IDA.
19. Disbursement of the IDA funds to Designated Accounts will be based on two quarters 'fund forecast' on the basis of a project implementation plan that will be included in the quarterly IFRs. The Project will prepare and submit two sets of IUFs for DA1 and DA2 respectively within 45 days from the end of each quarter. The form and contents of the IUF will be agreed during the negotiation phase of the project. In addition to the above, direct payments, reimbursements and special commitments will also be eligible disbursement methods.

Financial Management Arrangements at UP and Pourashava Levels

20. **Financial Management Systems and Capacities of UPs.** UPs will manage BBGs and PBGs in accordance with the procedures outlined in the UPOM. The details of schemes/works, including their implementation progress, will be reported and discussed in open UP meetings, and displayed in the notice boards. A comprehensive inventory of UP fixed assets (including schemes) will be completed and recorded in fixed assets register under the existing MIS. UPs will be required to update this register regularly; the fixed asset register will also be confirmed by annual audits. UPs have developed the capacity to prepare financial statements through annual audits and the financial management training to UP Secretaries under LGSPI and LGSP-2. However, UP financial management capacity is still weak, primarily due to the lack of accounting staff. LGD plans to deploy accounts assistants to UPs in a phased manner.
21. **Financial Management Systems and Capacities of Pourashavas.** Pourashavas will manage their EBGs in accordance with the procedures outlined in the Pourashava OM. The details of schemes/works, including implementation progress, will be vetted at the Town Development Committees, and reported and discussed in open UP meetings and Standing Committees. Pourashavas will prepare annual financial statements within three months of the end of the fiscal year. The project will provide financial management training to Pourashava accounting staff as needed. The current Pourashava financial management capacity is still weak, primarily due to the lack of accounting staff, and LGD plans to deploy accounts assistants to Pourashavas in a phased manner.
22. **Financial Reporting by UPs and Pourashavas.** In accordance with the Union Parishad Act (2009) and the Pourashava Act (2010), UPs and Pourashavas are required to prepare Annual Financial Statements detailing all sources and uses of funds each year. UPs and Pourashavas receiving grants under the project will submit semi-annual financial reports, which will include information on receipts, expenditures, and the balance of the grant funds, to their respective DDLGs and UNOs. In the case of UPs, the DDLGs will consolidate the reports using the web-based MIS and send District level reports to the NPD and the DG/MIE. Pourashavas will consolidate the reports using the web-based MIS and will send the reports to NPD and LGD. Timely submission of these reports will be closely monitored.



- 23. **External Audits of UPs and Pourashavas.** UPs and Pourashavas will be audited annually by private chartered accountants within six months after the close of the financial year. The audits will follow International Standards on Auditing (ISA). The auditors will express an Unqualified, Qualified or Adverse Opinion, or a Disclaimer. Audits will provide assurance on the Annual Financial Statements of UPs and Pourashavas, and will cover performance assessments, as appropriate. Auditors will present the draft audit findings to UPs and Pourashavas, as well as submit copies of the audit report to the UP, the DDLG, the UNO, the LGD, and the C&AG. UPs will receive their full BBG allocations and the PBGs only if their audits are either unqualified or qualified. The annual external audit does not displace the existing audits by C&AG, which are undertaken once in three years.
- 24. **Quality Assurance of External Audits.** The C&AG will ensure the quality of the annual external audit of UPs by checking a sample of at least 10 percent of the audits completed during the year. FAPAD, as the external auditors of LGSP-3, will interact with C&AG in formulating the audit opinion for the project. ICAB, through its professional development committee and its investigation and disciplinary committees, will provide strong professional oversight over the Chartered Accountants conducting the audit. An MOU will be signed between LGD and ICAB to cement the quality control role of ICAB.
- 25. **Audit Review and Follow-up.** LGD will engage two to four audit review firms to assess whether the audit firms have delivered services in accordance with the ToR and to analyze issues identified in the audit reports. NPD will call for explanations from those UPs and Pourashavas that have not received unqualified audit opinions and, after evaluating the explanations, will recommend follow-up actions. IDA may seek the permanent disqualification of those UPs and prosecution of concerned UP officials against whom cases of misappropriation have been proved.

PROCUREMENT

- 26. **Procurement Results Indicators.** An intermediate result indicator is included to measure the progress made by UPs in operationalizing the MIS procurement module, with the target of 80 percent of the UP procurement to be carried out through the procurement MIS system.

Table 2.2 Procurement KPIs for UP Procurement

SL	Procurement Steps / Subjects	Indicators
1	Formation of Ward Committee	<ul style="list-style-type: none"> ● Percentage of cases WCs have formed as per the UP Operations Manual.
2	Receipt, evaluation, and contract award	<ul style="list-style-type: none"> ● Percentage of cases where the procurement process has been followed according to the approved procedures
3	Delivery within the original schedule	<ul style="list-style-type: none"> ● Percentage of works completed within the original deadline as stated in the agreement/work order
4	Payments	<ul style="list-style-type: none"> ● Average number of days taken to release payment
5	Asset Tracking	<ul style="list-style-type: none"> ● Percentage of cases where assets are purchased/developed as per requirement and are in appropriate place



27. **Procurement Procedures.** Procurement will be carried out in accordance with the World Bank’s “Procurement Regulations for IPF Borrower July 2016.” As per requirement of the NPF, a comprehensive Project Procurement Strategy for Development (PPSD) has been developed and finalized with support from the World Bank. A detailed procurement plan has also been prepared for the first 18 months of the project implementation. Detailed information on procurement will also be available in the UP and Pourashava Operations Manuals.
28. **Contract Management.** A comprehensive MIS system developed under LGSP-2 included a procurement module. This MIS will be further upgraded with key procurement performance indicators, and geotagging where feasible. Pourashavas will be required to use the procurement module of this MIS, for all procurement, to ensure efficiency and transparency.
29. **Procurement of Civil Works.** Civil works in UPs will be procured mainly through community construction, direct contracting and quotations with financing for force account eligible packages on an exception basis. Pourashavas will use EBGs to procure low to medium value civil works for services improvement through quotations or open tenders.
30. **Procurement of Goods and Non-Consultant Services.** The main goods procurement will be the procurement of about 4,500 desktop computers for UPs. Other goods procurement includes: software, desktop computers for the PMU and DDLGs, motor cycles for District Facilitators, and motor vehicles for DDLGs. In addition, office equipment, office supplies, consumables, etc., will be procured. As per the PPSD, the appropriate procurement method has been selected and stated in the procurement plan.
31. **Selection of Consultants.** The project includes a few relatively small-valued consultancies: firms for UP audits and performance assessments; individual consultants for the PMU; individual consultant for the UP Wing to help prepare guidelines for grant administration; and a consultant firm for operation & maintenance of MIS systems and the Help Desk. In accordance with the PPSD, consulting firms and Individual Consultants would be hired based on competitive selection.
32. **Community Participation in Procurement.** UPs may carry out community procurement under Component 1. UPs will prepare and approve project implementation plans, which include schemes and their implementation schedule. UPs will follow the procurement procedures that are set out in the Operation Manual and satisfactory to IDA.
33. **Client Capability.** LGD has the overall responsibility to implement the project. The PMU will conduct the procurement of most goods and services. UPs and Pourashavas will undertake lower-valued procurement using community construction, quotations, and open tendering, as detailed in the UP and Pourashava OMs. The procurement capacity and risk assessment showed that the PMU, which successfully carried out procurement under LGSP-2, has the capacity to carry out LGSP-3 procurement. The key risks identified and agreed mitigation measures are shown in the table below.

Table 2.3 Key Risks and Proposed Mitigation Measures



Procurement Core Principle	Possible Risk	Proposed Mitigation Measures.
Value for Money (VFM)	(a) High priced bid (b) High maintenance cost (c) Less life time of the product (d) less quality of the finished product (e) High cost of ownership over the life of the product. (f) Negative impact in terms of social and environment (g) Lack of knowledge of LGD to ensure value for money (h) Bidders' inadequate understanding of value for money	(a) Introduce KPIs for green procurement (Social and environment) mechanism in contract management. (b) Comprehensive training for borrower on VFM. (c) Awareness and hands on training program for the prospective bidders on Value for Money customized for specific bidding opportunities.
Economy	(a) High bid price (b) high cost of ownership (c) Contract will not complete on time; cost over run	(a) Raise bidders' awareness on better project management which may lead to better pricing. (b) Follow best and final offer (BAFO) and or negotiation for desktop computer procurement.
Integrity	(a) Possibility of wrong doing by bidder	(a) Develop a mandatory integrity pact for all high-valued activities; LGD will use integrity pact as part of the bidding evaluation process. Failure to sign the integrity leads to automatic disqualification of a bidder.
Fit-for-Purpose	(a) Unstable internet connectivity in UP areas (b) Limited resource at UP level to use procurement MIS effectivity. (c) Lack of motivation to use procurement MIS by the UPs	(a) Provision for both offline and online data entry in procurement of MIS. (b) UP disbursement will be linked with the MIS. (c) Mandate that all procurement activities regardless of amount is requested through the Procurement MIS.
Efficiency	(a) Significant time will be required for annual UP audit (b) UP audit contracts will not be completed on time (c) Delay in preparation of bidding document and bid evaluation following NPF features for one high valued activity (i.e. desktop computers)	(a) UPs will follow MIS system from planning to payment. Assets acquired will be tracked through MIS system using geotagging technology. Without visiting UPs, auditors will be able to get all information needed thus saving time significantly. (b) Bank will provide extensive training to LGD in bidding document preparation, bid evaluation, and contract management. (c) Introduce performance based penalty based on set millstones.
Transparency	(a) All bidding information may not be public	(a) All advertisements for bidding will be published on LGD's website. (b) Contract award information will also be published on LGD's website.
Fairness	a) Chance of incorrect bid evaluation	(a) Bank will provide training for conducting effective bid evaluation including negotiation.



34. **Market Analysis for the Procurement of Desktop Computers.** To ensure value for money the following arrangements will be used for this project: (i) sustainable procurement; (ii) best and final offer; (iii) KPIs in contract management; and (iv) prospective bidders' awareness and readiness through consultation.

ENVIRONMENTAL AND SOCIAL SAFEGUARDS

Social (including safeguards)

35. **Participatory Preparation.** During the preparation of LGSP-3, extensive consultations were organized across the country with a wide range of stakeholders. Additional analytical work was also carried out for assessing UP performance, community satisfaction, and challenges faced under LGSP-1 and LGSP-2. The results of the UP social audit, household surveys, and other assessments concluded that a majority of the residents were highly satisfied with UP service delivery, and that LGSP-1 and LGSP-2 supported greater participation of women and the poor.
36. **Gender.** The project places a strong emphasis on gender equity, on the aspect of participatory planning, budgeting, scheme selection, etc. As a continuation of LGSP-2, at least one-third of the nine Ward Committees (WCs) of UPs and Pourashavas will be chaired by female members; one-third of WCs and Scheme Supervision Committee (SSC) members will be women; and 30 percent of the UP grants will be earmarked for schemes prioritized by women. A Women Development Forum (WDF), comprising all elected women members of UPs and Pourashavas, will be organized at the Upazila level to facilitate capacity building and women's empowerment in local development. At the LGD PMU, a full-time Gender Specialist will be recruited to mainstream gender issues in local government activities and monitor gender aspects of the project.
37. **Social Accountability.** Under LGSP-3, partnership with civil society organizations will be further strengthened. Social accountability measures and communication activities will be expanded to enhance transparency and improve engagement between the UPs, the Pourashavas, and residents. This will be complemented with external initiatives in social accountability facilitated through trust funds and in partnership with other entities, including donors, NGOs, CBOs, and academia.
38. **Social Safeguards.** The project triggers OP/BP 4.10 on Indigenous Peoples (referred to as *Small Ethnic Group* in Bangladesh) as sub-project implementation the UP/Pourashava level could threaten the cultural and traditional ways of such people and they may not receive culturally compatible benefits from the project. In order to address these concerns, a Small Ethnic Group Planning Framework (SEGPF), acceptable to the Bank, has been prepared. The SEGPF, which is a standalone document, includes principles, policies, and guidelines to ensure that schemes selected, designed, and implemented do not threaten SEG culture and traditional way of life, and that they receive culturally compatible project benefits. The main focus is on tenure rights (customary, legal, and others) to the lands and other resources SEG use for living and livelihood purposes. Given the paucity of knowledge, SEGPF contains, among other provisions, an SEG consultation framework for the adoption of impact mitigation and development measures.
39. Many of the schemes are expected to be land-based. Nevertheless, OP/BP 4.12 on Involuntary Resettlement has not been triggered as the acquisition of private lands and involuntary resettlement are not envisaged. UPs/PSs may follow simple guidelines founded on the principles of community



cooperation and good governance to use small amounts of public and private lands for schemes of critical importance.

Environment (including safeguards)

40. UPs and selected PSs will use block grants to implement small-scale community infrastructure and other schemes, including rehabilitation/construction of rural roads, culverts, and irrigation and drainage systems. Environmental impacts from such schemes are likely to be minor but could include: (i) arsenic and bacterial contamination in drinking water; (ii) unplanned road construction causing drainage blocks; (iii) improper sanitation and sewage systems; (iv) inadequate solid waste management; and (v) noise and air pollution from a wide range of construction activities, including earth filling, foundation works, movement of vehicles, and operation of construction equipment and generators; and (vi) water pollution from the discharge of waste and spills and leaks of oils/ chemical into water bodies. These impacts are mostly temporary and limited within the site boundary.
41. **Environmental Assessment (PO/BP4.01).** LGSP-3 triggers Bank Environmental Safeguard Policy OP/BP4.01 and is classified as Category 'B' based on the type and scale of planned civil works and assessed impacts. The EHS Guidelines of the World Bank Group are applicable to the Project.
42. **Safeguard Instruments.** A framework approach has been adopted to provide guidelines and procedures for the environmental management of the schemes to be implemented, since the exact locations and degree of impact of the schemes are yet to be identified. The specific schemes (rural roads, culverts, drains, irrigation systems, etc..) and locations will be identified by WCs and Pourashavas through a participatory process. The PMU has prepared the ESMF for LGSP-3 based on: (i) overall environmental/social assessment and evaluation of the potential environmental/social impacts from recently completed/ on-going schemes under LGSP-2; (ii) field level consultations; (iii) the country's overall policy framework, national legislation, World Bank Safeguard Policies; and (iv) institutional capabilities related to managing safeguard issues. Inputs/feedback were received at different level of consultations with UP and PS functionaries, beneficiary communities and government officials at the Upazila, District, and LGD levels.
43. The ESMF is intended to provide guidelines to comply with national legislation and World Bank safeguards policies, and defines the environmental requirements needed for processing the financing of each scheme. The ESMF will be the guiding document for scheme-specific: (i) environmental/social screening; (ii) assessment, prediction and evaluation of impacts of major scheme activities; (iii) consultation and disclosure; (iv) mitigation measures and preparation of EMP with budget; and (v) selection of environmental code of practice (ECoP). All schemes will be subjected to an environmental and social screening and the activities with significant negative impacts will be excluded from the project.
44. The expected environmental impacts will be mitigated through the implementation of scheme specific environmental management plans or environmental code of practice as appropriate. The Environmental Management Plan (EMP) with a set of special environmental clauses (SECs) will be included in the technical specifications of bidding documents. Implementation of the EMP during construction will be supervised by the construction supervisor and contractor personnel.



45. The PMU will appoint a full-time Environment and Social Safeguards Specialist to review and ensure safeguards performance quality, and work closely with relevant government counterparts, such as the DDLG and District Facilitators, both at the District level and the UNOs at the Upazila level. District Facilitators will be trained in environmental and social safeguards and will provide training and monitoring support to UPs and PSs. The UPs, WCs, and SSCs have all been trained on environmental and social safeguards under ongoing LGSP-2; similar training will be provided to the Pourashavas that will receive project support for the first time.
46. **Grievance Redress Mechanism (GRM).** The GRM of LGSP-2 has been substantially simplified for LGSP-3. A designated member of the Union and Pourashava level Grievance Redress Committee (GRC) will receive the complaint and provide an acknowledgement of receipt. A hearing will be scheduled and held in less than two weeks, depending on the nature of the complaint and the urgency of its resolution. All unresolved cases will be forwarded to the respective DDLG; the DDLG will forward unresolved complaints to LGD (NPD of LGSP-3, who will make the final decisions). If a decision made at any level of hearing/review is accepted by the complainant, it will be binding on the concerned UP or PS. The GRM does not pre-empt an aggrieved person's right to go to the courts of law.
47. **Access to Information.** The draft final ESMF and SEGPF have been disclosed on November 2, 2016 on the LGD websites for public comments. Hard copies of the document have also been made available in the LGD Project Office, and UP and PS offices.



ANNEX 3: IMPLEMENTATION SUPPORT PLAN

Bangladesh Local Governance Support Project - 3 (LGSP-3)

Strategy and Approach for Implementation Support

1. **Implementation support strategy and plan.** The implementation support strategy for the project has been developed based on the project activities and lessons learned from experience with LGSP-1 and LGSP-2, with a focus on mitigation measures for the main risks identified in the SORT, i.e., political and governance, sector strategies and policies, institutional capacity for implementation and sustainability, and fiduciary. The Bank will provide the necessary support for the implementation of LGSP-3 in the form of implementation support missions with more intensive supervision in the first two years of implementation, as well as special visits by Bank specialists/consultants. In addition, the Bank will provide targeted training and guidance on procurement, financial management, and social and environmental aspects of project management.
2. **Institutional capacity for implementation and sustainability.** The Bank will play an active role in strengthening the capacity of UP wing that will take on the responsibility of managing UP fiscal transfer, and will review compliance with relevant dated covenants periodically. In particular, the Bank will facilitate the implementation of UP Fiscal Transfer Institutionalization Key Steps through assistance to the PMU and to LGD.
3. The main elements of the strategy are the following:
 - (i) **Technical support.** The Bank team will provide continuous extensive technical support through implementation support missions, MTR and ad hoc advisory services. This support will be crucial to the identification of the main factors that may hinder project implementation of the activities.
 - (ii) **Procurement.** Implementation support will include: (i) providing training; (ii) reviewing procurement documents and providing timely feedback to the Procurement Committee; (iii) providing detailed guidance on the Bank's Procurement Guidelines to the Procurement Committee; and (d) monitoring procurement progress against the detailed Procurement Plan.
 - (iii) **Financial management.** Support will include the provision of training to the concerned financial management consultants, and reviewing the project financial management system (on quarterly basis), and monitoring the continuing adequacy of the financial management arrangements, including accounting, reporting, and internal controls.
 - (iv) **Safeguards.** Support to environmental and social safeguards will need specialized missions to project sites twice a year. Support will be provided to closely monitor the implementation of agreed safeguards instruments, including the ESMF, to ensure compliance with the World Bank's safeguard policies; it will also include capacity building on safeguards requirements.



(v) **M&E.** Adequate support to M&E activities will need specialized missions to project sites at least twice a year to resolve any issues identified, with emphasis on regular updates on the status of achievement of indicator targets in the results framework.

Implementation Support Plan and Resource Requirements

- 4. The Implementation Support Plan (ISP) of skill mix required given in the Table below indicate skills required to provide implementation support during the initial and subsequent periods of the project. It will be reviewed regularly and updated as and when required during the implementation.

Table 3.1 Skills Mix Require

Skills Needed	Number of Staff Weeks (per year)	Number of Trips (per year)
TTL / co-TTL	15	3 the first year and two annually thereafter
Operations Analyst	10	Field trips as required
Engineering/Technical	6	Field trips as required
Institutional Development /Local Governance Specialist	6	Field trips as required
Municipal finance Specialist	4	Field trips as required
Procurement Specialist	4	Field trips as required
Financial Management Specialist	4	Field trips as required
Environmental Specialist	4	Field trips as required
Social Specialist	4	Field trips as required
M&E Specialist	4	Field trips as required

