



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 06-Jul-2016 | Report No: PIDISDSC18564



BASIC INFORMATION

A. Basic Project Data

Country Bangladesh	Project ID P159683	Parent Project ID (if any)	Project Name Third Local Governance Support Project (LGSP 3) (P159683)
Region SOUTH ASIA	Estimated Appraisal Date Sep 22, 2016	Estimated Board Date Jan 30, 2017	Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice
Lending Instrument Investment Project Financing	Borrower(s) Government of Bangladesh	Implementing Agency Local Government Division (LGD), Ministry of Local Government, Rural Development and Cooperatives (M	

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Financing (in USD Million)

Financing Source	Amount
Borrower	478.00
International Development Association (IDA)	350.00
Total Project Cost	828.00

Environmental Assessment Category
B-Partial Assessment

Concept Review Decision

Have the Safeguards oversight and clearance functions been transferred to the Practice Manager? (Will not be disclosed)

No

Other Decision (as needed)

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B. Introduction and Context

Country Context

- Bangladesh's economy has experienced rapid growth in the last decade. This has propelled Bangladesh to cross the threshold to become a low middle income country (LMIC) in 2014 and per capita income continued to increase in 2015 to US\$1,220. The country has made impressive strides in meeting the Millennium Development Goal (MDG) with respect to reducing headcount poverty and 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. Notwithstanding these impressive achievements, the development challenges remain formidable for Bangladesh.

2. Local governments in Bangladesh are a key element of the overall governance landscape; however, they operate in a highly constrained policy and institutional environment. Local governments have: inadequate fiscal autonomy and own source revenues; limited decision making powers; and weak accountability systems. Subnational expenditure as a share of total government expenditure has been less than 4%, while less than 2% of total government revenue is collected at local levels. Most local development decisions are prioritized by deconcentrated national agencies. However, local governments, especially, Union Parishads (UPs) and Pourashavas provide communities and citizens with opportunities for inclusive participation in civic affairs, and offer substantial opportunities for enhancing government accountability and transparency at the grass root level.

3. Successive governments have affirmed their intent to devolve powers to lower levels through more autonomy and increased allocation of resources. In 2009, the Government of Bangladesh (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). Fiscal transfers supported by the project enabled UPs to execute their assigned expenditure mandate as per the 2009 UP Act. Statements in the GoB Seventh Five Year Plan (7th 5YP – FY16-20) and the 2015-2016 Budget Speech of the Prime Minister have reaffirmed GoB's strong commitment to local government reform and decentralization, under the overarching theme "Accelerating Growth, Empowering Citizens".

Sectoral and Institutional Context

4. LGSP Achievements. GoB, working together with development partners, has committed to decentralization through a series of initiatives in policy reforms and a set of systems and procedures established for UPs. These include fiscal transfers, financial audits, performance assessments, and information management and governance, which have contributed to the significant progress made in empowering UPs across the country. Notable achievements include: (i) transparent and predictable basic block grants (BBG) for all UPs, transferred directly to UP bank accounts in two tranches each year and three-year indicative BBG ceilings, with full discretion on the use of funds on priorities determined by communities with a provision for rollover of unspent funds; (ii) performance-based grants to UPs as incentives for better performance; (iii) enhanced accountability through annual financial audits and performance assessments of all UPs by private audit firms; (iv) increased GoB co-financing of grant transfers from 50% to 60% by the end of LGSP2; (v) capacity building training to nearly 75,000 local public officials in planning, budgeting, and public financial management; (vi) improved safeguards compliance; and (vii) improved governance and transparency, demonstrated by enhanced capacity of UPs in preparing periodic plans, annual budgets, selecting & implementing development schemes through a community-driven development (CDD) approach and a participatory process (i.e., open budget meetings, making public all transactions). The major contribution of women in development planning and scheme selection has been recognized and a functional UP help line is in place as an effective public comments/grievance redress mechanism. Overall, a culture of accountability and transparency in service provision has been instilled at the local level.

5. Supported by District Facilitators and Upazila Resource Teams, UPs have quickly developed capacity to plan, contract and execute local infrastructure requirements, using national procurement methods. Over the life of LGSP2: 35,000 km of Class B rural roads were constructed, including 7,000 culverts and small bridges; 80,000 tube wells were provided for community water supply; and 9,000 pieces of furniture were supplied to local schools.

6. Issues for the Next Operation. LGSP1 and LGSP2 have provided solid foundation for deeper decentralization reforms. A number of systemic issues remain to be addressed through the proposed operation: (i) fiscal transfer for UPs has been a 'project', i.e., it has been budgeted as part of the Project Budget in LGD's Annual Development Plan (ADP) and mid-term budgetary framework (MBTF), but is not a regular part of the GoB budgetary system; (ii) annual UP audits and performance assessments (PA) are managed by the project management unit (PMU) and are financed by project funds, and are not a regular procedure in the GoB local government system; (iii) MIS platform, which needs further



improvement, is managed by the PMU; and (iv) citizen participation in planning and budgeting needs to be further strengthened. The proposed LGSP 3 will address these issues through graduating and institutionalizing the system as an integral and sustained element within the overall inter-governmental and fiscal architecture of Bangladesh. It will also maintain and expand local infrastructure and service-delivery through enhanced incentives for strengthening institutional performance during and beyond the project.

7. In addition, building on the experience with UP block grants, LGSP3 will pilot a fiscal transfer system to the next tier of local government (i.e., Pourashavas), with the goal of developing the fiscal foundations for improved municipal infrastructure and service delivery in Bangladesh's secondary towns. The rapid urbanization has positively impacted economic performance of the country, but it has also exerted great pressure on basic service delivery and urban living. Pourashavas, one tier of the urban institutions and local governments, are facing the similar constraints as UPs due to low capacity, limited fiscal autonomy and decision making powers, insufficient own source revenues, and weak accountability systems. Consequently, they are inadequately-equipped to respond to the growing demand for infrastructure and services. Pourashavas grants supported by LGSP3 will be used to finance a wide range of expenditures, with as much local discretion over decision-making as is consistent with the existing legal framework. The intention of the pilot is to develop, in a new dimension, a fully-fledged system of inter-governmental fiscal transfers that is appropriate to urban local governments.

8. At the completion of LGSP2, the GoB share of basic block grants had incrementally reached 60%, in line with the original target of the project. However, there is no assurance at current stage for GoB to continue the same level of grant transfer to UPs without the support of a follow-on project. The proposed LGSP3 will fully embed the UP fiscal transfer system in GoB's regular budgeting and disbursement system during the first half of the project period. UP fiscal transfers will be funded entirely from GoB's own budgetary resources starting in the second half of the project period. This gradual approach is in line with model that has been adopted successfully in several Bank operations supporting local government fiscal transfers.

9. Continued use of the IPF instrument. The existing system and modalities for UP fiscal transfers were established and developed under two phases of LGSP, that were supported by the Bank's investment project financing (IPF) instrument. GoB is of the view that a disruption of grant flows between the closure of LGSP2 and the start of the new operation should be avoided. Given the relatively short preparation phase, it is proposed to continue to use IPF as the Bank financing instrument for LGSP3.

Relationship to CPF

10. The proposed LGSP3 is fully aligned with the World Bank Group's Country Partnership Framework (CPF) (FY16-20) for Bangladesh as well as the Bank's twin goals to end extreme poverty and promote shared prosperity. The CPF focuses on three areas: growth, social inclusion, climate and environmental management. The CPF also notes that "supporting government efforts to strengthen governance systems will be critical to building a strong policy dialogue to enhance Bangladesh's competitiveness" and identifies governance reform as a long-term agenda that demands sustained effort.

11. The proposed LGSP3 will contribute to the CPF pillars of Growth and Social Inclusion. It will support the objectives of Improved Delivery of Basic Services in Urban & Rural Areas and Enhanced Rural Livelihoods for the Poor. It will build on the success of the Bank's on-going engagement in supporting local governments, and aims to improve local government service delivery through enhanced performance in governance and accountability, supported by an institutionalized fiscal transfer system. This will be achieved through a performance-based incentive mechanism for UPs and secondary towns that demonstrate sustained progress in planning, financial management, and social accountability. The proposed project will also sustain the community based approach and further strengthen the role of women in decision making role in community organizations, with the objective of enhancing rural livelihoods.

C. Proposed Development Objective(s)



Key Results (From PCN)

12. The proposed key results indicators for the project are listed as follows:

- (i) Budget line item for UP fiscal transfers established in GoB budgetary system
- (ii) Number of block grant tranches released for participating Pourashavas on a transparent and predictable basis
- (iii) Increase in the average performance score of UPs nationally, measured by 100% annual financial audits and performance assessment
- (iv) Number of UPs adopted the Management Information System (MIS) for reporting and informing decision making.

D. Concept Description

(New initiatives of LGSP 3 are shown in bold highlights)

13. The proposed LGSP 3 will support the implementation of a number of significant policy reforms: full GoB funding for Inter-governmental Fiscal Framework to UPs; mainstreaming UP Annual Financial Audits and Performance Assessments; Piloting Block Grants to Pourashavas; institutionalizing Capacity Building at UP and Pourashava levels; and mainstreaming and strengthening UP/Pourashava Management Information System. The proposed project would consist of four components (as outlined below) and will be implemented over five years.

Component 1. Inter-governmental Fiscal Transfer for UPs

[Estimated component cost: US\$740 million]

Fiscal transfers to UPs will be formula-based and predictable, and UPs will be informed of the 3-year indicative ceiling to facilitate more realistic planning. In order to enhance incentives for strengthening institutional performance, a portion of the total UP fiscal transfers will be reserved for improved UP performance. Features of UP fiscal transfers are: (i) **UP fiscal transfers comprise 70% basic block grants (BBG) and 30% performance-based grants (PBG)**; (ii) **amounts of total BBG determined on a per capita basis (FY16 baseline) with annual increases accounting for inflation and population growth**; (iii) basic grants disbursed in two tranches, a first tranche of **30% of the total amount disbursed in equal shares to all UPs** and the second tranche of **70% of the total amount disbursed subject to UPs meeting the minimum conditions** (of participatory planning and open budgeting, adequate audit, and six monthly reporting); (iv) second tranche of basic grants transfer allocated through a formula of population (90%) and area (10%); (v) UP discretion in the use of grants, based on priorities determined by communities in a participatory manner and with the ability to rollover unspent funds to the following year; (vi) PBGs disbursed to better performing UPs, assessed against a set of specific performance indicators.

The following policy reforms are proposed to be implemented under component 1:

- **Creating** a 100% GoB-funded budget line item in LGD's Annual Development Plan (ADP) and Medium Term Budgetary Framework (MTBF) for the UP Fiscal Transfer funding pool. **All fiscal transfers to UPs will be treated as regular GoB development expenditures starting from Year 3 (FY20) of LGSP3.**
- **Establishing** budgetary norms and guidelines to determine the total funding pool for UP Fiscal Transfer (thus addressing the "vertical" fiscal gap) to ensure that the size of the total UP funding pool is driven by a policy choice based on per capita allocations. LGD will formulate guidelines for the allocation of grants to UPs on the basis of a simple, transparent, allocation formula (thus addressing "horizontal" fiscal gaps across UPs), and compliance with Minimum Conditions (MCs) including clean audits, citizen participation and an open budget meetings and six-monthly reporting, as well as on the basis of measurable performance.



- **Formalizing** LGSP's UP Fiscal Transfer disbursement and fund flow arrangements through Ministry of Finance (MoF) and LGD regulations, including two six monthly transfers directly to bank accounts of UPs with the provision for rollover of unspent funds to the next year, as well as administrative guidelines and rules.

Component 2. Accountability and Information Management.

[Estimated component cost: US\$20 million]

This component will support greater accountability and process improvements through: annual financial audits and performance assessments of all UPs; consolidation of the UP reporting system; enhanced application of MIS for reporting, analyzing and public disclosure of information. It will support improving procedures for financial audits and performance assessments, audit appeal hearings, grant utilization, and expenditure verification.

The following policy reforms are to be implemented by the Government under component 2:

Formulation of audit rules/regulations – supplementary to the UP Act (2009) – for conducting 100% annual UP financial audits and performance assessments (PAs) to institutionalize the practice under LGSP2.

Strengthening management capacity in **LGD Audit Cell to coordinate, manage and finance all UP annual financial audits and PAs under the proposed project**, with support from accredited accounting firms. Consistent with the provisions of the UP Act (2009), the **costs of audits and PAs will be financed from the UP Fiscal Transfer funding pool.**

Streamlining the MIS developed under LGSP2 with more robust features and end-user friendly interface, to be fully adopted and managed by LGD Computer Cell. The MIS Platform will ensure seamless integration with UP six-monthly reports and enable district level information to be compiled and analyzed for performance monitoring and to inform decision making.

Component 3. Block Grants to Pourashavas¹, on a Pilot Basis.

[Estimated component cost: US\$10 million]

This component will **support the development of a Block Grant System for Class C Pourashavas** (Class C) and grant transfers, as a pilot, under the same disbursement mechanism as for UPs: formula-based allocations, subject to compliance with minimum conditions, with two six-monthly direct disbursements each year, as well as performance incentives based on eligibility. External financial audits for Pourashavas would be added to the existing UP audit packages.

Two basic criteria have been used to select the Pourashavas that will be included in the pilot: (i) **Class C Pourashavas**, as many of the larger and more fiscally prosperous (Class A and B) Pourashavas currently benefit from inclusion in a number of donor-supported projects (e.g., MGSP, UGIIP, various JICA-funded projects); (ii) Selected Class C Pourashavas that are located in the poorest or most vulnerable administrative Divisions.

Component 4. Institutional Development, Research, and Project Implementation Support

[Estimated component cost: US\$55 million]

¹ The 320 Pourashavas comprise 138 Class A (annual revenues > BDT 6 million), 128 Class B (annual revenues: BDT 2.5 to BDT 6 million), and 74 Class C Pourashavas (annual revenues: BDT 1.0 to BDT 2.5 million).



This component will support: (i) Capacity building for UPs, including training for UP functionaries; (ii) Measures to further enhance social mobilization, citizen engagement and governance; (iii) **Capacity building for improved public finance management**; (iii) **Research/studies to provide inputs to (a) formulation of the legal framework for Local Government Institutions (in the 7th FYP)**, (b) fiscal transfer system for Local Government Institutions (in the 7th FYP), (c) **sustainable development goals for UPs (based on the UN Sustainable Development Goals)**, and (d) Project management and implementation support, including the PMU and its consultants, support to strengthen the UP Wing in LGD for its expanded functions, and logistical and incremental operating costs associated with project implementation.

The following policy reform is to be implemented under component 4:

Continue local government capacity building services for LGD through National Institute of Local Government (NILG), BARD and RDA to support institutional and capacity development activities to national and sub-national stakeholders. Support for enhancing capacity in NILG has also been provided by other JICA. Capacity building activities will include: (i) capacity building for LGD’s UP Wing and Audit Cell; (ii) capacity building for UPs, including training for UP functionaries; (iii) capacity building for improved public finance management; and (iv) project management and implementation support.

Project Cost Estimate and Financing Plan

14. The project is estimated to cost about US\$828 million. The tentative financing plan is indicated below.

Government of Bangladesh	\$478 million	58%
World Bank	\$350 million	42%
Total	\$828 million	100%

Institutional and Implementation Arrangements

15. Institutional and implementation arrangements for LGSP3 will continue as in LGSP2, until June 30, 2019 (FY19) with the PMU as the Project Authority, and annual UP fiscal transfer based on the LGD’s 5-year MTBF, with GoB and the Bank sharing funding the grants. Starting July 1, 2019 (FY20), GoB will fully finance UP grants, as well as the annual financial audits and performance assessments. Starting July 1, 2019 (FY20), the functions of the Project Authority (PMU) will transfer to LGD, when the UP Wing in LGD will manage and administer grants, and the LGD Audit Cell will conduct 100% annual financial audits and UP performance assessments. The Bank’s “New Procurement Framework (NPF) for the Borrower 2016” will apply to LGSP3.

16. Bank funding support will be subject to GoB completing the following specific actions:

- *During FY17-FY19 (June 30, 2017 - June 30, 2019).* GoB continues to increase its share of UP grants to reach 100% in FY19, starting with FY16 as the baseline.
- *Starting FY20 (July 1, 2019).* GoB creates a new line item in LGD/MTBF/ADP budgets to fund 100% of Block Grants (without IBRD support), including guidelines/regulations for: determining the amount of annual UP grants; grant allocations; grant disbursements; grant administration by the UP Wing of LGD.
- *Starting FY20 (July 1, 2019).* LGD Audit Cell conducts 100% annual financial audits and performance assessments (without IDA support), using independent chartered accountants, as in LGSP2, including developing audit rules and guidelines.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The ongoing LGSP2 has provided direct fiscal and technical resources to all Union Parishads (UPs) in the country, including those in the Chittagong Hill Tracts that are heavily populated by indigenous peoples. It is envisaged that LGSP3 will, similarly, cover all UPs across the country. The UPs used

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the LGSP2 funds, which were relatively small, largely for rehabilitation/construction of small-scale community infrastructure, including rural roads, culverts and irrigation and drainage systems. With the restrictions placed on environmental category-A schemes/subprojects, as well as private land acquisition and involuntary displacement from public lands, these schemes did not have major negative social or environmental impacts. On the other hand, mid-term safeguard assessment findings suggests that under the ongoing LGSP2, UPs and communities rehabilitated/built infrastructures, especially culverts, drainage systems that reduced environmental degradation/local pollution created by other development projects. Under LGSP3, similar small-scale community infrastructures will be rehabilitated or built anew. Given that the restrictions on schemes which could cause significant negative impacts will remain, LGSP3 is not expected to have irreversible or long-term environmental and social impacts.

B. Borrower’s Institutional Capacity for Safeguard Policies

The implementing agency, the LGD of the Ministry of Local Government Rural Development & Cooperatives already implemented LGSP 1 and implementing the ongoing LGSP 2. In addition their allied agencies like the Local Government Engineering Department, has been implementing large scale infrastructure programs financed by the World Bank and other development partners, and has the knowledge and capacity to implement the LGSP 3 with environmental and social safeguards due diligence. The Ups, Schemes Supervision Committees (SSC), Ward Committees (WC) were trained on environmental and social safeguards under ongoing LGSP 2 and will be able to manage the schemes to be developed under LGSP 3 with environmental and social compliances.

One of the key agencies for LGSP3 is the NILG, which developed standard UP Training Modules and coordinated UP training. The capacity of NILG will be strengthened so that it can develop and implement safeguard training modules in keeping with ESMF provisions. Under LGSP3, capacity building and monitoring will be further decentralized, a decentralized monitoring matrix has been established under the ESMF As part of this, Schemes Supervision Committees (SSC) at UP and ward levels will be trained further in safeguards under LGSP 3 and they will review all the screening, implementation and completion forms, and suggested remedial actions to Ward Committees (WC), if necessary. The office of the DDLG at the district level will be strengthened by providing District Facilitator Teams (DFT). These DFTs will be trained in environmental and social safeguards and will provide training and monitoring support to the UPs. The ESMF for LGSP3 will be updated with the lessons learned from the ongoing project since the basic premises remain similar to those of LGSP2. The inputs/feedbacks will be received from the ESMF implementation assessment at different level of consultations with the UP functionaries, beneficiary communities and government officials from upazila, district and LGD.

C. Environmental and Social Safeguards Specialists on the Team

Iqbal Ahmed (Environmental Specialist), GEN06
Teen Kari Barua (Social Specialist), GSU06

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment (OP/BP 4.01)	Yes	The LGSP 2 is classified as category ‘B’ in accordance with OP 4.01 and the similar nature project LGSP 3 will be remain unchanged and will not trigger any new environmental safeguard policies. Most of the adverse impacts are expected to be limited to the local environment and will be minimized, avoided or compensated with a careful design and implementation of the environmental management plan. LGSP2 adopted an Environmental and Social Management Framework (ESMF) and it will be updated for LGSP3 with the lessons learned from the ongoing LGSP II and adequate consultation process, since the basic interventions remain similar to those of LGSP2.
Natural Habitats OP/BP 4.04	No	It is highly unlikely that any natural habitat formed largely by native plant and animal

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		species will be affected or modified due to the project activities
Forests OP/BP 4.36	No	The project is expected have no impacts on the management, protection, or utilization of natural forests or plantations. As such, the policy has not been triggered.
Pest Management OP 4.09	No	The project is not expected to finance any synthetic chemical pesticides activities and the policy has not been triggered.
Physical Cultural Resources OP/BP 4.11	No	Since the activity is limited to the training program, no impact on landscape with archaeological, paleontological, historical, architectural, religious, aesthetic, or other cultural significance is expected.
Indigenous Peoples OP/BP 4.10	Yes	Like the previous two phases, the proposed LGSP3 will also cover the three districts of Chittagong Hill Tracts, which are homes to largest proportion of the country's indigenous population. There are also indigenous peoples in many of the plains districts where they live in settlements among the mainstream peoples. As such, the OP/BP 4.10 remains triggered. In addition to the ESMF the project is advised to prepare a stand-alone Indigenous Peoples Development Framework/ Plan as mitigation for OP/BP 4.10
Involuntary Resettlement OP/BP 4.12	No	Among other provisions, the ESMF includes a list of schemes with significant negative environmental and social attributes, which the UPs cannot deal with their present capacity and resources, and are thus not eligible for the project funding. Among other restrictions, the UPs cannot acquire private lands and displace people, especially the socioeconomically vulnerable, from public lands without alternative arrangements acceptable to the displaced.
Safety of Dams OP/BP 4.37	No	The project will not finance any dams, nor do project activities depend on any existing dams.
Projects on International Waterways OP/BP 7.50	No	The project activities will not take place along international waterways which are shared with Riparian countries.
Projects in Disputed Areas OP/BP 7.60	No	There are no disputed areas in the project area of influence.

E. Safeguard Preparation Plan



Tentative target date for preparing the Appraisal Stage PID/ISDS

Aug 31, 2016

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

31-Aug-2016

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APPROVAL

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