

EQUITABLE GROWTH, FINANCE & INSTITUTIONS NOTES

The World Bank's Support for Subnational Governance in Large Federal Countries: Lessons Learned from Argentina, Brazil and Nigeria

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Overview

This note presents lessons learned from the World Bank’s subnational governance projects in three large federal countries - [Argentina](#), [Brazil](#) and [Nigeria](#) - between 2008-2017 (see Table 1 for project summary and Table 2 for full project details). The note synthesizes the main evaluation findings from the World Bank’s Implementation Completion and Results (ICR) reports and ICR reviews of these projects.

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TABLE 1 - Projects Summary

PROJECT NAME	AR La Rioja Public Sect Streng Prog-APL1 (P121836)	Minas Gerais Partnership II Swap (P101324)	State Employment and Expenditures for Results Project (P121455)
COUNTRY	Argentina	Brazil	Nigeria
LEAD GLOBAL PRACTICE	Governance	Governance	Governance
INSTRUMENT	Adaptable Program Loan	Specific Investment Loan	Specific Investment Loan
ACTUAL COST	(US\$M): 27.277	(US\$M): 1,434.88	(US\$M): 174.509
BOARD APPROVAL	02/22/2011	05/01/2008	03/06/2012
CLOSING DATE	12/31/2017	10/31/2014	09/30/2020
ICR OUTCOME RATING	Satisfactory	Satisfactory	Satisfactory
IEG OUTCOME RATING	Satisfactory	Moderately satisfactory	Satisfactory

Limited local tax revenue and low public sector efficiency are two critical problems of public sector management and key constraints for the economic and social development of many subnational governments in large federal countries. Additional provincial tax revenue is essential to provide resources for a more inclusive development agenda focused on rural development. To create fiscal space without compromising macroeconomic stability and fiscal sustainability, there is a need for reforms that lead to better use of public resources and improved expenditure efficiency through reforms in budgeting, procurement, and tax administration.

In turn, visible improvements in service delivery are expected to sustain these reform efforts. The political economy of public sector reform indicates that cross-cutting public sector reforms are most sustainable if combined with visible improvements in service delivery; such improvements will generate the necessary political capital to make difficult cross-cutting reforms possible. Improvements in service delivery are significantly more tangible to citizens than horizontal public sector reforms. This is, in particular, the case if improvements in service delivery are clearly prioritized based on maximizing improvements in citizens’ welfare and are effectively communicated to the general public.



Promoting good governance at the subnational level was fully consistent with the objectives of the Bank's Country Partnership Strategy (CPS) in all three countries at the time of these projects. The projects helped achieve specific CPS outcomes: (i) to strengthen the effectiveness, efficiency, transparency and accountability of public sector management, and (ii) to expand performance management and to improve the quality of public expenditure, enhance service delivery and trust in institutions.

In terms of design elements, the three projects exhibit several important similarities and differences. In terms of similarities, all three projects were led by the Governance GP and were implemented in large federal countries. They all aimed to improve service delivery at the local level through public financial management reforms, especially targeting revenue collection improvements. They were all structured in the form of an investment lending project, complemented by a technical assistance element.

When it comes to differences, firstly, although Argentina, Brazil and Nigeria are all large, federal countries, they vary in size, per capital income and development level and have specific development challenges, both nationally and in the subnational areas where the projects were implemented. Secondly, although all three projects supported strengthening local service delivery, they focused on different sectors of service delivery, such as – water, agriculture, education, health, and social services.

The lessons learned from these projects can be useful in shaping the design of future subnational governance projects in other federal countries, particularly those projects seeking to improve service delivery, public expenditure systems and core governance institutions. This note summarizes the most valuable and transferable lessons learned from these three projects. The lessons are thematically grouped and apply to more than one project. The second part of the note contains a table outlining the PDOs and main components of each project in detail, followed by a document references section (Table 3).



General Recommendations and 13 Lessons Learned:

- **There is substantial value in direct World Bank support at the subnational level.** To illustrate, institutional strengthening was valuable for one of Argentina's provinces with the highest share of poor households, and the benefits of the Bank's direct engagement was recognized by high-level provincial authorities and public officials. This is usually not the case when the support to SNGs happens through an engagement with the national government, where provinces and municipalities are sometimes "pilots" and get to interact with Bank staff much less often during the lifetime of the project.
- **Subnational public management strengthening is a prerequisite for improvements in service delivery in any single sector.** In the case of Argentina, reforms in cross-cutting public administration platforms and processes were important foundations for strengthening rural water management. Other sectors (health, education, etc.) also benefited from improvements in cross-cutting public management system.
- **Political commitment is key in a project that aims at improvements in public resource management systems and practices.** However, sustaining support from top management at key ministries is as crucial, particularly for institutional reform projects where the timeframe of implementation is usually very long. Political commitment can in fact vary with changes in government, but support from technical leadership ensures deeper rooting of reforms, and makes policy reversals more difficult. Correspondingly, sustained support of the top management of the bureaucratic apparatus is just as important.
- **Without local leadership, decentralization projects cannot succeed.** The interventions under the State Employment and Expenditure for Results (SEEFOR) project have the potential to be scaled up across Nigeria, even though their impact was variable within the four SEEFOR states. The main explanation for this variability was the leadership provided by the respective governor of the state as well as heads of department. Strong local leadership was provided in the state of Edo which was the best performer in terms of PFM results. By strengthening PFM systems, the project helped lay the foundations for states to participate in the next generation Program-for-Results operations which are at the core of the new Nigeria CPF to shift the Bank's focus towards broader intergovernmental reform issues with impact at national scale.
- **Large multi-sector results-based operations with disbursement-linked indicators can offer strong incentives for reform, ensuring that a wider array of policy changes can be implemented smoothly and expeditiously.** Sector-specific operations cannot sufficiently address issues that require cooperation of different line ministries, some of which may not have any financial stake in the successful implementation of the reforms supported by the project. In the case of SEEFOR, collaboration and joint work across sectors (governance, urban development, social development, education and agriculture) both on the Bank and the client's side had significant pay-off and was more impactful than single sector interventions. This holds particularly true for problems that are multi-pronged and cut across sectors.
- **The implementation of subnational governance projects is resource intensive.** The complexity of the SEEFOR project required significant financial and human resources to provide implementation support. In order to provide a sufficient level of technical assistance for the implementation of subnational projects which cover several subnational governments, we need to think about a new modality, such as shifting more responsibilities to clients in the implementation of projects.
- **Impact evaluation is key for lessons learned.** Impact evaluation in multi-sector results-based operations is particularly challenging but should not be replaced by partial evaluation carried out immediately after the operation closes. The design of technical assistance components should also provide support for impact evaluation. Subnational projects also allow for randomized

control trial impact evaluations comparing subnational government performance with, and without the project interventions.

- **The Bank's know-how can be as important as its ability to mobilize significant financial resources.** The Government of Minas Gerais made clear that one of the key factors for choosing the Bank as the project's financier was its ability to provide valuable inputs to the design of the program, and to advise during program implementation.
- **It is important to ensure that risk mitigation measures do not create other risks.** In the case of the Public Sector Strengthening Program in Argentina, the risk mitigation measure of bundling technical assistance activities into a single, large contract was appropriate to mitigate the impact of limited implementation capacity. But the shortage of entities interested in the bundled assignment and eligible to bid caused delays in procurement. A more thorough market study during project preparation would have foreseen this development.
- **Keeping an eye on macroeconomic developments can help anticipate threats to development outcomes and build-in sustainability measures prior to project closing.** In the case of Argentina, fiscal tightening threatened budget predictability and the linkage between budgeting and planning. The deterioration in macroeconomic situation reduced the share of primary expenditures in budgets due to cuts in public spending, which ultimately affected budget predictability particularly for the delivery of critical public services. In addition, the provincial governments were slow in articulation of a vision for development and making the connection between planning and budgeting.
- **Digital technology can be effective for improving M&E.** In Nigeria, through the creation of a Geographic Information System-based digital database, the project facilitated third party monitoring of results, and citizen's feedback through a call center. All this was complemented through a well-designed communication program that used social media, video, print media and radio to reach out to local communities and beneficiaries. This approach was more suitable in the conflict prone region of the Niger Delta where communities needed to be informed and own the different aspects of the project as beneficiaries.
- **Complex Integrated Financial Management Information Systems (IFMIS) can be effective for improving PFM, however their exact cost can be hard**

to predict. This was exemplified in the Nigeria project which successfully implemented Oracle and SAP-based IFMIS solutions in four states. However, even though the IFMIS interventions were successful, in the initial stages not all functionalities of the system were being used. For example, the Procure to Pay modules were not operational and much of the workflow processes were outside of the system. Complex IFMIS systems sometimes have a limited shelf life as they get overtaken by upgraded versions. Therefore, if the existing system functionalities are not fully utilized, the investment is also suboptimal or inefficient. There is an added pressure to move to the subsequent version to align and harmonize with other systems at the subnational and national level, thus leading to additional costs. Additionally, global experience has shown that such complex systems need highly competent manpower and good infrastructure. Going forward, there is a need to look at alternative low-cost systems with a high level of functionality that have become available in recent years. Several SEEFOR states are experimenting with them at the local government level and depending upon the experience, these could be scaled up. For example, Edo state has a low-cost enterprise resource planning (ERP) solution in human resource management area—Odo—which has been working well at the local government level for years and Edo plans to improve its functionality and coverage.

- **Using youth employment in public works projects as a tool to reduce the likelihood of conflict in fragile environments such as the Niger Delta is an appropriate strategy.** The largest component of the Nigeria project provided the youth with employment opportunities which demonstrated that it is a sustainable option to engage the youth and minimize opportunities for conflict. To achieve this social objective, the project remained flexible regarding prioritizing labor costs. For example, for public works projects, the initial ratio between labor and materials was 70:30. This was revised to 60:40 first; and then to 50:50 based on the request from the participating states. It is important to address the broader challenge of providing remunerative, safe, and dignified work for all working age groups. Additionally, youth employment components enhanced the Bank's visibility and garnered significant political support. In conflict-prone areas such as the Niger Delta, activities related to employment are embedded in local political economy and conflict dynamics.

In conclusion, as the practice of decentralization is taking root all over the world, the number of projects addressing different aspects of decentralization and strengthening subnational

governments' capacity is increasing in the World Bank's portfolio. By analyzing these three projects, key transferable lessons were synthesized that can be widely applied across Bank operations, particularly in federal states. In short, these lessons include: the importance of political will, local leadership, impact evaluations, competent human resource and good

infrastructure as well as the benefits of digital technology for M&E, among others. These lessons are all relevant to the wider Bank teams. Employing the recommendations outlined in this note will enhance the Bank's operational effectiveness and will allow the institution to deliver better solutions for its clients.

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TABLE 2 - Detailed Information on the Selected Decentralization Projects

PROJECT NAME	AR La Rioja Public Sect Streng Prog-APL1 (P121836)	Minas Gerais Partnership II Swap (P101324)	State Employment and Expenditures for Results Project (P121455)
LEAD GP	Governance	Governance	Governance
INSTRUMENT	Adaptable Program Loan	Specific Investment Loan	Specific Investment Loan
ORIGINAL COMMITMENT	(US\$M): 30	(US\$M): 1,435.56	(US\$M): 200
ACTUAL COST	(US\$M): 27.277	(US\$M): 1,434.88	(US\$M): 174.509
BOARD APPROVAL	02/22/2011	05/01/2008	03/06/2012
CLOSING DATE	12/31/2017	10/31/2014	09/30/2020
PROJECT DEVELOPMENT OBJECTIVE	To increase tax collection and improve expenditure quality and pilot improvements in public service delivery in the area of rural water management. The PDO can be unpacked into three objectives to be measured through five key PDO indicators.	To (i) help the Borrower improve the efficiency and effectiveness of public resource use and allocation for economic and social development; (ii) support the adoption of innovations in public management by the Borrower; and (iii) support the Borrower in strengthening its results-based management system of monitoring and evaluation of results.	To enhance opportunities for employment and access to socio-economic services while improving the public expenditure management systems in the participating states.
PROJECT COMPONENTS	The Project consists of two complementary components: the Implementation of the Eligible Expenditure Programs Component and the Technical	This Sector-Wide Approach (SWAp) operation included two components covering Public Sector, Private Sector Development, Health, Education, and Transport.	The project has three components: Component A will support three main activities: (1) Carrying out of small public works and institutional strengthening to

PROJECT NAME	AR La Rioja Public Sect Streng Prog-APL1 (P121836)	Minas Gerais Partnership II Swap (P101324)	State Employment and Expenditures for Results Project (P121455)
	<p>Assistance Component. The Implementation of the Eligible Expenditure Programs Component (US\$24 million) will disburse against Eligible Expenditure Programs (EEPs) in three areas: Tax Administration Improvement; Quality of Expenditure; and Service Delivery in Rural Water Management. This component follows the SWAp modality, and disbursements are linked to the achievement of agreed disbursement-linked indicators (DLI) and the execution of at least 70 percent of the budgeted EEPs expenditures. The TA Component (US\$5.25 million) supports the achievement of the Government reform programs in the same three areas; it further assists Project coordination and management.</p>	<p>The first component (SWAp), of US\$957.5 million, disbursed to the State Treasury against expenditures incurred under Eligible Expenditure Programs (EEPs). EEPs are Government programs included as specific lines in the Government Pluri-Annual Plan (PPAG) and in the annual budget law. Disbursement, which occurred at three to six month intervals, was also dependent on the achievement of 24 Disbursement-Linked Indicators (DLIs) measuring the progress of the EEPs. A Technical Assistance component in the amount of US\$18.5 million supported the implementation of EEPs and the achievement of the DLIs. The TA component disbursed as a traditional investment lending operation against statements of expenditures (SOEs).</p>	<p>generate youth employment in urban areas; (2) Carrying out technical, vocational, and agricultural training by providing grants to TVT and agricultural training institutions and (b) State ministries responsible for education and agriculture; and (3) Carrying out of eligible Community Development subprojects by providing grants to (a) FCAs and (b) CSDAs. Component B will support reforms by the participating states of their public finance management systems, processes and institutions. Component C is Project Implementation Support and Coordination, including providing logistical and technical support to NPCU and SPCUs, and support the federal ministry responsible for Niger Delta Affairs.</p>

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TABLE 3 - Project Documents References

<p>1. AR La Rioja Public Sect Streng Prog-APL1 (P121836) Project Appraisal Document (PAD) Implementation Completion and Results Report (ICR) Implementation Completion Report Review (ICRR)</p>	<p>2. Minas Gerais Partnership II Swap (P101324) Project Appraisal Document (PAD) Implementation Completion and Results Report (ICR) Implementation Completion Report Review (ICRR)</p>
<p>3. State Employment and Expenditures for Results Project (P121455) Project Appraisal Document (PAD) Implementation Completion and Results Report (ICR) Implementation Completion Report Review (ICRR)</p>	

