



SUBNATIONAL  
PUBLIC FINANCE  
PROGRAMME BRIEF

# Empowering Subnational Governments to Improve Budget and Financial Management Performance

Enabling Factors at the National Level

## ACKNOWLEDGEMENTS

This subnational finance programme brief is a product of the Public Finance and Local Governance Unit, Social Policy Section, at UNICEF's New York headquarters. This brief was developed by Mitchell Cook (Consultant, Public Finance and Local Governance) under the direction of Joanne Bosworth (Chief, Public Finance and Local Governance), Jennifer Asman (Policy Specialist Public Finance for Children), Natalia Winder-Rossi (Associate Director, Social Inclusion and Policy) and Diana Vakarelska (Policy Specialist Local Governance). This subnational finance programme brief has benefited from valuable input from UNICEF country offices, including UNICEF Albania Country Office, UNICEF Iraq Country Office, UNICEF Cambodia Country Office, UNICEF Thailand Country Office, UNICEF Ukraine Country Office.

*Subnational finance programme briefs are short, evidence-driven notes that unpack common issues in government budgeting and financial management at the subnational level, highlight programming approaches and tools applicable to practitioners in the field, and share examples of approaches that have been employed in UNICEF programming around the world. They aim to promote awareness of promising approaches, connect UNICEF offices working on similar problems, and foster collaboration between child-rights organizations and the wider community of practice in public financial management, particularly at the subnational level. These programme briefs are written to be accessible to a broad audience with diverse technical and programme-implementation backgrounds.*

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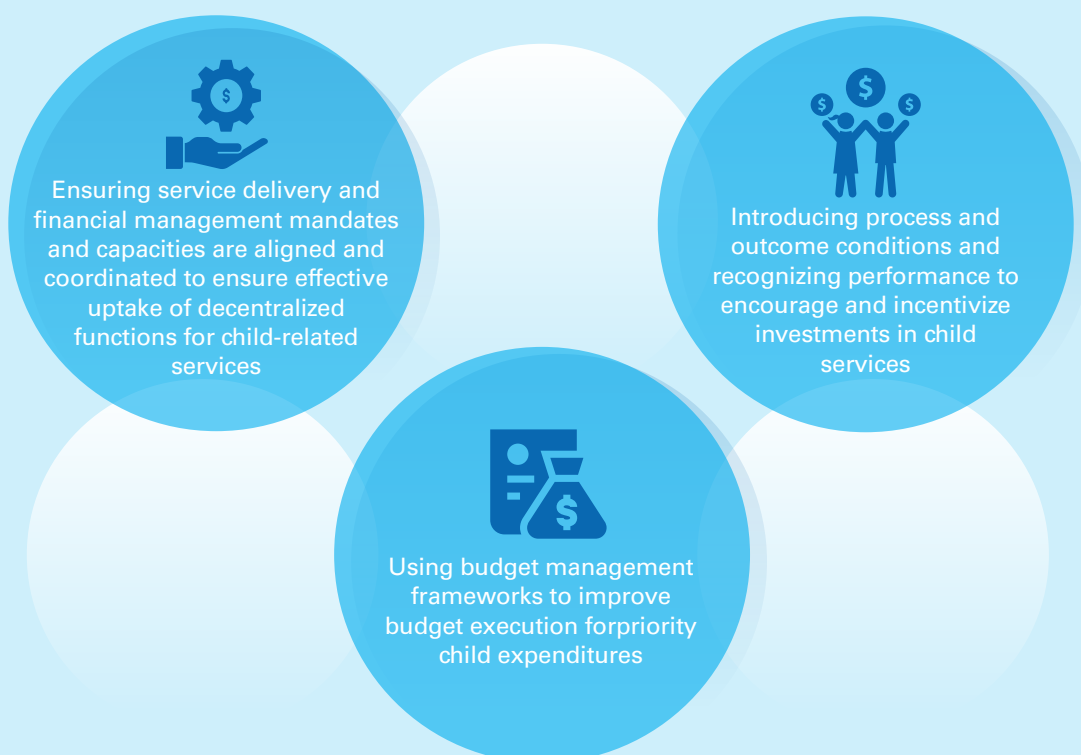
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# EMPOWERING SUBNATIONAL GOVERNMENTS TO IMPROVE BUDGET AND FINANCIAL MANAGEMENT PERFORMANCE: ENABLING FACTORS AT THE NATIONAL LEVEL

**This programme brief focuses on key features of the intergovernmental fiscal system common across all countries that shape budget and financial management performance in subnational governments, and identifies what national governments and other partners can do to enable more effective budget preparation, approval and execution at the subnational level, and in turn to improve service delivery for children and young people. The specific issues covered in this brief are:**



Subnational governments around the world are increasingly responsible for public-service functions that are essential to expanding coverage, equitable access and quality of services for children and young people. Across education, health, social and child protection, and water and sanitation sectors, devolved regional and local governments are increasingly engaged in preparing and executing their own budgets, collecting revenues from local sources to fund spending, and borrowing to finance capital investments in new and upgraded facilities.

A wide array of factors at the national level influence subnational governments' budget and financial management performance. Important factors include national budget management systems and procedures, the assignment of responsibilities to lower levels of government, and the flow of financing downward in the intergovernmental fiscal system. While the policies and systems under national control vary depending on country and sector context, many budget and financial management bottlenecks to local service delivery originate at the national level.

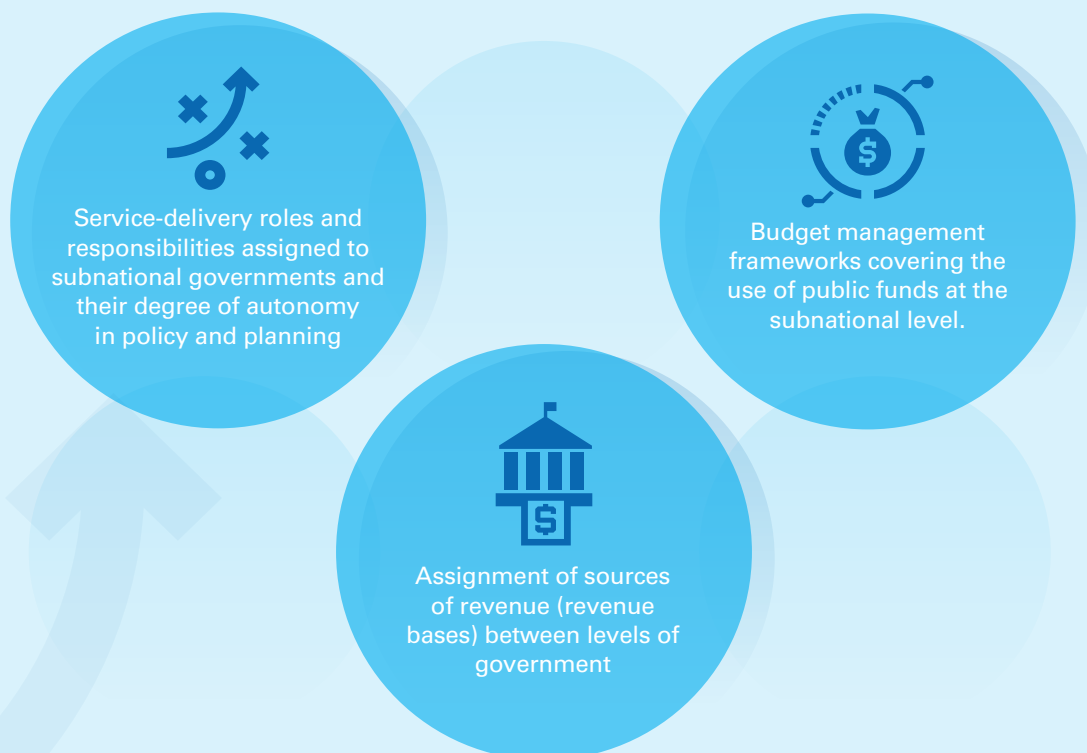
## SUBNATIONAL BUDGETS IN THE INTERGOVERNMENTAL FISCAL SYSTEM

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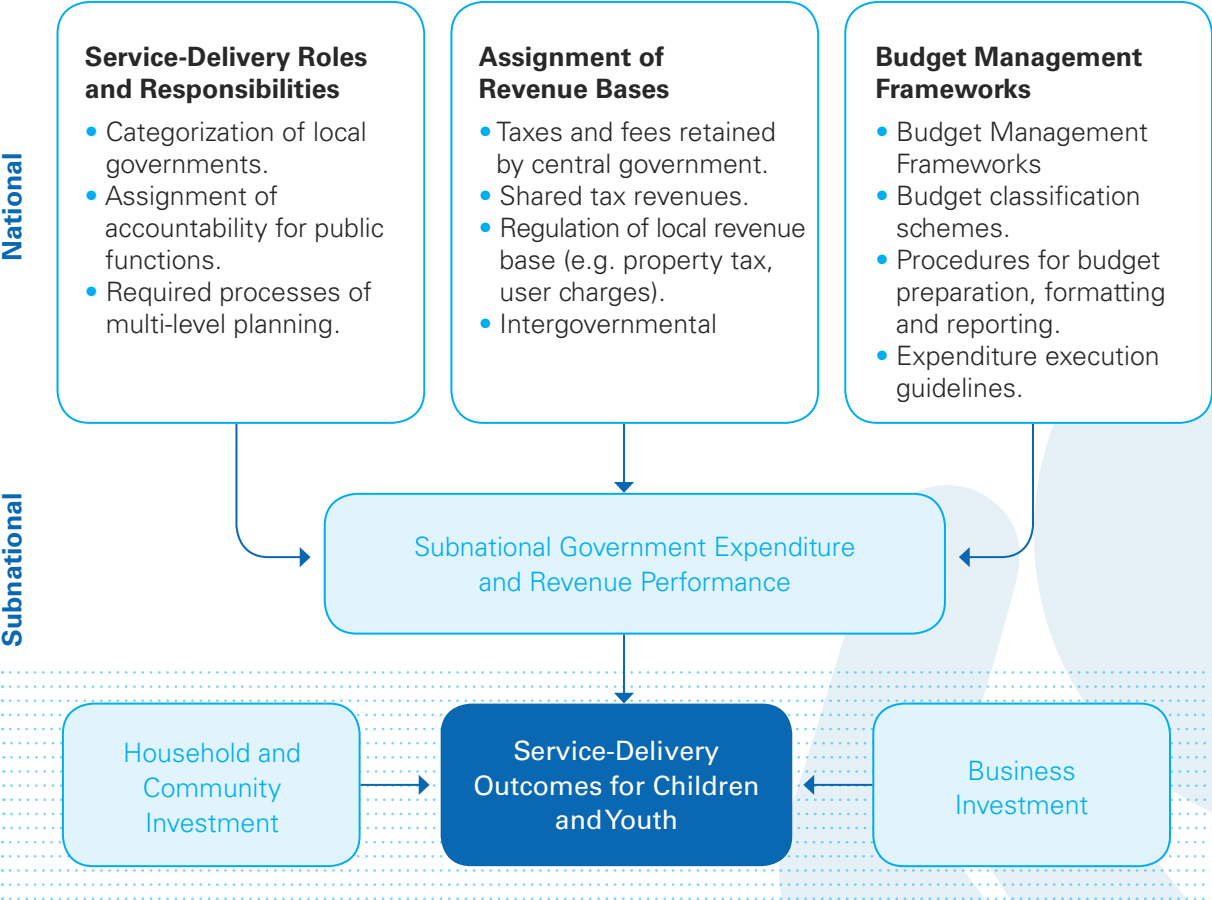
Transparent budgeting and effective financial management are fundamental to improving expansion (effective reach), equity (inclusion) and quality of local service delivery to children and young people, their families and the communities in which they live. While subnational governments operate with varying degrees of legal and political autonomy, they do not prepare budgets and allocate resources for service delivery entirely independently from the central government. Regional and local governments share overall responsibility for efficient and equitable provision of social services with a variety of national ministries, departments and agencies.

Consider water and sanitation in schools. Ministries of education, health, and water in national governments develop and implement safe construction standards, while coordinating with each other to ensure sufficient funds are transferred to local governments in a timely manner. Local governments make sure funds transferred from central authorities, combined with their own financial resources, reach their intended use at the school facility – maintaining boys’ and girls’ toilets to national standards.

Many subnational budget bottlenecks and other public financial management-related barriers to effective local service delivery can be traced to design and operational factors in the intergovernmental fiscal system. The intergovernmental system encompasses constitutional provisions, laws, budget frameworks and ad hoc guidance that outline:



# The intergovernmental fiscal system: National-level factors



Input into and influence over the design and operation of key elements of the intergovernmental fiscal system can be spread across a variety of stakeholders in central government, such as:

- Office of Prime Minister/President

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- Ministry of Finance

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- Ministry of Home Affairs

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- Ministry of Local Government

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- Planning and Finance (Grants) Commissions and Committees

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- Legislature

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The design and operation of the intergovernmental fiscal system has a variety of consequences for subnational budget performance and service delivery. It influences the ability and capacities of local governments to finance the services assigned to them, it influences how much and how often sector funds for subnational service delivery are available at the local level – either in the form of intergovernmental transfers or various tax-sharing arrangements – and it influences the incentives for local governments to increase the generation and use of their own resources towards services for children and young people. Developing a deeper understanding of factors at the national level that influence subnational governments through the intergovernmental fiscal system can help reveal bottlenecks and barriers that prevent local and regional governments from responding to local demand and closing investment gaps in the social sectors.

# ENSURING ALIGNMENT AND COORDINATION OF SERVICE-DELIVERY MANDATES WITH FINANCIAL MANAGEMENT MANDATES AND CAPACITIES

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## Opportunities and risks in decentralization reforms

Changing the service-delivery responsibilities assigned to subnational governments is a key opportunity to build systems, procedures and practices that deliver improved services that children need, and families and communities want. Subnational governments often have better information on local conditions and stronger incentives to provide services consistent with local needs and preferences. The links of local governments with other local stakeholders further enhance the quality and pertinence of information they have. When the transfer of responsibilities is coupled with stronger mechanisms giving families, communities and civil-society organizations a say over budget allocations, decentralization is more likely to yield positive benefits for children.

However, these changes in the services assigned to subnational governments can risk significant disruptions to service delivery and adverse effects on child outcomes and equity, particularly for the most marginalized populations. For instance, if the central government transfers responsibility for paying teachers or community health worker salaries to subnational governments without updating the allocation of funds between levels of government, the quality of local education and health services might deteriorate under the pressure of new unfunded mandates.

In addition, changing responsibilities for service delivery also shifts responsibilities for managing public budgets downward to lower levels of government. The transfer of additional public-service functions in child protection, education, health, social protection, and water and sanitation affects the institutional capacity requirements for effective public financial management in local and regional governments. Without adequate public financial management structures, systems and procedures, transferring public functions to subnational governments can create major obstacles to effectively positioning the needs of children and young people in planning, procurement, budget implementation, and service monitoring and reporting.

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## PEFA and SNG-WOFI

The Public Expenditure and Financial Accountability (PEFA) assessment tool includes indicators covering key elements of the intergovernmental system, such as the transparency and operation of public funds transferred from central ministries, departments and agencies to subnational governments. See the PEFA website at <<http://pefa.org>>. The main features of the inter-governmental fiscal system are also outlined for many countries at the World Observatory on Subnational Finance and Investment (SNG-WOFI), available at: (<http://www.sng-wofi.org/country-profiles/>).

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### Measures to minimize risks and improve local services

A variety of political, economic and administrative considerations come into play during the design and implementation of sector decentralization reforms. Key stakeholders in central government often hold different perspectives on the budgetary roles and responsibilities of local governments. What is feasible in one country, or for one sector, may not be in another. The perspectives of different ministries and national stakeholders reveal different issues at stake, for example officials in the ministry of finance responsible for maintaining fiscal balances and macroeconomic stability might prefer to retain strict centralized control and oversight over public-sector finances. Such preferences can clash with sector ministries' rationale for transferring authority to subnational governments with the aim of bringing service delivery closer to the users, strengthening access and thus increasing subnational autonomy in planning, budgeting and operations.

During changes to sector responsibilities assigned to subnational governments, three measures are critical to minimize the risks posed by disruptions to service delivery and adverse consequences for child outcomes:

#### 1. Improving alignment of public financial management frameworks with decentralization reforms.

The most important issue in discussions of decentralization reform is ensuring that financial management procedures and systems are consistent with new functional mandates. If inconsistencies arise, subnational governments with insufficient budget capacity might fail to fulfil new service-delivery mandates and functions for the vulnerable, leading to inadequate access, and emerging or reinforced inequalities.



## Albania

### Enhancing decentralized financing for social-service workforce strengthening in municipal governments

#### CONTEXT

Albania is undergoing decentralization reforms in conjunction with broader efforts related to accession to the European Union. Historically, Albania has a very limited tradition of community-based (non-residential) social care services: social protection budgets would be transferred to local government units only for cash assistance. Local government had no capacity to deliver services for marginalized families and children (developmental or communication disorders, mental illness, sexually abused children, children in conflict with the law, violated or trafficked girls). A few social care services were provided by CSOs in a fragmented and ad hoc manner, while the annual budget allocated for nationally managed residential institutions accounted for only 4 per cent of total social-protection spending. In 2016, with UNICEF support the Government adopted Law No. 121 on Social Care Services, which for the first time in Albania set the fundamentals for planning and delivering social care services in Albania, outlining clear administrative, and financial accountabilities, and transferring full responsibility to local government units for planning, managing and delivering community based services.

#### PROGRAMME ACTIVITIES

UNICEF Albania partnered with the Ministry of Finance and Economy and Ministry of Health and Social Protection to develop a financing formula to govern the transfer of funds from the central social-protection budget to municipalities to resource the Social Fund, which is a dedicated budget line for social care services. The Social Fund comprises revenue from the state budget, local governments' own sources, and donor funds. Municipal governments that develop a social care plan to match funds with local actions qualify to receive central transfers and donor funds within the overall resource envelope for the annual Social Fund allocation. UNICEF Albania developed a public financial management capacity-building package for about one third of the municipalities in the country, which combined activities to increase municipal stakeholder awareness of the required services, conduct needs assessment and budget analysis, plan and cost activities and investments, and initiate a human-resource strategy for the municipal directorate of social care services. Budget briefs were developed for all 22 municipalities.

#### RESULTS AND NEXT STEPS

About thirty percent of the municipalities in Albania have approved social care plans that are budgeted and partially financed through local finances. More than two hundred municipal officials were equipped with the skills and necessary tools to develop, budget and implement social care plans targeting poor and vulnerable families and children. The Government of Albania allocated around \$1.5 million to resource the Social Fund by November 2019, and around the same amount in 2020.



## 2. Enhancing coordination among key stakeholders to maintain consensus on goals and objectives.

Decentralization does not mean that national governments shed all responsibility for services transferred to the local level. Decentralization increases the number of responsibilities for social services shared between levels of government, creating the potential for gaps in shared understanding of authority over development, oversight and operation of the subnational financial system. Central ministries, departments and agencies must develop new types of capacities related to their oversight roles, with effective coordination between ministries and levels of government being one of the most important. Building effective and efficient coordination mechanisms has proven difficult in many countries. Coordination failures may jeopardize results for children and youth in regions or localities with low levels of service coverage. Subnational governments can also fall behind on reporting to constituents, the local council and to relevant central government ministries and departments.

## 3. Increasing budget management requirements and performance standards incrementally, in line with different levels of subnational government capacity.

Local and regional governments are often at various stages of development of their public financial management systems. Some municipal governments in large cities, for instance, are more advanced in financial planning and resource mobilization than village governments, which can struggle to attract skilled budget officers. As decentralization moves more expenditure responsibilities to the local level, not all subnational governments should be expected to take on similar financial management standards and regulations to the same degree.

In some countries, adjustments to service-delivery responsibilities and financial management processes can also coincide with changes to the size and structure of subnational administrative jurisdictions. When decentralization and territorial reforms overlap, introducing transitional change management structures that increase regulations and standards in line with local capacities is essential. Transitional change management strategies can help national authorities to hold subnational governments accountable, while avoiding broader disruptions to service-delivery systems that tend to impact poor and vulnerable children.





Iraq

**Improving learning outcomes through education-sector devolution to school management committees**

## CONTEXT

Following initial political and administrative decentralization reforms initiated around 2005, Iraq is currently devolving service-delivery responsibilities in eight federal ministries to governorates at the provincial level. Decentralization of education service delivery includes building the capacity of governorates to implement education policies and plans, recruit and manage human resources, and provide education infrastructure. Day-to-day management and budget authority are being transferred to school administrations working together with school management committees and parent-teacher associations.

## PROGRAMME ACTIVITIES

As cluster lead for the education sector, UNICEF Iraq is a key stakeholder supporting education-sector reform, particularly in humanitarian response, with the school-based management (SBM) programme helping to coordinate decentralization implementation. As part of this work, UNICEF Iraq partners with the Ministry of Education to provide capacity-building support on child-centred needs assessment, planning, budgeting, policy implementation, and monitoring skills for community organizations, parents, school administrators, teaching staff, and school principals in schools adopting the SBM approach. Programme engagement encompasses technical support to the Ministry of Education to develop school-based management policies and guidelines, including an interim ministerial order to grant budget decision-making authority to local financial authorities. To accelerate progress on reforms, UNICEF Iraq provides block grants to school management committees in priority governorates to develop School Improvement Plans with parent-teacher associations.

## RESULTS AND NEXT STEPS

Since 2016 the SBM pilot has been rolled out in more than 1,200 schools in 11 governorates, including conflict-affected areas benefitting more than 600,000 students (283,410 girls). Schools implementing SBM are exercising financial and administrative autonomy. The Ministry of Education has issued a country-wide directive to integrate a school-based management model into governorate education-sector plans.

# USING BUDGET MANAGEMENT FRAMEWORKS TO IMPROVE BUDGET EXECUTION FOR PRIORITY CHILD EXPENDITURES

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## Budget classification schemes<sup>1</sup> in subnational governments

Subnational budget systems are built around budget classification schemes. Budget classification schemes establish comprehensive categories for all expenditures and revenues in subnational governments, using different codes to distinguish types of revenues and expenditures, organizations and agencies that incur expenditures or receive revenues, and their functional purpose or objective (education, health, water). Budget categories are usually controlled by the ministry of finance, but implementation and use across different subnational jurisdictions can be uneven and incomplete. Because budget classification schemes determine how the budget is recorded, presented and reported, gaps or other problems in design and implementation of budget classification are a common barrier to measuring, executing, monitoring and reporting public spending on children and youth.

## Budget codes<sup>2</sup> and financial reporting in subnational governments

As subnational governments with different levels of financial management capacities take on different public functions, guidance related to the use of existing budget classification systems can become outdated. Similarly, if national authorities introduce new categories or tags at the national level but do not ensure sufficient technical resources to effectively implement them in subnational governments, the use of budget codes at the subnational level might become misaligned with public-spending functions, programmes and broader policy objectives.

Outdated or incomplete budget classification schemes can prevent an accurate understanding of spending and revenue flows to children's needs and interests at the local level. For instance, if increasing investment in early childhood development emerges as a national budget priority, an outdated budget classification scheme used by subnational governments might not accurately capture the cross-cutting nature of early childhood services. This might limit the ability of policymakers and advocates to organize evidence to prioritize spending and resource mobilization for early childhood development programmes.

## Budget codes<sup>2</sup> and financial reporting in subnational governments

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### Local financing benchmarks

Methodologies are available to benchmark public financial management capacities of subnational governments to ensure that functions are transferred according to capabilities and to protect children during major service-delivery transitions. The Council of Europe has developed a local finance benchmarking framework with guidance on relevant indicators, available at: <<https://rm.coe.int/168064c749>>.

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<sup>1</sup> A budget classification system determines the manner in which budgets are presented, and often executed, and as such provides a normative framework for policy decision-making and strengthening accountability.

<sup>2</sup> Budget codes are designed as a way to keep track of the budget accounts. They identify major fund types and the responsible entity for reporting.

While it is obvious that budget codes influence budget presentation and reporting, they also affect local service delivery in other direct and indirect ways. In the worst cases, outdated budget classification schemes can impede the efficient execution of social-sector spending at the local level. Weak and inconsistent guidance on the use of specific budget codes by subnational governments can lead to bottlenecks that cascade through budget and financial management systems in subnational government. For instance, outdated or unclear guidance might prevent the settlement of local expenditures, delay payments to service providers and contractors, lead to a build-up in arrears, overload accounts payable departments and disrupt cash management operations, all of which may impact negatively on the quality and quantity of services for children. For example, in the context of early childhood services, bottlenecks to the timely and accurate settlement of expenditures may influence whether early childhood centres are constructed safely and on-schedule.



**Cambodia**

**New public expenditure guidelines to promote effective social-service delivery at the subnational level**

**CONTEXT**

Cambodia initiated political and administrative decentralization to communes in 2001 (Law on Commune and Sangkat Administrative Management), followed by further reforms in 2008 creating other subnational administrative levels (Law on Administrative Management of Capital, Provinces, Municipalities, Districts and Khans). Following the introduction of changes to the budget classification scheme made by the General Department of National Treasury within the Ministry of Economy and Finance (MEF), commune and *sangkat* authorities were unclear on which codes related to key social services and the chain of procedure for executing budgeted expenditures on social-service activities.

**PROGRAMME ACTIVITIES**

In partnership with the Ministry of Interior, UNICEF Cambodia supported a targeted survey of expenditures in a nationally representative sample of communes and a bottleneck analysis of alignment of commune plan and budget execution for social services. The study has helped clarify causes of misunderstanding held by commune administrators around budget planning, execution, and reporting procedures for social-service delivery. UNICEF Cambodia played a catalyst role in getting the Ministry of Interior and MEF to work together to develop and issue new guidelines on budget execution applicable to all 1,646 communes and *sangkats*. The UNICEF survey also assessed the level and capacity of citizens to participate in budget processes, based on the 2002 sub-decree on the commune/*sangkat* financial management system that required all commune/*sangkat* administrations to engage the general public in their budget processes, and identified limited public engagement and low level of knowledge of citizens with regards to budget processes.

**RESULTS AND NEXT STEPS**

New social-service expenditure guidelines for communes were issued by MEF in February and October 2018. UNICEF Cambodia supported capacity-building trainings in seven provinces (including Phnom Penh) on the new guidelines, targeting support at commune chiefs, commune clerks, and focal points in the commune committee for women and children. Following successful updating of the commune and *sangkat* guidelines, new expenditure guidelines for provincial, capital, district, municipality and khan governments were issued by MEF in 2019 to support ongoing reforms on the transfer of public-service functions to subnational governments. UNICEF is currently working with the Ministry of Interior and MEF to develop commune/*sangkat* budget formulation and execution manual and commune/*sangkat* citizen budgets.



## INTRODUCING CONDITIONS AND RECOGNISING PERFORMANCE TO SUPPORT AND INCENTIVISE INVESTMENTS IN CHILDREN

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### Intergovernmental financial flows to subnational governments

The design and operation of financial flows to subnational governments is another factor at the national level that plays a critical role in determining subnational budget performance and financial management of decentralized service delivery. Because subnational government operations affect the efficiency, effectiveness and equity of public-sector spending, changes to intergovernmental transfer schemes can help ensure local service-delivery systems contribute to the achievement of high-quality standards for children and other national objectives.

### Channeling intergovernmental finance to child and adolescent needs in service delivery at the local level

The practice of intergovernmental transfers is highly diverse across countries, sometimes even between different sectors within the same country. Some types of transfers are guaranteed by the constitution or legal framework to arrive on unconditional terms to subnational governments. Other types of transfers are more amenable to reform, particularly around the use of conditions to channel funding to children's local service-delivery needs. National authorities can experiment with different kinds of conditions attached to block and specific-purpose grants transferred to the local level, such as requiring certain costing techniques, the inclusion of child indicators in expenditure plans, or shorter reporting timelines.

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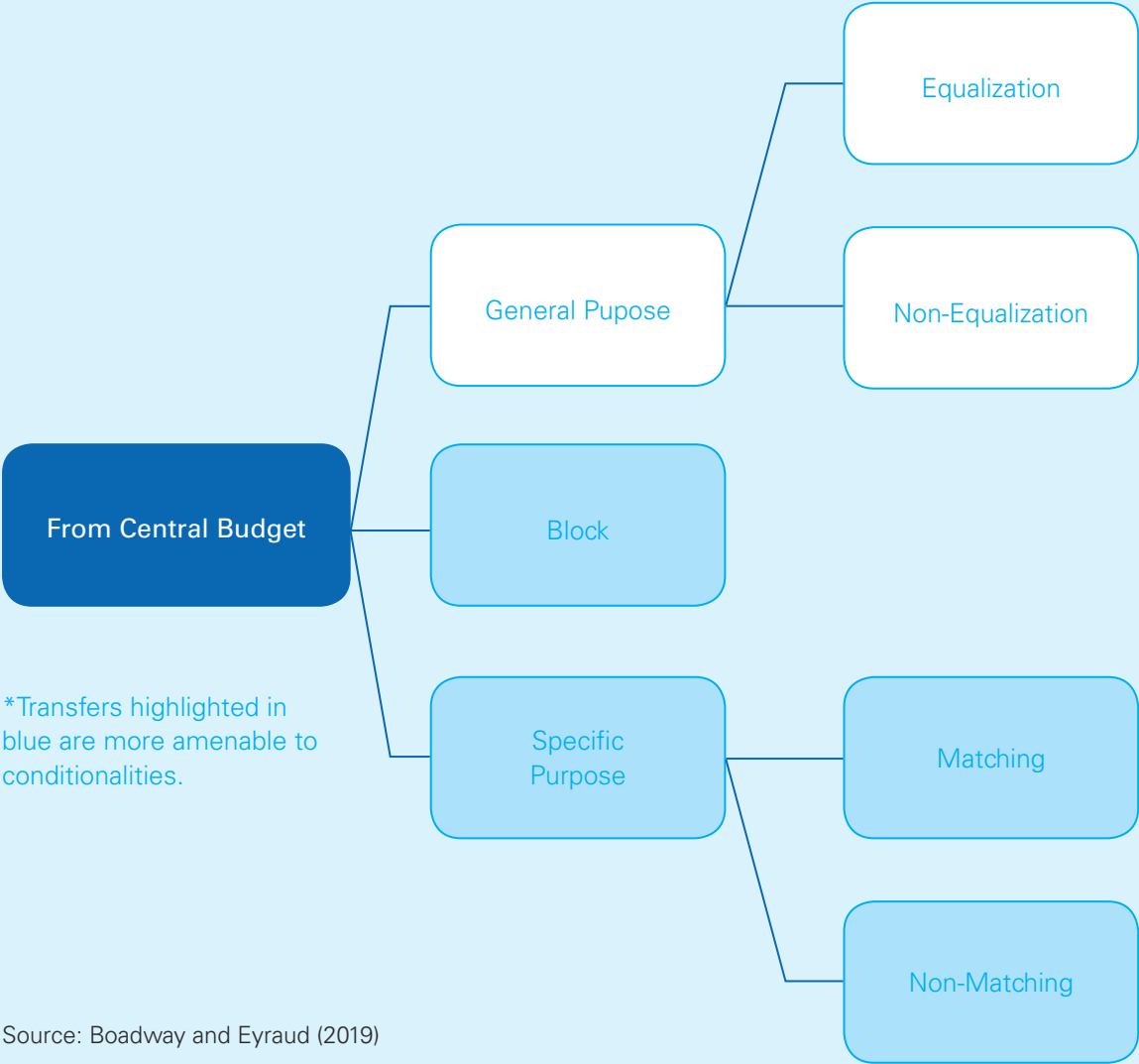
### Public expenditure reviews

A public expenditure review is a useful tool for examining intergovernmental finance flows. Most public expenditure reviews disaggregate intergovernmental transfers according to the conditions (earmarks) that are attached to different sector funding channels to the subnational level. The World Bank maintains guidance on sector-specific public expenditure reviews and a library of reports from national and subnational applications.

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### Common types of intergovernmental transfers



Source: Boadway and Eyraud (2019)

General-purpose transfers tend to be unconditional and can be spent on any programme according to the choice of the subnational government, while block transfers include conditions requiring they should be spent in a broad area such as health or education, and specific transfers are targeted at specific purposes or projects such as classroom construction. Specific transfers may require the subnational government to match either spending, or another measure of performance, ensuring that central governments are using scarce financial resources efficiently.

Success in strengthening subnational budget and financial performance through the use of conditions in grant transfers has been uneven, with some positive developments in countries like Kenya, India and Mongolia. In Mongolia, the transfer of central resources to subnational governments through the Local Development Fund entails conditions linked to child-responsive governance.

In general, conditions can be linked to process requirements or to service-delivery outcomes. Procedural conditions are easier to monitor than service outcomes. For example, funds earmarked for community-development projects that directly impact children and youth might require consultation with communities or direct participation of youth in allocation decisions. When changing intergovernmental transfers, special care should be taken to make sure the compliance costs are not so high that they systematically exclude subnational governments with limited technical and fiscal capacity

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### Budget classification schemes at subnational level

The International Monetary Fund's *Government Finance Statistics Manual* contains information on updating budget classification schemes, including key considerations for government units at the subnational level. The subnational government budget classification scheme can be a key source of data to carry out a child-focused public expenditure measurement exercise with local and regional governments.

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## Thailand

### Using procedural conditions to support provincial access to funds for Early Childhood Development (ECD) services

#### CONTEXT

The Government of Thailand provides funding to the Ministry of Education, Ministry of Public Health, Ministry of Interior, and Ministry of Social Development and Human Security through a function-based budget covering the costs of: an ECD service for children aged three-to-six years (human resources in kindergarten, school lunch, school milk and materials/equipment for education), infrastructure (establishment of ECD services to meet the local demands for full access), and teacher-training and broader human-resource development. At the provincial level, local governments can also leverage an agenda-based (integrated programme) or area-based budget. The agenda-based and area-based budget funds require provincial governments to develop a provincial plan, based on standards set by the four relevant ministries. The provincial plan must respond to the 20-year National Plan (Level 1), 23 national work-plans (Level 2) and ECD strategic plan (Level 3).

#### PROGRAMME ACTIVITIES

Using provincial-level data from the multiple indicator cluster survey (MICS), UNICEF Thailand supported the national Early Childhood Development Provincial Plan (focus on children three-to-six years) from the result-based management perspective. UNICEF supported the Ministry of Education to lead the process for the design of capacity building for the national resource team and provincial coordinators in 77 provinces, and conducted a planning exercise in Buriram Province to design provincial-level ECD priorities aligned to child deprivation indicators and the national ECD plan. Drawing on the experience and lessons learned from the in-depth planning exercise in Buriram, UNICEF Thailand piloted workshops to train the national ECD capacity support teams in the Ministry of Education on results-based management and strategic planning. The workshops aimed to develop mentoring and coaching skills in the national capacity-building team that provided coaching support to the cluster of provinces overseeing the development of performance-based ECD programmes at the provincial level.

#### RESULTS AND NEXT STEPS

Out of 77 provinces that completed a provincial integrated plan for ECD in 2018, four provinces received additional compliance-based funding based on the quality of their plans surpassing the minimum threshold. UNICEF Thailand and the Ministry of Education have continued their partnership in developing the higher level of ministerial ECD strategies and on improving the quality of provincial ECD planning, leveraging this work to encourage the introduction of a medium-term expenditure framework for provincial ECD services.

## Recognizing performance to foster positive incentives for change at the subnational level

While good alignment of service-delivery responsibilities and resources, effective coordination between levels of government, clarity of budget frameworks and the inclusion of process conditions for funds flow from central government matter, they may not always come together automatically at the local level to result in improved service delivery for children. Not all subnational governments share the same level of motivation and capacity to improve public financial management in line with national systems and standards. The nature of the local economy and the strength of civil society add further diversity to the intergovernmental system in which subnational governments learn to budget and manage resources more efficiently and equitably.

Strengthening the institutional environment in which subnational governments budget and finance local service delivery is both a technical and political process that unfolds over time. It is important to consider what options national authorities have to create momentum and space for local initiatives based on local conditions and foster more constructive avenues for collective efforts among subnational governments.

## Awarding good budget performance at the subnational level

Many countries have experimented with formal recognition and financial rewards for subnational governments performing well. Monetary and non-monetary performance incentives are developed through programmes that pitch subnational governments in constructive competition with one another. Reward-based reform implementation frameworks promote positive forms of collaboration and competition among subnational governments, based on recognition for notable performance or achievements.

The use of reward-based reform-implementation frameworks is a promising approach for child-focused services. National recognition, combined with tangible rewards (or non-tangible 'reputational' awards), can encourage subnational governments to invest in capacity building to accelerate progress on budget and financial management requirements. When designed carefully, recognition and rewards-based reform programmes can help reduce the political costs of change to local stakeholders. These costs often can derail uniform top-down approaches to reform.

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### Child Friendly Cities Initiative

UNICEF's Child Friendly Cities Initiative is a useful platform for developing and implementing reward-based incentives to strengthen budget and financial management performance in local governments. The Child Friendly Cities website (<https://childfriendlycities.org/>) contains materials and case studies of experiences around the world.

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Other factors to consider in using performance incentives include:

- Recognition of good budget and financial management performance may have additional benefits for participating local governments. For example, where recognition is linked to better infrastructure or other reductions to fixed business costs, reputational awards have the potential to stimulate private-sector investment. Recognition for improvements in budget transparency might stimulate greater interest among civil society organizations/members.
- Reward-based initiatives require special safeguards to monitor progress and ensure the legitimacy of the competition. Two key aspects of the design of a competitive implementation approach are enrolment and certification. If capacity to manage and oversee the competition at the central level is low, enrolment procedures should be designed to limit the number of initial subnational governments participating. This number can be increased over time.
- Certification and awarding recognition, including the distribution of monetary awards, require a separate process. At a minimum, recognition should be timebound and contingent on the presentation of valid evidence confirmed by impartial inspectors. Other risks that should be mitigated will depend on country context, such as ensuring local governments with similar levels of fiscal capacity compete against each other and are not held to standards that they cannot meet.



## Ukraine

### Rewarding local governments striving to budget for child- and youth-friendly communities

#### CONTEXT

Ukraine is currently implementing major territorial restructuring reforms, creating new local governments by agglomerating smaller communities. These reforms coincide with large sector decentralization (health, social protection) initiatives. Many bilateral and multilateral development partners and international financial institutions are advising on sector reforms, with large-scale, multi-year technical assistance programmes. The country is still in the process of macroeconomic stabilization and transitioning out of conflict in the eastern regions.

#### PROGRAMME ACTIVITIES

UNICEF Ukraine conducted budget analysis of health- and social-protection resource flows within the intergovernmental system, with the goal of highlighting risks to children and possible alternative approaches to implementation of sector reforms at the local level. To build a more constructive environment for strengthening budget capacity in municipal governments, in 2018 UNICEF Ukraine designed and initiated a Child and Youth Friendly Municipality Initiative programme. One major component of the programme encourages municipalities to implement local measures for improving planning and budgeting functions. Municipalities that participate in the initiative and receive candidate status to become Child and Youth Friendly Cities are provided with targeted technical assistance and institutional capacity-building support, tailored to the level of budget-planning skills in the municipal government.

#### RESULTS AND NEXT STEPS

As of May 2021, twenty-seven municipalities have received candidate Child and Youth Friendly City status, and three of the municipalities are close to achieving recognition as Child and Youth Friendly Cities. Thirty-five additional municipalities are currently working towards candidate status, based on successfully conducting a situational analysis and developing 2-3-year budgeted action plan officially approved by the respective local authorities. In 2020 participating municipalities budgeted USD 50 million for child related activities in their approved action plans. The work with local governments demonstrates that through the right mix of incentives and technical support, public expenditure for children at local level can be increased and optimized to better meet children's needs. UNICEF Ukraine is also advocating for an amendment to the Municipal Budget Code to support municipalities with an increment of income tax revenue to finance local initiatives benefiting children and youth.

## CONCLUSION

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### Key takeaways

This programme brief has covered a variety of factors at the national level that influence the institutional capacity of subnational governments to budget with a child and adolescent lens. Key takeaways include the following:

- While national frameworks for local governance and for public financial management exert significant influence on subnational budgets, these frameworks play out in diverse local contexts. Subnational governments are at different starting points in their journeys to more effective public financial management procedures and practices.
- Public financial management and decentralization reforms need to be carefully planned together at the national level, otherwise budget planning and execution capacity among subnational governments inevitably unfolds in highly uneven ways. Given the diverse capacity and resource endowments in local governments, uncoordinated changes at the central level can reinforce territorial inequities in child and youth outcomes.
- Initiatives to strengthen enabling factors at the national level can begin with basic budget codes and procedures for executing expenditures at the subnational level, then move on to more advanced reforms such as conditions attached to different transfer schemes. Opportunities should be based on a strong assessment of local problems and solutions.
- Efforts to strengthen national financial frameworks applicable to subnational governments can also support the transition among subnational governments to more effective and efficient public spending, particularly where positive incentives are used to recognize and reward good performance.
- As conditions and needs on the ground evolve over time, failure to proactively reform budget and public financial management systems and procedures for subnational governments taking on additional public-service functions can create obstacles to improved budgeting and financing for local service delivery. Implementation approaches that focus on recognizing, incentivizing and rewarding good performance and achievement in subnational governments can be a constructive, cost-effective option where resources for direct capacity-building support are limited.

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