



Prime Minister's Office
Public Administration and
Civil Service Authority

District Development Fund

**Strengthening
District
Administrations
for Pro-Poor
Development
2005-2011
(Updated March 2011)**

The Government of Lao People's Democratic Republic began piloting the District Development Fund (DDF) model in 2005, starting in the Saravan Province and then expanding to four more provinces and a total of 35 districts. In the five years since this pilot began, the DDF has made remarkable steps towards empowering district administrations to successfully manage discretionary block grants and engage their communities through a bottom-up participatory planning process.

As Lao PDR begins the next phase of development planning through the new 7th National Socio-Economic Development Plan (NSEDP) 2011-15, the lessons and successes from the DDF can help inform debates on how to tackle the challenges of local development and poverty reduction. These considerations are especially pressing given Lao PDR's goal of graduating from Least Developed Country Status by 2020, and the resulting issues of equitable growth and ensuring that the most vulnerable and marginalized in Lao society are not left behind.

The DDF model of strengthening district administrations to deliver efficient service delivery and local investments can be a critical link in ensuring that development reaches local areas. This booklet looks to explain how the DDF model works and lessons from the pilot programmes, and then highlights four key areas where the DDF has advanced local development:

- ▶ Through providing capital investment and capacity building, the DDF works to **strengthen district administrations** and communities.
- ▶ Empowered district administrations increase the efficiency of local investments and service delivery creating **local level impact** and contributing to poverty reduction efforts.
- ▶ The DDF model ensures **local sustainability** by working through existing Government structures and official government procedures
- ▶ The DDF model strengthens **local solidarity** as a result of participatory planning and greater community involvement in local decisions.

The DDF initiative has shown that district administrations have developed the capacity to use limited resources to identify locally appropriate investments options for development. The DDF model has demonstrated the possibility of leveraging the existing capacity of the district administrations and the government's financial management system to deliver large volumes of funds and services to the local level, and the possibilities for strengthening local administrations through the DDF's learning-by-doing approach. These results suggests that the expansion of a discretionary block grant transfer system to districts throughout the country can be a valuable strategy for developing local administrations, empowering local communities and achieving development goals.

Cover Photo: A bridge built using the DDF in 2009 in the Add District of the Houaphanh Province now connects seven villages to markets and government services.

From the Minister

H.E. Madame Bounpheng Mounphoxay Minister to the Prime Minister's Office and Chairperson of PACSA

Successive government policies and decrees, such as PM01/2000, recognize that the achievement of national socio-economic development and MDGs depend largely on effective implementation at the sub-national level. The essential need for strengthened district administration will be made clear in the 7th NSEDP 2011-2015 as local administrations will be directly responsible for the effective implementation and reporting for the NSEDP at the local level.

Thus it is imperative to support mechanisms that strengthen the socio-economic delivery capacities of the state machinery at the local level. Under PACSA guidance, the District Development Fund has shown to be a suitable model that builds the capacity of District Administrations to play a leading role in local development and public investment. I am therefore looking forward to the further roll out of the DDF modality to other provinces and districts.



Introduction to the DDF

What is the District Development Fund (DDF)?

A pilot government funds transfer mechanism, where regular block grants are transferred from the central level to the district level to finance development activities.

What are the main objectives of the DDF?

To improve public service delivery through demonstrating and strengthening the capacity of district administration and testing improved financial management procedures.

Who manages the DDF?

District administrations are responsible for DDF planning, budgeting and financial management, with oversight from the provincial and national levels.

Where is the DDF currently operating?

The DDF operates in a total of 35 districts - 25% of all districts in Lao PDR - in five provinces: Saravan, Sekong, Xiengkhouang, Oudomxay, and Houaphanh.

How much is the DDF allocation?

The DDF has invested US\$4 million in rural areas. The DDF allocation for each district is calculated by a formula based on population and poverty levels.

How can the government be sure that the districts use the DDF effectively?

The DDF is a performance-based grant system, where districts must comply with a set of minimum conditions and DDF rules and regulations on planning and financial management to qualify for receiving the full DDF allocation.

DDF's Mandate

The DDF supports the government's long-term vision for the role of local administration in strengthening service delivery, reducing poverty and achieving the National Socio-Economic Development Plan (NSED) and the Millennium Development Goals (MDGs). This vision can be seen in the following government documents:

Prime Minister's Decree No 1 of 2000

Instruction to, "build the provinces into strategic units, districts into budget-planning units and villages into implementation units."

Aims to unleash the largely untapped capacities at the district and local levels.

Local Administration Act of 2003

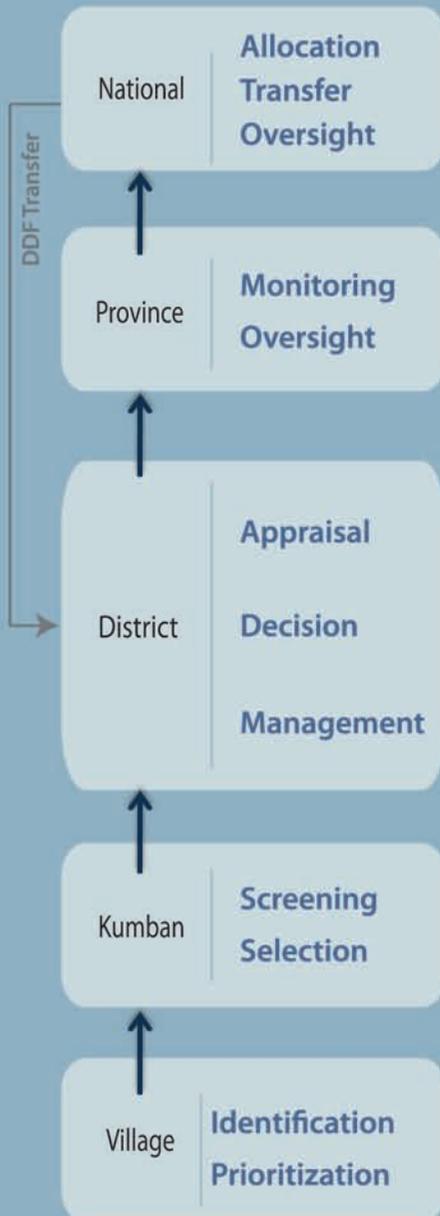
Assigns deconcentrated or devolved powers to local authorities, and states that, "each level is authorized to conduct meetings to discuss and decide important local issues."

7th National Socio-Economic Development Plan (NSED) – 2011-15

Focuses on basic social services and infrastructure and increasing people's participation and voice in local affairs.

How the DDF Works

Administrative Level



DDF Official Guidelines for District Planning

Announce DDF annual grants based on a transparent per-capita formula and transfer grants to district accounts

DDF Projects reflected in district-province budget document

DDF Provincial Support Teams (PST) develop strategic oversight and monitoring capacity

District Planning Teams appraise community proposals and design sub-projects

The District Planning Committee, including community representatives, decide on district priorities

District officials are responsible for financial management and implementation of selected projects

The Kumban screens project lists and select 3 priorities for a 3 year development plan

Village meetings held to identify and prioritize development projects

Strengthening District Administrations

The District Development Fund (DDF) aims to further the empowerment of district administrations and communities by demonstrating the feasibility of local service delivery provision. By providing both capital for investments and capacity building for local officials, the DDF enables local governments and communities to plan and implement effective and value-for-money local solutions to local issues.

Capital Grants

The DDF supplies a discretionary block grant for infrastructure development and service delivery to district administration officials. The DDF is incorporated within existing government structures, and works with provincial and national governments to implement clear and effective financial expenditure transfers that allow districts to independently and transparently manage their DDF allocations. Operational expenditure block grants are now being piloted, to further improve outreach and local service delivery.

Learning-by-Doing

The DDF strengthens the institutional and technical capacity of district administrations through support and guidance from the provincial administration and initial capacity building and monitoring from the national government. The DDF approach has districts adopt participatory planning and budgeting procedures that help district officials make decisions that closely respond to local needs. This bottom-up planning approach both increases the accountability of local administration and improves the efficiency of local service delivery and infrastructure allocations.

The DDF provides support, guidance and training for local officials on how to implement the DDF. Pictured here are participants in a training on DDF Planning & Budgeting for district officials held in the Oudomxay Province in 2009.



Local Level Impact

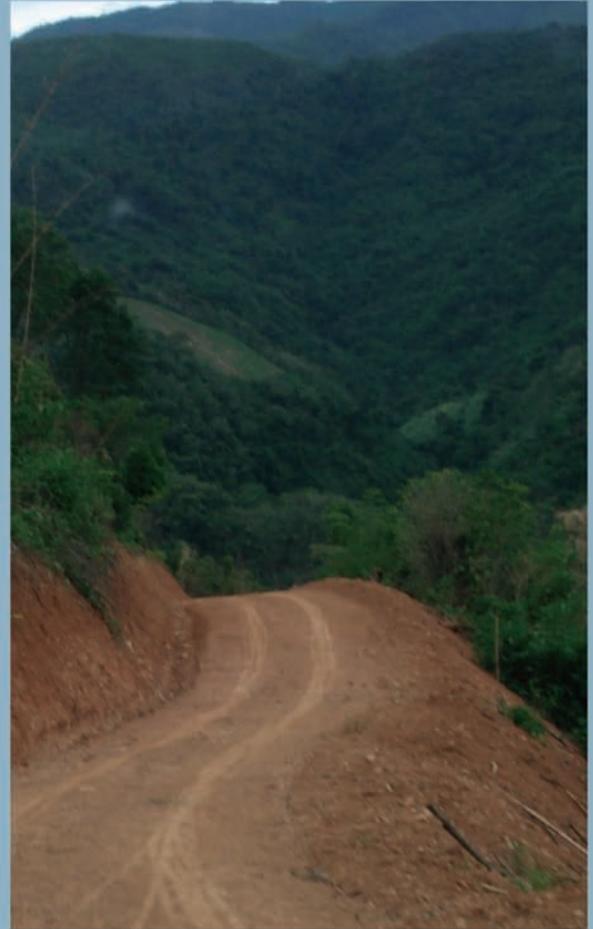
Over 75% of poverty in Lao PDR is concentrated in rural areas. Funds invested through the DDF have an immediate and visible impact on local service delivery and poverty. Between 2006 to 2011, the DDF has invested in 286 projects with an average cost of US\$14,000 per project.

Local investments through the DDF are effective because:

- ▶ Discretionary funds encourage local governments to maximize the value of their allocation, as any savings can be spent elsewhere on other priorities;
- ▶ Local governments can negotiate with contractors over the cost of the infrastructure investments, increasing competition and reducing waste;
- ▶ As funds are channeled directly to the district level, contractors can quote lower prices for DDF projects because they are assured of faster payments;
- ▶ Community involvement reduces the overall project cost through both in-kind contributions and active oversight.

“The DDF has made service delivery more accountable, effective and efficient in provinces and districts it has been implemented in.”

– GPAR-SBSD Independent Evaluation



The village of Keoheua in the Kham District, Xieng Khouang Province, decided to use the DDF to build this 8 km road that now connects the village's 445 residents to the national road system.

Local Sustainability

Through participating in the DDF, district administrations have developed the capacity to conduct participatory planning, identify appropriate investments and efficiently allocate limited resources to address local needs.

The DDF is institutionally sustainable, and a low-cost approach, by being almost entirely anchored in existing Government structures at the local level and working through official government procedures:



- ▶ The DDF is implemented through the regular local administrative structures, with funds transferred directly from the National Treasury to the districts;
- ▶ Operating procedures based on the DDF experience have been approved by PACSA and endorsed by other ministries, including manuals on Planning and Budgeting, Procurement, and Financial Management;
- ▶ The DDF is, therefore, entirely compliant with both the Paris Declaration on Aid Effectiveness and Vientiane Declaration on Aid Effectiveness.

A community participates in selecting local DDF investments. (Saravan District 2008)

PACSA's DDF pilot has paved the way for effective delivery of local public services through supporting the piloting of a simple, but effective, administrative and financial management system. The success of this pilot program has shown that effective local administrations and empowered communities can create long-term local solutions.

Local Solidarity



A village in the Sekong province votes on community priorities for the DDF.

How can local governments increase local trust and social capital?

The DDF model of bottom-up planning increases community engagement with local authorities and local ownership of projects. Confidence in local government increases as people can clearly see local government decisions that respond to community priorities being translated into action. People see the district administration as working with the people, for the people.

“Projects compete for a share of DDF funds, increasing interest from the wider community and ensuring greater accountability and community oversight - resulting in well-spent funds and no leakages.”

- Deputy District Chief, Phoukhout District

Scaling up the DDF

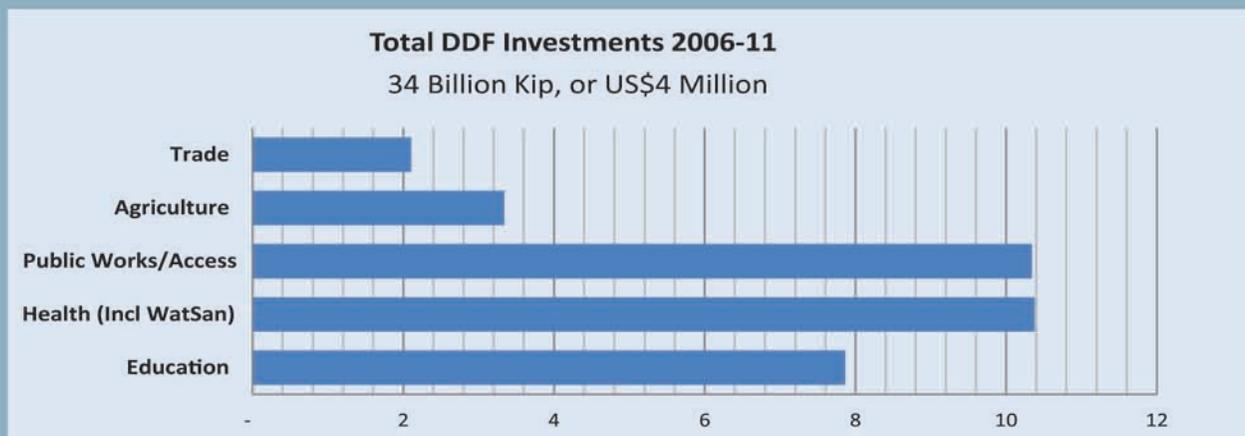
Since the first pilot began in Lao PDR in 2005, the DDF model has been increasingly recognized as a reliable and innovative model for delivering local public services.

- ▶ To date, the government has matched DDF funds in 2 provinces (Xieng Khouang and Saravan), financing 5 new projects.
- ▶ The DDF mechanism is being replicated by the World Bank-supported programme in the Khammouane province and LUX-Development Programme in the Borikhamxay province.
- ▶ The DDF system, currently used for capital block grants for infrastructure developments, is now being extended to include block grants for discretionary operational funding and, ultimately, social protection.



DDF built this primary school in Nakoisao village in Saravan District in 2006

Over more than four years of implementing the DDF, the district administrations have proven to be capable of managing a participatory planning process and efficiently delivering services given adequate capacity building and support. Further expansion of the DDF will harness increased local capacity to effectively support pro-poor development.



The DDF and the NSEDP/ MDGs

The DDF has provided critical insight on how Lao PDR can improve service delivery and increase investment in small-scale infrastructure that is essential to achieving the NSEDP and the MDGs. The DDF allows for development efforts to capitalize on local resources and capacity, thus both increasing the overall effectiveness of development efforts and targeting support for rural and vulnerable segments of the population.

Implementation of the 7th NSEDP 2011-15, which is fully MDG compliant by design, relies on enhanced capacity and ownership at the sub-national level. The DDF is a suitable and effective approach to local development and ownership.



MDG-1: Eradicate Extreme Poverty

The DDF reduces extreme poverty by strengthening basic service delivery in rural areas of Lao PDR. Since 2006, local authorities have already invested 3.34 billion Kip in agriculture infrastructure and equipment, which improves local production capacity and food security.

MDG-2: Achieve Universal Primary Education

23% of DDF investments totaling 7.86 billion Kip, have supported the education sector in Lao PDR. Local communities highly value their children's education and thus prioritize investments in primary schools.

MDG-3: Promote Gender Equality and Empower Women

The DDF ensures women's views are included in the planning process for allocating local investments by requiring that one of the three representatives from the Kumban to the District Planning Committee must be a woman.

MDG-4, 5 and 6: Reduce Child Mortality, Improve Maternal Health, Combat HIV-AIDS, Malaria and Other Diseases

31% of DDF investments totaling 10.38 billion Kip, have helped develop the health sector, including water and sanitation, in Lao PDR. Communities allocate their DDF funds to build health centers in rural areas and expand access to health services, and also for constructing clean water facilities that are essential for both maternal and child health.



Mr Khonsavane Thammavong (left) from the DDF Provincial Support Team in Xieng Khouang Province and the Deputy Village Chief, Mr Thongsy (right), inspect a new DDF community water supply serving 1,045 people.



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Governance and Public Administration Reform -
Support for Better Service Delivery (GPAR-SBSD)

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