



Australian Government

AusAID



Australia-ADB Development Partnership Facility

Guiding Principles

**Jointly Prepared by
AusAID and ADB (South Asia Department)**

5 April, 2006

A. Introduction

1. While South Asia, particularly India, is attracting international attention as the next star performer and growth area after the People's Republic of China, the human development realities in the region are sobering. For example, South Asia has the largest number of people living below the one dollar-a-day poverty line, the largest proportion of illiterate people, the largest number of out-of-school children, and the largest number of children dying before reaching five years of age, not to mention one of the largest numbers of HIV/AIDS cases in the world.

2. AusAID and ADB see the following several significant development challenges emerging in South Asia:

- a. An overarching focus in this regard has been instituting appropriate measures to **ensure that governance is enhanced at all levels**, particularly as it relates to: (i) more effective mechanisms (such as through devolution) for delivery of social services to end-users; (ii) more streamlined public administration systems to facilitate (i); and (iii) sound foundations of good governance in, among others, public resource management, gender mainstreaming, judicial administration, and anticorruption.
- b. Development work should center on the need to **ensure inclusive growth**. Future economic growth and employment opportunities will demand skills that school drop-outs are not endowed with, effectively reducing the employment opportunities for the illiterate poor. The divisive nature of growth will result in "illusive growth" that is not responsive to improving the quality of life of the poor.
- c. South Asia is also experiencing **rapid urbanization and the rise of mega cities**, which brings with them not only immense opportunities but also challenges. By 2015, 5 of the 13 mega cities of the world (i.e., with more than 15 million people) will be in South Asia. While these mega cities can spur economic growth, they also pose a number of challenges, one of which is the phenomenon of "urbanization of poverty". Management of cities, including attention on securing financing for infrastructure, effective service delivery, responsible urban development such as secondary towns and cities, and participatory local level governance, will occupy center stage.
- d. Even as South Asia searches for appropriate solutions to manage mega cities, **significant scaling up of public and private social services provision**—education, health, and water supply and sanitation, among others—along with improving the effectiveness of public social services, has emerged as being critical for balanced and sustainable development in the region.
- e. As the pace of the ongoing economic globalization has increased, economic interdependence among countries including South Asia has progressively deepened. South Asia has recently achieved remarkable economic growth, leading to further intensification of linkages with the international and regional markets, and a decline in the incidence of poverty from 36% in 1993/1994 to 26% in 1999/2000. Further strengthening of **regional cooperation and integration** has become essential for South Asia in maintaining economic growth and reducing poverty.

3. While sector-specific issues relating to enhancing quality and access have always been emphasized, it is now felt that the institutional platforms upon which social services provision is

anchored are equally important. Many of these institutional issues are multisectoral in nature, and involve complex governance and financing issues. **At the core of this need for embarking on institutional reforms, and for enhanced basic service delivery mechanisms, lies the necessity of ensuring enhanced governance** in the countries of the region.¹

4. AusAID has continued to strongly support sustainable development and poverty reduction efforts in South Asia, in line with the AusAID *South Asia Strategy 2003-2007*, which mandates a focus on promoting good governance, contributing to improved basic service delivery in health, education and natural resource management at the state and community level, as well as a focus on humanitarian relief. ADB's range of work in South Asia in the areas of governance and social services is extensive, and has a high-profile visibility. During the AusAID-ADB South Asia Consultations held in Manila on 6-7 February 2006, AusAID and ADB identified development issues common to the operations of the two organizations and saw mutually beneficial operational opportunities in proceeding with the proposed Australia-ADB South Asia Development Partnership Facility (the proposed Facility).

B. Rationale

5. The rationale for partnership between AusAID and ADB—and for establishing the proposed Facility—stems from the fact that the two institutions have gained valuable experiences in development work in South Asia. AusAID recognizes that it is a small donor in the region and considers that ADB can **serve as a very effective partner to AusAID in its work in the region**. There is a win-win situation for both parties in establishing the proposed Facility: (i) by leveraging ADB experiences in the region,² AusAID will be better able to ensure that its resources are targeted more effectively, and that the right outcomes result in accordance with the Strategy; and (ii) ADB, given its substantive operations in South Asia, will be better able to address the development challenges faced by the region through aligning the need for resources with targeted interventions that best achieve outcomes desired by the governments by accessing flexible funding. There is thus **synergy between the focus of AusAID in development in South Asia and ADB's work and experiences in the region**. Hence, a partnership between the two institutions provides substantial opportunities for collaboration to effectively address the development challenges facing the countries of South Asia.

6. Lessons learned from decades of involvement in South Asia's development efforts show that mechanisms such as this proposed Facility can be used effectively to address the various development challenges faced by countries of the region. While there is mutual agreement on the basic structure, content, and direction of the proposed Facility, AusAID and ADB are aware that there are some risks that may reduce the effectiveness of the proposed Facility on the ground. Some of these risks, based on AusAID's and ADB's experiences of actual trust fund operations, include the following:

- a tendency toward increased administrative burden in the management of the proposed Facility such that greater transaction costs reduce its effectiveness;

¹ Enhanced governance implies a greater focus on enabling accountability of service providers, transparency in the provision of services, and participation of end-users in the design and delivery of such services. The greater the involvement of end-users in the entire process, the greater is the likelihood of positive impact on the population.

² For example, through the Devolved Social Services Program in Pakistan, the Administration of Justice Program in India, the Karachi Megacity Project in Pakistan, and anticorruption reform efforts in Bangladesh. The Appendix discusses briefly several examples of ADB interventions and support (including on regional cooperation and integration) in countries of South Asia.

- a low level of uptake of the proposed Facility due to an inability to publicize the proposed Facility widely and effectively;
- a lack of a rigorous peer review process resulting in weak proposals being funded, thus compromising effectiveness;
- a lack of project proposals which meet the stringent criteria required by funding agencies;
- tedious administrative procedures required by funding institutions;
- excessive management interventions by funding institutions in trust fund operations;
- delays in contributions by funding institutions to trust fund accounts;
- a lack of clear understanding between funding institutions and ADB as to whether the period of utilization is on a commitment basis or a disbursement basis;
- dispersed and disjointed activities in the program which reduce development impact;
- operational documents that are unnecessarily complicated, which reduce fund utilization and increase transaction costs; and
- little partner government buy-in and interest, including poor alignment with partner government priorities.

Both AusAID and ADB have agreed to jointly work towards mitigating these and associated risks. Lessons learned from ADB trust fund operations, and AusAID funding of trust funds, will be incorporated in the design and management of the proposed Facility.

C. Objectives, Impact, Outcomes and Outputs

7. Objectives

The primary objectives of the proposed Facility are to:

- advance necessary reforms (including ensuring the participation of end-users in service delivery);
- promote broad based and inclusive economic growth that benefits as wide a population base as possible;
- introduce improvement in key development areas by addressing the major development challenges being faced by South Asia.

8. **Impact.** South Asia undertakes necessary reforms to address key development challenges (paragraph 2) in order to attain equitable broad-based growth.

9. **Outcomes.** Innovative approaches in addressing the key development challenges in South Asia will be implemented, evaluated, documented and disseminated within the region and to other Asian countries.

10. **Outputs.** Outputs that will support the impact and outcome are innovative programs which address the major development challenges faced by South Asia.

D. Proposed Facility Management

11. The scope and the major issues related to management of the proposed Facility are as follows:

12. **Funding Source:** AusAID, on a grant basis.
13. **Funding Level:** The total funding level for the proposed Facility is A\$11 million over five years. The level of annual commitments is expected to be a minimum of about A\$2 million. Additional annual commitments will be determined by the level of uptake and demand for funding, and AusAID's assessment of the performance of ADB under the Facility agreement.³ Potential replenishment of the proposed Facility after five years will be considered jointly by AusAID and ADB at a suitable time.
14. **Duration of Availability:** The proposed Facility will start when AusAID and ADB sign a channel financing agreement (CFA) on the proposed Facility. The proposed Facility will be available for five years from the signing of the CFA.⁴
15. **Eligible Countries:** The following developing member countries are eligible: (i) Afghanistan⁵, (ii) Bangladesh, (iii) Bhutan, (iv) India, (v) Maldives, (vi) Nepal, (vii) Pakistan, and (viii) Sri Lanka. ADB recognizes that AusAID is phasing down its development cooperation with India as a result of the Government of India's decision in 2003 to limit its development engagement to a reduced number of bilateral aid donors. Accordingly, AusAID and ADB agree that India will not be a major recipient of assistance under the proposed Facility, although it will participate fully in regional integration and cooperation activities.
- **Eligible Activities:** The proposed Facility will flexibly finance development activities in the eligible countries. Especially, innovative operational activities and activities that demonstrate additionality to ADB operations will be supported. Activities eligible for financing from the proposed Facility include those that contribute to:
 - (i) **Enhanced governance at all levels**, but particularly at the local level where service delivery interfaces with end-users; this includes emphasizing decentralization and devolution in countries of the region;
 - (ii) **Urban infrastructure and service delivery including mega cities and secondary cities and towns** and associated issues such as municipal financing for much-needed infrastructure; and participatory local level governance;⁶
 - (iii) **Inclusive growth** so that the gains from economic development are shared by as wide a population base as possible;
 - (iv) **Human resource development**, particularly in improving service delivery in education, health, water and sanitation, and other such social services; and
 - (v) **Regional cooperation and integration** among countries of South Asia so that economic growth impulses can be transmitted across geographic space and national boundaries.⁷

³ There is a possibility of funding (A\$1 million) being made available for suitable proposals prior to the commencement of the Australian 2006-2007 fiscal year (July 2006), if the channel financing agreement on the proposed Facility can be finalized early.

⁴ Proposals will be approved for funding by the proposed Facility during the five years. However, implementation of some of the actual activities may go beyond the five-year lifespan of the proposed Facility.

⁵ AusAID and ADB agree that Afghanistan will only be eligible for funding insofar as it relates to promoting regional integration and cooperation.

⁶ Including knowledge generation and dissemination protocols which enable local level experiences to be fed back into national level policymaking processes.

⁷ This focus will also include the work of the Office of Regional Economic Integration (OREI) at ADB. OREI proposals should have the primary focus on South Asia in order to avail of financing from the proposed Facility. Other activities, such as **HIV/AIDS, avian influenza, and other emerging diseases**, may also be included if the Government and ADB agree to do so. The inclusion of these areas for financing from the proposed Facility requires

AusAID and ADB will ensure that programming under the proposed Facility does not duplicate the work of other donors, including the World Bank. Where the opportunity to develop synergies with the programs of other donors exists, AusAID and ADB will explore such potential.

- ADB agrees not to use the proposed Facility for family planning activities without the prior written consent of AusAID. Family planning activities refer to projects that involve:
 - (i) family planning services, including counseling;
 - (ii) training in the practice of family planning;
 - (iii) distributing contraceptives for family planning purposes;
 - (iv) developing and distributing family planning information, education and communication materials; and/or
 - (v) capacity building for organizations that deliver family planning.

16. **Facility Manager.** ADB will manage all aspects of the proposed Facility from concept development to program administration, including procurement of goods and services, and approval of proposals. Given the limited funds available, ADB will develop criteria for prioritizing proposals for funding. ADB will manage the proposed Facility in accordance with its policies and procedures. Each proposal, as part of its design, will have clear performance targets/indicators by which results can be assessed, will address risk and sustainability issues, and will include a monitoring framework.

17. **Facility Management.** Management of the proposed Facility will be based on ADB experiences in managing trust funds similar to the proposed Facility. It will be characterized by:

- Flexibility—to allow both parties to support proposals in keeping with the varying situation on the ground, as well as the possibility of adding new areas eligible for financing from the proposed Facility in later years;
- Partnership—ADB will manage the proposed Facility by maintaining operational partnership with AusAID; and
- Operational simplicity and pragmatic approach—in order to be effective, both parties are in agreement that the administrative and transaction costs of managing the proposed Facility must be minimized. Both AusAID and ADB are in agreement that governance and management principles for the proposed Facility will be kept as simple and as practical as possible.

a separate exchange of note between AusAID and ADB. AusAID financing of activities in these areas will be over and above the total Facility amount indicated by AusAID for the initial five years.

- **Processing:** ADB staff members will submit proposals⁸ through their respective directors to the Secretariat of the proposed Facility. The Committee for the proposed Facility⁹ will screen, review, and approve the proposals, based on the eligibility criteria for the use of the proposed Facility. Processing of proposals will follow ADB procedures.
- **Review:** ADB and AusAID will jointly review the activities that are funded under the proposed Facility, whenever such joint reviews are possible.
- **Reporting:** ADB will submit to AusAID annual reports on the performance of the proposed Facility, prepared according to normal ADB reporting standards. ADB will also provide AusAID with regular financial reports on the proposed Facility. Within two weeks after ADB's approval of individual proposals, ADB will submit a summary of each proposal to AusAID's Counsellor (Development Cooperation) in Colombo including information on objectives, approaches, expected outputs and outcomes, and likely commencement, duration and completion dates. The ADB will also provide its standard activity completion report for each activity to AusAID.
- **Facility Performance.** Reflecting AusAID's determination to maximize the development outcomes and effectiveness of all its programming, AusAID will give special attention to assessing the performance of the proposed Facility. In turn, these assessments will inform AusAID's decision-making regarding providing additional funding, including through any replenishments of the proposed Facility¹⁰. Drawing on provisions included in these Guiding Principles, AusAID will base its performance assessment on the extent to which the proposed Facility is:
 - meeting its objectives;
 - leveraging ADB experience and programming in the region, as well as that of other development agencies, donors and the private sector;
 - aligning its resources with the targeted interventions that best achieve the outcomes desired by governments in the region, communities' needs and the international reform agenda;
 - demonstrating how lessons learned from implementation feed back into improving its performance, and the extent to which such lessons are disseminated more widely within the ADB and the international development community;
 - expending AusAID funds;
 - delivering quality outputs in a timely manner;
 - programming Facility funds in a geographically justifiable manner; and

⁸ A proposal comprises (i) a concept paper (ADB's standard format), (ii) information specific to the proposed Facility, (iii) design and monitoring project framework, and (iv) cost estimates. The information specific to the proposed Facility will spell out justification for the proposal for financing by the proposed Facility, while the design and monitoring project framework will spell out impact, outcome, outputs, performance indicators/targets, monitoring mechanisms, assumptions and risks, and activities with milestones.

⁹ Comprising representatives from the Office of Director General, South Asia Department (SARD); Operations Coordination Division, SARD; and relevant sector specialists from SARD and/or Regional and Sustainable Development Department (RSDD). The Committee will provide overall guidance and supervision to the proposed Facility.

¹⁰ AusAID recognizes the unique operating environments in which this facility functions and will consider the contexts in which the facility is operating in its assessment. This will form an agenda item at each meeting between ADB and AusAID where appropriate along with regular open dialogue.

- providing reporting that adequately addresses these criteria.
 - **Consultations:** AusAID and ADB will maintain regular consultations at mutually agreeable frequencies.¹¹
18. **Timing:** ADB and AusAID agree that they will jointly work to make the proposed Facility operational by July 1, 2006 (the start of the fiscal year for AusAID).

¹¹ Cost efficient and effective ways to discuss relevant issues and exchange information (such as through videoconferences and e-mails) will be extensively used. Should AusAID and ADB consider the need for annual strategy meetings, such meetings may be held in December or January to discuss relevant issues. Should there be a need for midterm strategy meetings between the two parties, these may be held once in six months to ensure that any outstanding program management issues are mutually discussed and ironed out. Midterm strategy reviews will take place in conjunction with either annual strategy meetings or midterm strategy meetings every two years.

E. AusAID-ADB Partnership Managers for the Proposed Facility

19. AusAID-ADB partnership managers for the overall coordination of the proposed Facility are as follows:

AusAID	ADB
Counsellor Development Cooperation Australian Agency for International Development Australian High Commission 3 Cambridge Place, Colombo-7 Sri Lanka Phone: +941 269-8767-9, ext. 208 Fax: +941 269-6468	Director Operations Coordination Division South Asia Department Asian Development Bank No. 6 ADB Avenue, Mandaluyong City 1550 Metro Manila, the Philippines Phone: +632 632 4001 Fax: +632 636 2221

**Selected Examples of ADB Work in
Governance, Social Service Delivery and
Regional Cooperation and Integration in South Asia**

A. Framework for Support of Devolved Social Services Program in Pakistan

1. As part of ADB's support for the ongoing devolution reforms of the Government of Pakistan, and with a view to improve social service delivery at the local level, the Devolved Social Services Program (DSSP) framework was developed after extensive consultations with the federal, provincial and local governments, as well as with partners in the donor community and civil society. The overall goal of DSSP is to achieve progress on the Millennium Development Goals related to poverty, gender, education, health, and water supply and sanitation, and the objective of DSSP is ***to strengthen devolved social services for a more equitable, efficient, effective, and sustainable delivery of social services.***

2. The policy reform framework for DSSP seeks to: (a) improve fiscal and managerial intergovernmental relations between the provincial and local governments; (b) enhance fiscal space for the devolved social services; (c) promote rationalization of services and setting of standards and performance benchmarks for service delivery; (d) strengthen public accountability mechanisms and build citizen voice into planning and monitoring of social services; (e) provide enabling institutional, legal and operational environments for public-private partnerships, and alternative service delivery mechanisms; and (f) build service provider capacities for more efficient and sustainable service delivery.

3. The program has four principal policy areas:

- **National/Provincial Efficiency Incentives**, which strengthen the relationship between provincial and local governments so that social service delivery is improved through efficiency gains including budgetary certainties, greater autonomy in budget preparation, and incentives for improved fiscal management by local governments.
- **Managerial Power**, which aims to strengthen the relationship between the district governments and the providers of social services. The local governments engage with service delivery providers through managerial power, which reflects their ability to require service providers to follow particular standards of behavior and service.
- **Citizens' Voice and Empowerment**, which will strengthen the relationship between citizens and the provincial and district policy makers, and will offer citizens a channel through which their demands for better social services can be heard. The reforms will include, among others, better access to information about social services, social audit, and the involvement of civil society in the monitoring of social services.
- **Private Sector Engagement**, including sector NGOs and voluntary groups that are making valuable contributions in education and health services, including women's literacy and sensitive areas like sexual and reproductive health and the control of sexually transmitted diseases (STDs) and HIV/AIDS.

4. DSSP programs are already under implementation in three of the four provinces of Pakistan. The Sindh DSSP was approved in 2003 (\$220 million), the Punjab DSSP in 2004 (\$150 million), and the Balochistan DSSP was approved in 2005 (\$205 million). Approval of the DSSP for North West Frontier Province (\$80 million – indicative) is expected in 2006.

B. Anticorruption Efforts in Bangladesh

1. The issue of **corruption is central to the debate on good governance in Bangladesh**. Despite various governance initiatives, there continue to be constraints on progress in addressing corruption across the public sector (including lack of accountability, transparency, predictability in the way Government operates, lack of property rights, weak policy and institutional environment, and inefficient government public services). Despite governance initiatives already initiated, sector line agencies have not yet undertaken systematic corruption prevention efforts to minimize corruption in their respective sectors.

2. At the moment, ADB is assisting the Government of Bangladesh (GOB) in two Technical Assistance projects **to create the right basis to address corruption in the public sector**. The support that the Bank is providing in this area focuses on supporting GOB in designing an integrated anticorruption program that links promotion of core governance (through the Anti-Corruption Commission, ACC) with deepening sectoral governance in selected line agencies.

3. **Objective of ADB assistance:** The objective is to help establish legal and policy frameworks and strengthen relevant institutions that are involved in fighting corruption. A Project is to be developed with current assistance that will assist the Government to institutionally monitor and evaluate progress on anticorruption in the public sector, increase capacity of selected key government agencies to better prevent and detect corruption in their respective subsectors, and increase collaboration on anticorruption among the Government, ACC, and public sector agencies.

4. The assistance comprises of various components:

- a. **developing a strategic and legislative policy framework on anticorruption** – this will take the form of a National Integrity Strategy, and will represent an umbrella approach focused on eliminating systemic weaknesses across all institutions—administrative, judicial, parliamentary, private sector, and watchdog.
- b. **building capacity in sector line agencies for corruption prevention** – focus is on institutional development for corruption prevention in two sector line agencies: Ministry of Communications (focused on Roads and Highways Department) and Ministry of Energy (focused on selected power entities). Roads and power are proposed since infrastructure is one of three areas identified as critical for poverty reduction in Bangladesh. The nature of the product/service and service delivery orientation also means that they interface directly with the average Bangladeshi.
- c. **strengthening the Anti-Corruption Commission** – this has concentrated on enhancing internal capability, and in ensuring that its business process systems are effective and are targeted at meeting the objectives laid out in law.

5. In the assistance provided by ADB, the **principles and premises** that it has adhered to include: (a) focus on institutional aspects of anticorruption reform efforts; (b) realization that corruption needs to be fought on multiple fronts; and (c) accepting that this is for the long haul since corruption cannot be addressed with just short-term interventions. The current assistance being provided to GOB may at the moment be limited to advisory and project preparatory technical assistance; but as the institutional basis and the groundwork for reform efforts are properly set up, the Bank expects to put in over \$40 million over the next five years or so.

C. Fiscal Management Reform Program, Sri Lanka

1. In response to the fiscal stress faced in 2003-2004 by the Government of Sri Lanka from mounting and unsustainable fiscal deficits and a concomitant large public debt, ADB has provided assistance in the form of a Fiscal Management Reform Program (FMRP) to the Government. ***FMRP is a sector development program comprising three loans (on fiscal management reform, strengthening fiscal management institutions, and modernizing revenue administration)***, which guarantee financial assistance of US\$70 million in total for implementation of comprehensive fiscal management reforms embracing three revenue departments (Inland Revenue, Customs, and Excise), and various agencies under the Ministry of Finance & Planning.

2. Diagnostics of the fiscal situation in Sri Lanka prior to the formulation of the program had shown that the country suffered from three ***key constraints***: (a) *constrained revenue collection*, (b) *weak budget programming and expenditure control framework*, and (c) *limited fiscal decentralization*. While all three constraints tend to play out in similar fashion across countries in South Asia, the latter (i.e., limited fiscal decentralization) merits particular attention in light of the fact that it has direct relevance to the manner in which inter-governmental relations are structured in a country.

3. The ***objectives of FMRP*** are briefly as follows:

- a. *support the strengthening of public finances* by improving public resource and expenditure management and control systems, promoting fiscal discipline and fiscal co-ordination, improving budget framework and improving effectiveness of tax and customs administration;
- b. *provide capacity building support for institutional development* of fiscal management institutions thereby promoting development of skills and know-how through the contracting of external expertise and transfer of knowledge through training and workshops;
- c. *support institutional strengthening* focusing primarily on the procurement of equipment for the modernization of revenue administration to ensure prompt and smooth transformation of revenue administration.

4. ADB's own experiences in operational support for fiscal management and public expenditure management reforms across South Asia show that ***appropriate systems and procedures need to be developed*** to ensure effective and sustainable compliance with fiscal objectives. Furthermore, FMRP is also based on the realization that governments need to own any such program, and that a coordinated approach with other agencies (such as the International Monetary Fund) is necessary to put in place an effective program.

5. Follow-up work by the ADB pursuant to the FMRP being implemented has shown that implementing various prerequisites to the Program components can be an arduous task. Another lesson that has been evident is the ***importance of collaborative and coordinated efforts and inputs from all the stakeholders*** if the Program is to be effective.

D. Administration of Justice Project, India

1. The main objective of the Project is **to enhance the governance of India's public sector institutions responsible for delivery of and access to justice** by supporting the efforts of the Government of India (GoI) and the judiciary to:

- a. improve the performance of the Delhi subordinate courts system to reduce backlog and delay and institute collateral improvements in court administration,
 - b. enhance confidence in the out-of-court legal and registry infrastructure under the Securitization, Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act for secured creditors and debtors, and
 - c. empower poor and disadvantaged user access to court and out-of-court services through public and private institutions.
2. To bring about these outcomes, the project is comprised of four components:
- a. **Component 1: Caseflow Management Reforms**—focusing on management, human resource development and information technology means of courtroom delay and backlog reduction in the Delhi subordinate courts, with a particular focus on judicial productivity enhancement, judicial education, and case management systems;
 - b. **Component 2: Court Administration Reforms**—focusing on the administrative, information technology, and infrastructure backbone of the Delhi subordinate courts in the form of the district court registry for enabling delay and backlog reduction in the Delhi subordinate courts, with a focus on court administration governance; caseflow systems, hardware and records management; and modern court complexes and building services;
 - c. **Component 3: Out-of-Court Legal and Registry Infrastructure**—focusing on strengthening the legal and institutional infrastructure of the out-of-court framework provided under the SARFAESI Act 2002 as amended in 2004; and
 - d. **Component 4: Enabling Legal Empowerment**—focusing on (i) integrating the institutional efficiencies in the “supply” side of delivery of justice through the subordinate court system with the “demand side” support for users of the court and out-of-court system, and (ii) strengthening the “demand side” support for the poor and disadvantaged users of the court and out-of-court system through the enhancement of communication and capacity building of key actors in government and the public and private parts of the legal profession.

3. In addition to the anticipated positive impact on the judicial system and access to justice in the National Capital Territory of Delhi, the Project is also **expected to have a mutually reinforcing positive impact on poverty alleviation**. First, by reducing the delay and backlog in the subordinate courts in Delhi, greater opportunity of access to justice by the poor and disadvantaged in Delhi is attained by more effective implementation and enforcement in the courts of laws that govern their rights. Second, this is critically buttressed by enabling legal empowerment beyond the realm of the courts and formal judicial institutions.

4. Implementation of the Project is expected to commence mid-2006, with a projected budget of approximately US\$23 million.

E. Punjab Resource Management Program, Pakistan

1. In recent years, ADB has supported State and Provincial governments in India and Pakistan on public resource management so that they can more effectively manage their resources and tackle poverty. Examples include those in Pakistan (in Punjab and Balochistan) and in India (in the States of Kerala, Gujarat, Assam, with one in the formulation stage in West Bengal). The program in the Punjab, Pakistan, is described here.

2. Since 1999, the Government of Pakistan has embarked on a program of restructuring and reforming government institutions at all levels, federal, provincial and local. The most obvious manifestation of this reform agenda was embodied in the Local Government Ordinance which was promulgated by all provinces in August 2001. This ordinance assigned responsibilities for the bulk of service delivery to local governments at district and *tehsil* levels and, by implication fundamentally changed the role, responsibilities and powers of provincial governments. Drawing from this development, the Punjab Resource Management Program (PRMP) has the ***overarching objective to assist the Punjab Government in reducing poverty through good governance including improved public sector resource management.***

3. PRMP has three components:

- a. ***Component 1: reforming provincial financing*** through fiscal structuring and financial management by: (i) strengthening provincial revenues; (ii) rationalizing provincial expenditure; and (iii) improving effectiveness, predictability and accountability in financial management.
- b. ***Component 2: reforming processes and institutions for pro-poor service delivery*** through: (i) improving strategic programming of investments for poverty reduction; and (ii) restructuring and strengthening government, administration and human resource management.
- c. ***Component 3: creating opportunities for growth and income generation*** through private sector development by: (i) undertaking regulatory reforms for private sector development and public-private partnership; and (ii) reducing direct public sector involvement in economic and/ or commercial operations

4. **Guiding design principles:** Formulation and design of the Program is anchored in the following principles, taking account of past program experience in Pakistan and elsewhere:

- a. ***Strong leadership and participation.*** The Program enjoys the full support of the senior political level. Program formulation has been 'home-grown' with broad stakeholder participation, including from the private sector and non-government organizations (NGOs). The first Punjab Development Forum was held prior to program finalization to allow wide consultation on its content.
- b. ***Output focused medium term approach*** with flexibility for adjustment of targets. By adopting the cluster modality, PRMP allows for adjustment of design parameters based on actual progress and effectiveness.
- c. ***A holistic approach and coordination and complementarity*** with other governance activities anchored in the Government's poverty reduction program.

5. To support the PRMP, ADB is providing a total of about \$500 million over five years under the cluster program modality.

F. Mega City Development, Karachi

1. The TA loan provides a key intervention of the long-term partnership between ADB and Pakistan for Karachi's development. It responds to the need for a long-term and holistic approach to the development of Karachi whose large-scale needs for infrastructure and reforms cannot be met by the traditional approach of a one-off project. The ***goal of the TA loan is to enhance the contribution of Karachi to national development and improve the quality of life of the city residents on a sustainable basis.*** To this end, the TA loan supports: (i) a capacity building facility, (ii) a project preparation facility, and (iii) introduction of an innovative financing vehicle.

2. **The capacity building facility will provide a pool of resources to CDGK and other city agencies to undertake a comprehensive capacity building program.** A priority activity will be organizational development of the city government of Karachi (CDGK) and completion of its transition under devolution. Other components of the capacity building assistance include financial management and revenue improvements, and enhancing accounting and establishing management information systems. These activities will be supported by human resource management strategies and training programs. Capacity building assistance will also include support for mega city planning.

3. **The project preparation facility will provide resources for preparing feasibility studies for bankable projects.** This will address the poor standard of project planning, identification, and preparation, as well as the need for integrated development of investments. The resources for selecting and developing bankable projects will be used flexibly in response to evolving priorities. The feasibility studies will establish the technical, financial, economic, social and environmental feasibility of projects proposed for funding. The facility will also provide advisory services in developing public-private modalities for constructing, operating, and maintaining infrastructure, and for preparing and vetting documents related to projects with private-public participation. Particular attention will be given to transferring knowledge and skills in project preparation to CDGK and the utilities. Based on the mega city assessments, a number of projects were identified as high priority for feasibility assessments. During the implementation, these may be further reviewed and replaced with new projects on the basis of agreed criteria.

4. **The TA Loan will also support introduction of an innovative financing vehicle to address the needs for sustainable financing of mega city infrastructure and services.** The specialized financing vehicle (SFV) will be a dedicated urban infrastructure financing entity providing funds to CDGK, its utilities, town municipal administrations (TMAs), and possibly the private sector. The role and products, operating principles, and financial strategy of the SFV is expected to evolve. The SFV will act in the short term as an efficient conduit for channeling funds to the mega city. It will have transparent criteria applicable to loans. Criteria-based allocation of funds coupled with advisory services for preparing bankable projects will encourage financial discipline and commercial principles in CDGK and its utilities. CDGK and the utilities will be expected to service their loans out of the revenues generated by those investments. In the long term, with enhanced local capacities and a maturing financial market, the SFV will act as an agent to mobilize funds for mega city infrastructure from non-government sources, including financial institutions, commercial lenders, and capital markets. Given the Government's strong commitment to accelerating the reforms for establishing the SFV, the feasibility and design of the SFV will be undertaken by a parallel TA financed on a grant basis from ADB's TA funding program.

G. Regional Cooperation and Integration

1. The South Asia region, in the Asian Development Bank (ADB) context, includes Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. The latest available statistics indicate the region has about 23% of the world's population and 15% of the world's arable land, but only about 2% of global gross domestic product, 1.2% of world trade, and less than 1% of global foreign investment and tourism revenues. Despite recent rapid economic growth, the region is still home to about 410 million of the 720 million poor living in the Asia and Pacific region. In 2004, South Asia's per capita income was \$607, substantially below the per capita income for developing countries as a whole. In addition, key development indicators in South Asia suggest that social development still remains low relative to other regions in Asia, such as Southeast and East Asia.

2. For South Asia to enhance economic and social development and achieve the Millennium Development Goals (MDGs) by 2015, economic growth needs to be sustained and accelerated. Regional economic cooperation can help promote economic and social development by expanding markets for goods, services, and investment; encouraging better allocation and utilization of existing resources through trade and investment liberalization; improving regional and interregional connectivity in transport and communications infrastructure; promoting joint projects for better utilization of natural resources; and reducing negative regional externalities and conflict. For South Asia, these potential opportunities and benefits are significantly increased when cooperation is extended to East, Southeast, and Central Asia. Because of its geographic location in Asia, South Asia could act as a land bridge linking neighboring regions, thereby contributing to the integration of Asia as a whole.

3. The South Asian Association for Regional Cooperation (SAARC), established in 1985, was the first regional cooperation initiative in South Asia. The progress of economic cooperation under SAARC was, until recently, slower than expected, in part reflecting the diversity of interests in the region and tensions between some of SAARC's member countries. Therefore, subregional cooperation among a subset of the member countries became a possible modality for advancing cooperation activities in South Asia. This subregional modality under the SAARC framework was accepted at the SAARC summit in 1997.

4. In 1996, four of the seven SAARC members—Bangladesh, Bhutan, India, and Nepal—formed the South Asian Growth Quadrangle (SAGQ) to accelerate sustainable economic development. To support and facilitate this economic cooperation initiative, the South Asia Subregional Economic Cooperation (SASEC) program was launched in 2001 with ADB assistance. This program, supported through a series of technical assistance (TA), provides a forum for the four countries to discuss, identify, and prioritize subregional cooperation projects in the six priority sectors: energy and power; environment; information and communications technology; tourism; trade, investment, and private sector cooperation; and transport.

5. In December 2003, the Subregional Economic Cooperation in South and Central Asia (SECSCA) program was initiated to facilitate interregional economic cooperation among Afghanistan, Pakistan, and some Central Asian republics. It initially focused on transport corridors linking Central and South Asia, and associated trade facilitation and transit issues. In addition, countries in the western part of Asia are also exploring project-based cooperation initiatives, such as potential gas pipeline projects.

6. The successful outcome of the 12th SAARC Summit (Islamabad, January 2004) and the greatly improved relations among the members, prior to and following the summit, represented a watershed that has significantly enhanced the prospects for regional cooperation in South Asia. The Islamabad Declaration developed by the summit pledged to intensify cooperation and eradicate poverty in South Asia, and to resolve any conflict and dispute through peaceful means. The 13th SAARC Summit held in Dhaka on 12 and 13 November 2005, was also a major success. Apart from reaffirming their commitment to the pledges made at the previous summits, the Heads of state or government of the SAARC member countries (the SAARC leaders) stressed that accelerating cooperation in the core economic areas was of vital importance for making South Asia truly vibrant, dynamic and secure. Given the important role that Afghanistan plays in connecting Central and South Asia, Afghanistan was inducted as the eighth member of SAARC.

7. South Asia's interest in developing closer cooperation with regional groupings in Southeast Asia, the Greater Mekong Subregion (GMS), and the Association of Southeast Asian Nations (ASEAN) is also growing. Countries in South and Southeast Asia have started a number of interregional cooperation initiatives, such as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). The heads of state or government of BIMSTEC member countries affirmed their commitments to pursue cross-regional cooperation under the BIMSTEC framework at the first summit meeting in July 2004.

8. ADB's overall vision for Asia and the Pacific is for a prosperous region free from poverty. ADB recognizes that regional cooperation has a critical role to play in realizing this. As a result, the goal of ADB's regional cooperation strategy in South Asia—the poorest and least integrated region in Asia—is to help the region realize its full potential in economic and social development and to enable South Asia to play an effective part in wider Asian integration. Reduced poverty and closer regional and cross-regional integration will also help promote peace and security within South Asia and beyond. Based on South Asia's regional context, the potential opportunities and benefits of regional cooperation, lessons learned, discussions with governments and other stakeholders, as well as ADB's own comparative advantages, ADB's regional cooperation strategy for South Asia has five key operational objectives to achieve the goal: improve connectivity, facilitate trade and investment, develop regional tourism, facilitate cooperation in energy, and promote private sector cooperation.