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| The World Bank Group: AusAID-SAR Policy Facility for Decentralization, Local Governance and Service Delivery |
| Annual Progress Report: Annex-1 |
| Detailed Progress Report-Rounds 1-3 |

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Detailed Progress Report on Activities Funded in Round 1

**Progress on Activities Funded in Round 1- May 2007**

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| **Title and** **Country** | **1. Policy Support for Intergovernmental Fiscal Flows to CDCs** **Afghanistan,**  |
| **Sector/TTL** | **Economic Governance, TTL- Roland White** |
| **Status** | **Completed. The main report has been shared with AusAID** |
| **Context and Objectives** | Afghanistan lacks a lower tier of government. In the absence of this tier the effort is to strengthen the elected Community Development Councils (CDCs) set up under the National Solidarity Program (NSP) that are serving as de facto local governments. The NSP covers all 34 provinces and reaches almost 20,000 villages. CDCs are in the process of being institutionalized. The CDC By-law (November 2006) provides a legal basis for CDCs as independent entities, with expanded administrative and service delivery roles and the ability to receive funds. The objective was to analyze current fiscal flows and design direct fiscal flows to CDCs.  |
| **Outputs** | (1) Analysis of current fiscal flows focusing on service delivery and governance and NSP/CDC funding modalities. (2) Ongoing policy dialogue (3) Design of fiscal flows to CDCs  |
| **Outcomes** | The initial proposal which was for $280,000 focused both on analysis of the intergovernmental system as a whole and design work on grant flows specifically to Community Development Councils (CDCs). The actual award totaled $80,000 with the work was confined to an analysis of the intergovernmental fiscal system and the development of a high-level concept for ongoing funding of CDCs. The intergovernmental fiscal analysis was completed within budget and was launched in-country in August 2008. The report was shared with AusAID. The main outcomes of the work were as follows:The results of the study fed into a CDC Concept Paper which was produced in March 2008 which has provided the basis for a new NSP -3 operation which is being taken forward under a separate process;The study led to a new understanding of the Afghan intergovernmental/sub-national fiscal system within both government and donor communities. This, in turn, provided the basis for intensified policy dialogue which generated demand from the Ministry of Finance and Independent Directorate of Local Government for additional technical assistance focused on reforming and/or strengthening aspects of the intergovernmental/sub-national fiscal system. The follow up work, supported by a Round 2 allocation from the Policy Facility, is well underway.  |
| **Meeting objectives of the TF** | How was institutional and policy reform around decentralization, local governance and service delivery facilitated? Did the outcomes have cross sectoral and cross country linkages?Yes. It lead to a greater understanding of the inter-governmental fiscal structure needed and intensified policy dialogue leading to a request from GoA for additional assistance focused on the entire fiscal system. The lessons learnt could be applied to reforms around the fiscal system in other post conflict and conflict countries.  |
| **Additional funds leveraged** | The work has lead to a concept paper on CDCs that feeds into the new NSP-3 operation with proposed funding. The follow up work has received additional funding from the Policy Facility. |

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| **Title and** **Country** | **2. Evaluation of National Solidarity Program and Support for CDCs.** Afghanistan |
| **Sector/TTL** | **Infrastructure, TTL- Susanne Holste** |
| **Status** | **Completed. Outputs shared with AusAID** |
| **Context and Objectives** | To garner support for a policy that formalizes CDCs as part of the intergovernmental system. The CDC by- law of November 2006 is a first step. Buy in from other ministries is limited inhibiting the institutionalizing of CDCs as part of a sub-national governance system. CDCs will be transitioning out of the NSP from 2007 in a phased manner. A limited window exists to integrate them into the intergovernmental system or they face the risk of collapse despite the funds invested and the social capital built. |
| **Outputs** | (1) CDC National Conference or Jirga (2) Economic Impact Assessment of NSP completed(3) By law revision and support  |
| **Outcomes** | The CDC national conference was organized in November 2007. The activity was successful in positioning the CDCs in the sub-national governance framework. GoA created the Independent Directorate for Local Governance (IDLG) which was mandated to formulate the country’s sub-national governance policy. For this reason the review of the by-law took place but the revisions were postponed while awaiting the presentation of the policy. The draft policy was issued in September 2009 and explicitly recognized the CDCs as the lowest level of governance and also conferred certain administrative functions onto the CDCs. Government, under the leadership of the Ministry of Finance, recently confirmed that the CDCs are the sole entry point for development activities in the community and encouraged line ministries to work through CDCs for local level service delivery. The strong leadership and activism that the CDCs have created were manifested at the CDC national conference in November 2007 and the outputs (video, articles) from this event are testimony to this. The economic benefits of the infrastructure sub-projects were captured by the ex-post economic analysis which was presented to donors and GoA. Outputs have been shared with AusAID |
| **Meeting objectives of the TF** | How was institutional and policy reform around decentralization, local governance and service delivery facilitated? Did the outcomes have cross sectoral and cross country linkages?  |
| **Additional funds leveraged** | The support to CDCs and the economic analysis garnered greater support for NSP leading to the formulation of NSP-3 with additional lending of $.  |

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| **Title and Country** | **3. Metropolitan Management and Governance in Punjab’s Large**  **Cities -** Pakistan |
| **Sector/TTL** | **Urban TTL –Raja Rehan Arshad** |
| **Status** | **Completed on a smaller scale Output attached to report.** |
| **Context and Objectives** | Pakistan’s devolution has been underway since 2001. The challenge is to improve service delivery in the metros. A workshop on metro governance was planned for key policy makers in Punjab province, focusing on integrated planning, public finance and service delivery. It would share lessons of metro governance from around the world through the experience of practitioners. Global experts would spend time beyond the workshop working with key policy makers on policy design. The workshop and follow up activities would support key reforms to be implemented through the Bank’s three Punjab Large Cities Development Policy Loans (DPLs of $ 300 million |
| **Outputs** | (1) Metro governance workshop for key policy makers with global experts sharing experiences.(2) Follow up activities with experts working on specific problems identified by policy makers. (4) Leverage of reform processes supported by Bank lending. |
| **Outcomes** | The workshop inviting two to three international experts as originally envisaged couldn’t be held due to multiple factors including the deteriorating security situation which was beyond the control of the team. Due to worsening macro-economic conditions the Bank changed the lending instrument from a Development Policy Loan with macro-economic triggers to a Programmatic Specific Investment Credit (PSIC) and the workshop was to support its preparation. However, the countries’ political and security situation continuously deteriorated from 2008 and onwards, making it difficult to hold a substantive workshop with significant participation from all the stakeholders. Instead a portion of the funds was utilized to engage consultants to prepare, and work as the resource persons for the Metropolitan Governance Workshop. They participated in the Punjab Large Cities project preparation mission and produced a report on the overview of the Metropolitan Government Program and potential design of the Large Cities Program. A smaller workshop with select provincial and city officials from the five large cities was held on November 11, 2008, organized by Government of Punjab. The consultants also made a presentation to the Chairman Planning and Development Department, highlighting the key aspects of the proposed reforms in the large cities of Punjab. The presentation formed the basis for the discussion between the Bank and GoPunjab on the future reform agenda under the Punjab Large Cities Project. A summary of the reform agenda informed by the consultants' work has already been approved by the Chief Minister of Punjab. Currently, the GoPunjab is working on amending the Local Government Ordinance drawing significantly on the proposals made in the presentation to the Chairman Planning and Development. The work completed with funding from the TF has been significant in making the GoPunjab realize that problems with urban service delivery and governance cannot be addressed on a sector-by-sector basis, or simply through raising levels of infrastructure investment. New approach towards improving service delivery in the five large cities is to affect a fundamental shift in the way cities are defined, structured, and managed. A major indicator of this shift is the summary of the reform agenda already approved by the Chief Minister of Punjab. |
| **Meeting objectives of the TF** | The work dealt with the design of policy reforms for the integrated management of large cities. It significant cross sectoral linkages as it aligns and clarifies the roles and responsibilities between the Province and the cities to allow for locally empowered and integrated metro management. |
| **Additional funds leveraged** | The work is linked to the Bank’s Punjab Large Cities Project under preparation. The investment will be $ 300 million with additional lending possible.  |

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| **Title and Country** | **4. Off grid Rural Electrification with Renewable Energy -** Pakistan |
| **Sector/TTL** | **Energy TTL Mihaly Kopanyi** |
| **Status** | **Completed. Output attached.** |
| **Context and Objectives** | Pakistan has enormous renewable energy (RE) sources but it faces severe energy shortages. There are about 7000 villages with a dispersed population of 15 million un-served in costal, desert or mountainous areas that GoP wants to support. RE might be a feasible solution, since it is uneconomical to serve them through the national grid. Both the government and donors have supported numerous projects and tested most RE forms in the last two decades. Neither technology nor funds are major impediments for the planned electrification With a few exceptions these projects were in-kind donations by government or donors. They have proved to be unsustainable and some might be abandoned. Decentralization by putting local governments in the driving seat in project decisions, implementation, financing, and maintenance offers a solution for sustainable scaling up.The objective was to do an in-depth analysis of the present off-grid RE projects with the aim of examining key underlying socio-economic factors, governance factors, and exploring and testing sustainable decentralized solutions for large scale rural electrification. |
| **Outputs** | 1) Analytical study based on large sample survey, establishing baseline indicators, testing public-private-participation issues, and drawing lessons from implemented projects (2) Developing policy proposals for the legal, institutional, organizational, financial, and procedural framework for large scale off-grid rural electrification and policy dialogue (3) Proposal submitted to government two governance model for piloting rural electrification (i) private vendor model; (ii) community management model.(4) Proposal submitted to Alternate Energy Development Board (AEDB) for governance and financing of an off-grid electrification program. |
| **Outcomes** | The proposals provide the government with instruments to make the off-grid rural electrification projects sustainable by either a community operation and maintenance or a private operator model. The AEDB has started to implement these models to stabilize projects installed in the recent years without sustainable governance framework. |
| **Meeting objectives of the TF** | The models elaborated are key steps towards decentralization and enhancing local governance. The outcomes will be truly cross sectoral since results will improve local governance, provide sustainable energy solution, and eventually improve local living conditions and to a lesser extent local economic activities. |
| **Additional funds leveraged** | AEDB is piloting the models with investment from GoP. |
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| **Title and Country** | **5. Evaluation and Documentation of the Power Sector Reform Process**  **in West Bengal- India** |
| **Sector/TTL** | **Energy TTL- Ashish Khanna** |
| **Status** | **Completed. Report attached.** |
| **Context and Objectives** | The objective is to evaluate and document the experience of power sector reform in the state and use it as a learning experience for other states and countries in the region contemplating reforms. This will be done through a knowledge and experience sharing workshop to which key policy makers will be invited. The activities to be funded will cover the documentation of the reform process. DfID has funded a project that is underway to augment the capacity of the Department of Power to develop an efficient, accountable and financially viable power sector in the state. The project supports the government’s efforts to build the capacity of the state power utilities in order to improve their commercial viability and service delivery on a sustainable basis.  |
| **Outputs** | (1) Monitoring and documentation of the power reform process. This would include documenting the extensive consultation experience that lead to reform, the unique structure and sequencing of reforms and the use of governance initiatives to achieve customer orientation and sustainable operational efficiency of the newly corporatized entities. (2) A knowledge and experience sharing workshop with key policy makers from states in India and other countries in the region followed by a seminar in Washington. |
| **Outcomes** | The activity has helped in documenting a critical change management process towards creating an efficient accountable and financially viable power sector in the state of West Bengal and has also helped in informing the experience and lesson learnt for reforms in other states/ countries/ sectors. Output is attached. |
| **Meeting objectives of the TF** | Government of West Bengal has chosen power sector to demonstrate as role model for service delivery system at state and local level. The state is expected to add almost 5 million additional rural domestic consumers and successful implementation of the program will help the state and the power utilities in delivering improved quality of electricity services to consumers across the state and facilitate lower fiscal burden on state finances, promote economic and industrial growth of the state, including facilitating wider rural employment options and better livelihoods and social outcomes. In addition, the documentation of West Bengal experience has useful lessons, for other states/ countries attempting reforms in sectors involving complex political economy consideration, like power and water.  |
| **Additional funds leveraged** | The related DfiD project has an investment of $. Bank lending is $ |
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| **Title and Country** | **6. Federalism in New Nepal: Analysis and Options** Nepal |
| **Sector/TTL** | **Economic Governance TTL Geeta Sethi** |
| **Status** | **Completed** |
| **Context and Objectives** | Nepal is in the process of transforming from a centralized monarchy to a federal state. The structure of different tiers of government, their roles and responsibilities and the nature of fiscal flows are all under discussion The objective is to examine the experience of countries in SAR and other regions for lessons relevant for Nepal at this juncture, and engage in policy dialogue with key policy makers. |
| **Outputs** | (1) Series of workshops with key policy makers and regional and global experts on various aspects of federal structures.(2) Learning visits for key policy makers(3) Organizing discussions among practitioners and policy makers.(4) Preparation of policy notes and position papers to inform decision makers(5) Viable options proposed. |
| **Outcomes** | The work focused on (i) Identifying how any proposed work on federalism would support country priorities and in particular input into the work of the Constituent Assembly(CA), identifying who are clients for this work and propose a way forward and (ii) work with the Nepal Technical Group (NTG) on a detailed work plan on all aspects of fiscal federalism. A series of policy forums, round tables, cross learning for a variety of stakeholders on all aspects of Fiscal Federalism were organized. The team tried to build a common understanding, cutting across political party lines on the issue to move different stakeholders towards a common agenda related to fiscal federalism. In October 2008, at the request of the Parliament Secretariat a policy seminar was organized on“Intergovernmental Fiscal Reforms: What are the basic design issues?”, hosted by the Nepal Economists Association (NEA). The subject was fiscal federalism/fiscal decentralization, and the seminar brought together stakeholders, including key members of the Parliament, government officials and many of the best local experts on the subject of government finance. The seminar stressed the key elements to be addressed in designing an intergovernmental fiscal structure. It discussed experiences from around the world with designing systems of intergovernmental relations. The focus was on developed and developing countries, both unitary and federal. A lesson that emerged from these discussions is that there is little experience with inter-governmental fiscal design in Nepal, and few Parliamentarians have a good grasp of what needs to be done to put such a program in place. It was also clear that members of the CA are keen to have informal access to international practice on federalism/ decentralization and to discuss models that could be used in Nepal. The issue was how best to structure the work in order to have the greatest impact while at the same time, be light footed given the strong sentiment to be seen as "local led". Sequencing the work so that it feeds into the CA schedule was an important consideration. In order to assess this meetings were held with technical experts linked with the CA committees and with constitutional experts.The Nepal Technical Group which is likely to influence the drafting wants support and recognizes the importance of having a solid analytical framework on fiscal federalism and access to international experience to help support a more informed debate in the CA. The Bank agreed to act as a technical backup to the Nepal Technical Group, who would then work directly with the Parliamentary committees. The Bank would not directly engage or make any direct submissions to Parliament in any of this effort. NTGs main counterpart will be the Constitutional Committee. The team reached agreement with NTG that the best way forward would be a background study that covered the main issues to be faced in drafting the fiscal federalism structure that would accompany the governance model chosen by the new Constitution. A jointly drafted Briefing Paper that outlines this study to be completed by mid 2010. The Briefing Paper is attached below.  |
| **Meeting objectives of the TF** | How did this activity facilitate institutional and policy reforms around decentralization, local governance and service delivery? Did the outcome have cross sectoral and cross country linkages? The activity was the first step to build a consensus around the structure of fiscal federalism in new Nepal. Since it is reimagining the state it cuts across all development sectors and has policy lessons for all federal countries. |
| **Additional funds leveraged** | Future lending is possible once the structure of fiscal federalism adopted by Nepal is clear. |
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| **Title and Country** | **7. Decentralized Local Infrastructure Service Delivery in Nepal-** Nepal |
| **Sector/TTL** | **Infrastructure TTL –Binyam Reja** |
| **Status** | **Partially completed. Output attached.** |
| **Context and Objectives** | To develop a set of policy recommendations and a legal framework for improving the institutional structure for decentralized local infrastructure delivery. This study will be used to inform the ongoing debate on the structure of the state. The study will review the various sectoral legislations to identify gaps with the Local Self Government Act or its update and support amendments as needed .It will examine policy options to improve revenue generating capabilities of local governments to finance the development and maintenance of local infrastructure. |
| **Outputs** | (1) Study examining the experience of other countries in the region and select countries outside the region, with effective decentralized provision of local infrastructure services and recommendations on the optimal institutional set up for the delivery of local infrastructure in Nepal.(2)Policy Note and Implementation Plan (3) Two workshops to engage policy makers and obtain feedback |
| **Outcomes** | Case studies of five countries (Peru, Bolivia, Indonesia, Tanzania, and India) were completed. The conceptual framework for decentralized rural infrastructure developed based. A draft Policy Note was prepared. However, due to the delay in amending the constitution and constituting the new federal structure for Nepal, the planned workshops and discussion with policy makers could not take place. The study presupposes that Nepal would establish a federal form of government, as pronounced when the new government took power. The policy note will be amended and presented to government as soon as the federal structure will be made clear.  |
| **Meeting objectives of the TF** | There is now a better understanding on the effective ways of managing a decentralized rural infrastructure. When the new federal structure is put in place, the team will be ready to engage the Nepal government on ways to devolve financial and administrative responsibilities of local infrastructure to elected local governments.  |
| **Additional funds leveraged** | Future lending is possible once the structure of fiscal federalism adopted by Nepal is clear. |

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| **Title and Country** | **8. AP Urban Reform-Monitoring, Implementation and Fiscal Support** India |
| **Sector/TTL** | **Urban, TTL-Songsu Choi** |
| **Status** | **In progress** |
| **Context and Objectives** | The Government of Andhra Pradesh state in India has undertaken an ambitious urban reform agenda. The Bank has funded the $ 233 million AP Urban Reform and Municipal Services Project, providing technical assistance and loans to finance client identified and implemented subprojects tied to local reform contracts between state and local governments. This study that will lead to policy dialogue and design to reform the monitoring and contracting of the reform process under this Bank project. It will also design criteria for allocating various external flows to local governments. The insights from the monitoring study would be used to redesign intergovernmental transfers so that discretionary grants and loans are allocated matching financial capacities of Urban Local Bodies to maximize efficiency and equity. It would examine whether general transfers can be modified to enhance reform incentives through matching grants and equity based on a measure of poverty. |
| **Outputs** | (1)Evaluation of reform (2) Redesign of fiscal flows(3) Workshop with key clients to obtain feedback on initial design (4) Full draft of design (5) Second round of consultations (6)Final report and new policy documents |
| **Progress** | Reforms carried out by about a dozen Urban Local Bodies (ULBs) have been identified and evaluated against targets set in 2004-05. There were generally large disparities due to over-ambitious targets and lack of concrete plans for implementation. Detailed revenue and expenditure data for 2005-08 has been collected for both the state and all ULBs except the five largest ULBs. Debt sustainability for the same ULBs has been evaluated. The majority of ULBs are judged solvent and moderately creditworthy. Initial discussions with the GoAP and the CGG have been completed, regarding the direction of the reform. Progress has been delayed due to the lack of full information on reform and capital grants, and due to the inability of two main consultants to complete the work as originally envisaged. Work plan has been revised accordingly, for completion by December 2009. The TTL has been warned that funds will be reallocated to other tasks if the work is not completed by December 2009. |
| **Meeting objectives of the TF** | The work facilitates institutional reforms around fiscal and external transfers to local governments. It has cross sectoral linkages as the transfers should lead to better service delivery and investments in ULBs in AP.  |
| **Additional funds leveraged** | The Bank has funded the $ 233 million AP Urban Reform and Municipal Services Project |

Detailed Progress Report on Activities Funded in Round 2

**Progress on Activities Funded in Round 2- May 2008**

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| **Title and Country** | **1. Policy Support for Intergovernmental Fiscal Reform and Sub-national Fiscal Arrangements** **Afghanistan**  |
| **Sector/TTL** | **Economic governance, TTL Roland White** |
| **Status** | **In Progress** |
| **Context and Objectives** | The objective is to generate policy proposals for strengthening and reforming the inter-governmental fiscal system. This is a follow up of the activity funded in Round 1which focused on an evaluation of the inter-governmental fiscal system. Based on that work GoA through the newly established Independent Directorate for Local Government (IDLG) has requested for Bank’s guidance for the next step of strengthening and reforming the fiscal architecture including sub-national fiscal reform. IDLG has been charged with reform of the inter-governmental system beginning in 2008. |
| **Outputs** | 1) Technical assistance (TA) to develop a long term framework with incremental steps for reform of the inter-governmental fiscal system and strengthening of sub-national fiscal arrangements.2) A series of policy notes to guide the inter-governmental fiscal reform process and framework for long term fiscal reform. .3) Policy dialogue along with TA with clients, stakeholders, the donor community and civil society.  |
| **Progress** | The work is underway. Following dialogue with Ministry of Finance (MoF) and the IDLG, the primary strategic focus for the work was selected in the area of the allocation of fiscal resources across sub-national jurisdictions. A secondary focus – the intergovernmental structure of budget authority – was also agreed. A series of presentations and discussion papers focusing on the former area have been produced and have provided the basis for a process of ongoing dialogue and workshops with the MoF, affected line departments (e.g. Ministry of Education) and IDLG and further activities of this type are planned. A common approach and joint workshop on provincial resource allocations has been agreed with Ministry of Finance and Ministry of Education. In addition, policy notes are being produced at the request of the joint donor-Government of Afghanistan Sub national Governance Task Force with components on sub national service-delivery, including its fiscal aspects. |
| **Meeting the objectives of the TF** | The activity supports institutional reform of the inter-governmental fiscal system. It has cross sectoral implications as fiscal grants cover multiple sectors and cross country learning is possible for conflict afflicted or post conflict countries. |
| **Additional funds leveraged** | Future lending based on this work is possible |

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| **Title and Country** | **2. Framework for Implementation of Property Tax Decentralization in Punjab Province.****-Pakistan** |
| **Sector/TTL** | **Economic governance, TTL Mihaly Kopyani** |
| **Status** | **In progress** |
| **Context and Objectives** | The main objective is to develop the technical and governance framework for implementing decentralization of the property tax system so as to deepen devolution and own source revenues of LGs. The Local Government Ordinance 2001 mandates the devolution of Urban Immovable Property Tax (UIPT). However nothing has changed on the ground. The UIPT only provides negligible revenue even though property tax is one of the richest sources of revenue for LGs. This is due to unclear policy, unreliable information base, and lack of incentives, expertise, and capacity in UIPT administration. The Government of Punjab has committed to a fundamental restructuring of the UIPT system. In December 2007, GoPunjab notified the “Policy Framework for Decentralized and Integrated Administration of UIPT, and the “Medium Term Tax Policy Framework 2007-2012”. These policies are milestones in the municipal finance agenda and represent major steps towards enhancing financial sovereignty, governance, and downward accountability of local governments. The Bank has provided major support to the municipal finance reform agenda.  |
| **Outputs** | 1) Comprehensive scope evaluation with gap assessment of provincial and local government agencies involved currently or potentially in property tax policy administration. 2) Identification of factors and conditions in the intergovernmental fiscal architecture, that would improve incentives and motivation at local levels to increase own source revenues.3) Detailed concept and blueprint for a decentralized property tax system with specific recommendations. These would cover (i) institutional development, tax administration, organizational structures; (ii) human resources, capacity building, and training; (ii) information technology, databases, and networks; (iv) investment plans; (v) implementation framework including communication strategy; and (vi) broad cost estimates. 4) A five-year action plan for property tax reform implementation built on the outputs listed in 1) and 2) eventually adopted by the provincial government.5) Three workshops and several technical meetings to sensitize and involve key stakeholders.6) Leveraging Bank finance for specific programs e.g. funding property tax administration reform, TA on local revenue enhancement and capacity building. |
| **Progress** | The planned outputs have been prepared; the blueprint and the action plan are under peer review. There has been a substantial delay due to security situation and postponed missions. Policy dialogue with government will restart in September, provided that the missions to Pakistan resume. The project has been expanded with a training program that includes specific target trainings for taxation officers (e.g. collection, valuation, tax policy). A special training will be held in September (postponed from June) that will focus on informing and sensitizing the tax officers about the new tax administration model, procedures, and requirements. |
| **Meeting the objectives of the TF** | The work supports policy and institutional reform of the property tax administration in Punjab. The model will be used for a similar reform agenda in other provinces of Pakistan. |
| **Additional funds leveraged** | This work is linked to a larger tax reform and municipal reform agenda supported by the Bank. |
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| **Title and Country** | **3. Improved Secondary Education Service Delivery**India,  |
| **Sector/TTL** | **Education, TTL Samuel Carlson** |
| **Status** | **In progress** |
| **Context and Objectives** | To assist GoI and select states to establish a national learning assessment and baseline measurements of service delivery in secondary education based on learning outcomes of students in Grade 10. Secondary education is primarily (though not exclusively) a State subject in India, and this proposal would build capacity to monitor the quality of education service delivery at decentralized levels. In addition, these baselines will be essential to monitor progress in learning outcomes after (a) introduction of school-based management (SBM) reforms in publicly funded secondary schools and (b) piloting of alternative public-private partnership (PPP) service delivery models These reforms are to be introduced through the new GOI program SUCCESS(implementation of these reforms are anticipated over the next 2-3 years). At present, no common national baseline measurements exist to measure school performance. There are only non-comparable secondary examinations conducted by 41 different Boards in 28 States and 7 Union Territories. |
| **Outputs** | Technical assistance, training and workshops aimed at: 1) Developing, piloting, field testing and revision of a Grade 10 national learning assessment. Such piloting would require development, validation, field testing and finalization of assessment instruments. 2) Piloting of one Indian State’s participation in the OECD Program for International Student Assessment (PISA).3) Program of support to establish the first “building blocks” for measuring the impact of expected efforts to improve accountability, local governance and service delivery in secondary schools in India through the new national program SUCCESS.  |
| **Progress** | Progress has recently accelerated, with the approval of India's participation in PISA by the Ministry of External Affairs. This will now allow the signing of the Memorandum of Understanding between the Government of India and the Organization for Economic Cooperation and Development (OECD) for participation in PISA. ACER Australia is the consultant for this activity. In turn, this will trigger technical assistance and training contracts which will fully commit AusAID funds for this program by mid-September 2009. It is projected that technical assistance and training activities will be completed by June 30, 2010. The World Bank TTL met the AusAID representative in India on August 18, 2009 to discuss these matters, and since then the TTL has kept the AusAID representative informed as this situation progressed.  |
| **Meeting the objectives of the TF** | The activity will soon be facilitating some of the reforms needed for more efficient and accountable delivery of public education services at sub-national levels, by rendering transparent the cognitive skills and knowledge of 15-year olds in two States in India, and comparing these achievement levels with those of 15 year olds in more than 50 other countries around the world. This will be the first time that the "outputs" of India's basic education system is transparently and objectively compared with that of other countries, which should increase the system's accountability. In addition, the results of this testing will be used to identify both strengths and weaknesses in the public education system, such that additional interventions can be undertaken to improve delivery of education services. |
| **Additional funds leveraged** | Additional funds of $100,000 have been obtained from the Education Program Development Fund of the Education For All Fast Track Initiative. It will leverage Bank financing to support GoI's new campaign to universalize secondary education, currently under preparation. |

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| **Title and Country** | **4. Institutional Framework and Implementation Plan for Metropolitan Transport Authorities****India**  |
| **Sector/TTL** | **Infrastructure, TTL Ke Fang** |
| **Status** | **In progress** |
| **Context and Objectives** | The 74th Amendment of the Indian Constitution includes urban transport as an important sector for decentralization. At the local level, municipal governments have multiple agencies involved in one or more aspects of urban transport and lack the capacity to play a substantial role in urban transport development. Effective mechanisms for coordinating fragmented, and sometimes overlapping, responsibilities of national, state and several municipal actors in metro areas are not in place. The National Urban Transport Policy (NUTP) 2006 called for the establishment of “Unified Metropolitan Transport Authorities (UMTAs)” in all metro regions with one-million plus population (30 metros), for coordinated and effective planning and implementation of urban transport. It did not however provide a detailed framework for setting up UMTAs. Some cities i.e. Mumbai and Bangalore have designated "UMTAs", but they are at best consultative committees established at the state level with insignificant representation from cities in the metro region. They have not developed specific planning/decision- making processes or operating procedures. Nor do they have dedicated staff. This activity supports the development of a detailed policy and organizational framework at the national and state level for establishment of UMTAs and an implementation plan for setting up UMTAs in 2 metros from among the 9 demonstration metros currently participating in the Bank funded Sustainable Urban Transport Program (SUTP).  |
| **Outputs** | ) Study of international best practices in urban transport institutional arrangements for investment planning/decision-making, system operations and management.2) Articulate the need for and benefits of setting up UMTAs and develop technical guidance on UMTA organization and planning and decision making processes. 3) Prepare a variety of presentation materials which can be used at local, state and national workshops to inform officials at all levels about UMTAs.4) Select 2 metro regions where state and local officials commit to establishing UMTAs and assist them in developing feasible institutional arrangements and procedures for UMTAs.5) Develop detailed implementation plan for two metro regions.6) Compile, synthesize and disseminate the results of the study through a workshop.  |
| **Progress** | Out put1: The overall research framework and four case studies have been completed, including case studies on US, France, Canada and Australia. Remaining two case studies on Brazil and Germany are on-going and will be completed by end of October. Additionally, a quick assessment on India’s current situation and emerging innovations is also on-going and draft report will be ready by mid- November. Output 2: The policy note on the need for UMTA is being drafted.Output 3: presentations are being prepared along with case studies, and the final set of presentations will be completed by end of November and will be presented at an international conference on urban transport in Delhi in December 2009, to be organized by GoI.Output 4: Two metropolitan regions have been tentatively selected jointly by GoI and the Bank team. These are Ahmadabad in Gujarat and Pune/Pimpri in Maharashtra. The final list of cities will be decided by end of December after the Delhi conference. Outputs 5) and 6) await the completion of earlier outputs |
| **Meeting the objectives of the TF** | Fragmented institutional arrangements and ineffective planning and coordination in the urban transport sector has been identified as critical institutional barriers which prevent Indian cities from providing efficient and accountable urban transport services. The project is intended to address these institutional barriers and support the Government of India and Indian cities to implement institutional and policy reforms as already defined in the National Urban Transport Policy, which in turn will improve the urban transport service delivery at the city and metropolitan levels. |
| **Additional funds leveraged** | Additional financing for this activity has been obtained from GEF ($350,000) and from GoI’s JNNURM program ($350,000). It work is linked to the Sustainable Urban Transport Project with lending of $188 million and a GEF grant of $25 million, which is expected to scale up the reforms initiated here. GoI is also requesting funds from PPIAF to support following up activities which may involve the private sector.  |

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| **Title and Country** | **5. Strengthening of Panchayats in Bihar** **India,**  |
| **Sector/TTL** | **Rural local governments, TTL Yongmei Zhou** |
| **Status** | **In progress** |
| **Context and Objectives** | To assist Government of Bihar (GoB) to design a program to strengthen Panchayati Raj Institutions (PRIs) consistent with the Bihar Panchayati Raj Act, 2006, linked to the Bihar Panchayati Strengthening Project. The project’s objective is to improve the autonomy, capacity and accountability of PRIs. Specifically, to 1) in select districts improve PRIs governance capacity to implement government anti-poverty schemes and undertake discretionary development initiatives that are responsive to community needs; and 2) improve the enabling policy and administrative environment for PRIs functioning.  |
| **Outputs** | 1) Study on PRI finance. It will quantify sources of revenue, financial management and reporting requirements, their impact on management autonomy and accountability. It will analyze expenditure patterns and gauge capacity to utilize discretionary resources. Recommendations for changes in the inter-governmental fiscal framework will be made.2) Workshop on PRI capacity building with GoB officials, representatives of PRIs, institutions in the public and private sectors that have spearheaded capacity building approaches for PRIs. The workshop will help develop the policy framework for a PRI Capacity Building Program.3) Developing baseline measures of quality of local governance, covering local decision-making processes, citizens’ perception of and interaction with local authorities, citizens’ access to public services and welfare benefits. It will also look at the impact of Gram Sabhas (village assemblies).4) Design of a framework for evaluating the impact of specific interventions to improve PRI effectiveness and accountability, i.e. the Backward Region Grant Facility (BRGF), National Rural Employment Guarantee Program (NREGP) and primary education delivery.1) Key rules for implementation of the Bihar PR Act provisions with respect to single window for fund transfers to PRIs, public financial management and local accountability.2) Design of an Operational Manual for PRIs for the BRGF.3) Design of a PRIs Management Information System for implementation as a pilot in select districts. 4) Government of Bihar Policy on PRIs Capacity Building. 5) Based on the policy design of a medium-term program of PRI capacity building for financing by the Bihar Panchayati Strengthening Project and other co-financing partners.6) GoB Gram Panchayati Handbook. This will include guidelines on running Gram Sabhas, guidelines on participatory planning, social audit, financial management, and standing orders of Gram Panchayats.  |
| **Progress** | Study on PRI Finance in Bihar:1. The survey of a sample of 65 Panchayats in the State of Bihar has been completed.2. ADRI is in the process of entering the survey data into an electronic database. This step should be completed by Friday, July 31st. 3. The primary field work at the state government level should be completed by Friday, July 17th.4. GSU will work on the analysis together with ADRI in early Aug. 5. A draft report will be submitted for our review and comment by Monday, August 24th.6. A workshop to discuss findings is scheduled at the end of Aug. A complementary socioeconomic study of PRIs in Bihar is also ongoing: ADRI has already completed the field work in the district of Nalanda and Saharsa. The work at Sitamarhi and Bhojpur District is in progress.A review of BRGF implementation in Bihar has been completed and the report will be ready by end of July. Assistance is being provided to GoB to improve management of BRGF. As this forms part of the national review of BRGF, findings from 8 states, including Bihar, are also informing MoPR in its ongoing effort to restructure BRGF, one of the focus areas under the 100-day agenda of MoPR. A state workshop will be held with all districts in Bihar to discuss BRGF findings in mid Aug. We expect to use the balance of AusAid TF to finance follow-up advisory and technical assistance work. |
| **Meeting the objectives of the TF** | Is the activity facilitating the institutional and policy reforms needed for efficient and accountable service delivery at the sub-national and level and/or strengthening sub-national and local governance for delivery of services? |
| **Additional funds leveraged** | It is linked to the Bank’s Bihar Panchayati Strengthening Project with lending of $ 120 million. The project is also co-financed by PHRD grant from Government of Japan of 520,000 and $100,000 from SIDA. |

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| **Title and Country** | **6. Framework for Implementing PESA Act in Chhattisgarh-India** |
| **Sector/TTL** | **Rural/tribal local government, TTL- Barbara Verardo** |
| **Status** | **In progress** |
| **Context and Objectives** | Tribal communities in India have been managing their affairs and natural resources through traditional systems of governance since time immemorial. After independence laws and institutions that ignored traditional systems of governance were extended to the tribal areas and applied mechanically, even when they contravened traditional tribal practices and institutions.The Panchayats (Extension to the Scheduled Areas) Act, 1996 (PESA), extending the provisions of the 73rd Amendment of the Constitution (1992) covering decentralization to tribal dominated areas, is a positive exception. The Act recognizes the right of tribal communities to their own systems of self-government and their traditional rights over natural resources. Besides granting powers of self-governance, PESA empowers the Gram Sabha (village assembly) to approve development plans, control all social sectors – including the processes and personnel who implement policies, over minor (non-timber) forest resources, water bodies and minerals, manage local markets and stop land alienation. But even after a decade the Act has not been implemented fully by a state in India. This is the first effort to lay the foundation for an implementation of the Act. |
| **Outputs** | 1) Review of PRI legislations in Chhattisgarh including status of implementation formal and informal impediments and degree of conformity of PRI legislation to PESA Act, status of necessary amendments to corresponding National Acts (Indian Forest Act, Money Lending Act, Land Acquisition Act, Police Act, Wildlife Protection Act, etc) and at the state level; resolving inconsistencies in legislations.2)Stock-taking of the institutional interface between customary and democratically elected bodies in Scheduled Areas, nature of PRIs in Scheduled Areas of the state, the process of formation, degree of synergy with traditional village councils, status of devolution of power, effectiveness in accessing funds and delivering services and the relation between traditional and Panchayati systems. 3)Developing implementation guidelines/strategies for PESA Act 4) Raising awareness about PESA through Panchayati Shivir (Legal Literacy Camps) and exposure visits within the state as well as between states.5) Developing new strategies for empowering Gram Sabhas by revising Bank funded Chhattisgarh District Rural Poverty Project (DRPP). guidelines.  |
| **Progress** | Draft review of PRI legislation is complete, The Principal Secretary, Panchayati Raj, has proposed to pilot the implementation of PESA in a tribal district of the state, where traditional institutions and the Gram Panchayats are interfacing. Then the team will consider replacing this output with an actual implementation plan and operational guidelines for the pilot. The development of guidelines for implementation of the Act is in progress. An awareness raising strategy is being developed with key training institutes and NGOs identified for implementation. The DRPP guidelines are being revised.  |
| **Meeting the objectives of the TF** | This is the first step to implementation of the PESA act and the state would be the first to implement tribal self government. |
| **Additional funds leveraged** | Future lending is possible. |

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| **Title and Country** | **7. Implementation of Effective Nutrition Polices at the Local Level to Address Malnutrition in the Estate Sector and Rural Pockets-Sri Lanka**  |
| **Sector/TTL** | **Health TTL Sundarajan Srinivasa Gopalan** |
| **Status** | **In progress** |
| **Context and Objectives** | While the overall nutrition indicators among women and children are high in Sri Lanka, a Bank study, “Malnutrition in Sri Lanka”, 2007 has revealed pockets where malnutrition Is high. The estate sector is substantially lagging behind in this respect. SL does not have a National Nutrition Policy (NNP). A draft NNP and Action Plan drafted with assistance of UN agencies is pending cabinet approval. These have not recognized or provided for the malnutrition in the estate sector.GoSL has acknowledged the importance of a multi-sectoral approach to nutrition. This has not however extended to cross sectoral institutional arrangements. Several ministries and units such as Department of Agriculture and Ministry of Poverty Alleviation participate in the National Nutrition Surveillance. Within the Ministry of Health (MoH) there are several departments involved in nutrition activities; FHB (in charge of estate medical officers and public health midwives), Nutrition Division, and Nutrition Coordination Division (NCD). The last two departments exist separately within the same ministry Lacking a clear mandate the NCD has little power in coordinating these internal and external actors. The estate sector has indicated interest in divesting delivery of health to the local governments. A recent Bank study has also made this recommendation. The objective is to build the capacity of local governments for effective implementation of local nutrition policies to tackle malnutrition in the estate sector. This will be the first time that an attempt is made to enhance the role of LGs in the delivery of nutrition. It is hoped that the strategy and implementation plan proposed here will be incorporated in the national documents. The policy dialogue will include dialogue with clients and donors in this regard.  |
| **Outputs** | Facilitating policy dialogue among stakeholders to build consensus on malnutrition; * Review of the successful strategies and interventions to reduce malnutrition among underserved population;
* Knowledge dissemination workshops at the national and local levels

Developing ways to improve decentralized nutrition service provision to the chosen estate population and rural population* Local level coordination committees in chosen communities;
* reports from consultative meetings for strategy formulation;

Draft nutrition strategy with design of interventions for estate and rural populations |
| **Progress** | Most of the planned activities have been completed**.** * A situation analysis and review has been completed and the report is available.
* A national level workshop to facilitate policy dialogue on nutrition was held with representation from all relevant ministries, provincial representation, donor partners and NGO’s. The workshop was successful in building consensus among stakeholders on the need for a multi-sectoral and decentralized approach to nutrition interventions.
* Two local level workshops were held in Central and Eastern provinces and the strategy and draft proposals to improve nutrition presented and modified based on feedback.
* A central level coordinating committee (with provincial representation) to assist with the drafting of suitable action plans is functional and has had three rounds of discussions. Local level coordination committees which would harmonize with other rural development programs such as the Samurdhi program have been established in the two provinces at district level. Two village level coordinating committees have been established in each district to examine the feasibility of the concept.
* Strategies and action plans for improving decentralized nutrition service provision for estate and rural populations have been completed. These were based on an extensive situational analysis to determine the “what” and “how” of the nutrition environment in the estate and rural, a participatory qualitative assessment to gather views of beneficiaries and other stakeholders and an assessment of the nutrition service provision capacity at district level. This process also contributed to improving awareness regarding nutrition issues among all stakeholders. Pilot nutrition interventions have been developed for the two areas. The design includes a role for the Grama Niladhari and other local level personnel such as the Divisional Samurdhi officers.
* The draft designs were prepared following further discussions with the beneficiaries held in August 2009, and a meeting with the Central advisory/coordination group. However, at this Central committee meeting, certain concerns expressed by the other partners already working on nutrition in Sri Lanka, particularly whether the proposal is duplicative of what the others are already doing, especially in one of the two chosen districts. It was decided that a smaller working group would look into it more in-depth to enhance joint ownership of the proposal, ensure a coordinated proposal from all concerned, and to avoid duplication. Though intensive consultations were held already, and the local level participation was more than adequate, there is still a sense that a group process at the central level is necessary to ensure success. Moreover, costing for the planned pilot designs are still preliminary and needs more work. This is going to take a couple of more months to complete.
* While available data provides most of the necessary baseline data for the implementation phase (assuming JSDF funds are obtained), there are a few process indicators for which the baseline information is still needed. Moreover, if the districts for implementation are different from the districts where the design was prepared – a possibility because other partners are already working there – there would be a greater need for baseline data.

Remaining work (to be done by January 31, 2010):As the Trust Fund still has an unspent balance of nearly $30,000, these funds will be used for (a) the finalization of the follow up JSDF proposal, jointly by the key partners in Sri Lanka; (b) design and collection of baseline data; and (c) dissemination of the final report.  |
| **Meeting the objectives of the TF** | This is the first attempt to look at policy reforms leading to better nutrition delivery at the local level by involving local stakeholders including the local government. It can be used to address malnutrition in other South Asian countries.  |
| **Additional funds leveraged** | The activity will be followed up through a proposal to be made to JSDF. Grants to the tune of $ are being sought.  |

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| **Title and Country** | **8. Supporting Dialogue and Strengthening Advocacy for Decentralization in Sri Lanka** |
| **Sector/TTL** | **Decentralization TTL- Balakrishna Menon** |
| **Status** | **In progress** |
| **Context and Objectives** | The overall objective is to devise ways in which the Bank can develop a strategy for engaging with the Government of Sri Lanka on furthering local governance reforms. This objective will be accomplished through commissioning of a short strategy note on engagement, execution of policy advocacy events, training of government officials, and engagement of other donors. |
| **Outputs** | 1. Preparing and disseminating a short note outlining key policy issues and strategic options. This note will form the basis for initial engagement between the World Bank and the Government of Sri Lanka on intergovernmental reform and local government strengthening; 2. Policy advocacy through a national level workshop targeting key policymakers, civil society members and donors aimed at increasing awareness regarding decentralization and local government strengthening. 3. Short in country training for key officials on fiscal decentralization and intergovernmental reforms. 4. Half-day donor retreat with the objective of creating awareness on local government issues among key donors and bringing better donor coordination in this area |
| **Progress** | (1) Draft strategy note on a Non-lending TA Program for Decentralization completed.(2) Study tour to Kerala state in India was organized for 6 senior central and provincial officials to assess decentralization and to take part in a national workshop on local planning(3) Asia Foundation, Colombo has been commissioned to prepare a note on the Political Economy of Decentralization’. |
| **Meeting the objectives of the TF** | The activity is supporting policy advocacy, dialogue and training for implementing institutional reforms related to decentralization. |
| **Additional funds leveraged** | The Bank is financing the North East Local Services Improvement Project, which aims to put in place sustainable institutional arrangements for accountable and responsive local service delivery in the Northern and Eastern Provinces. The proposed lending is $ 75 million. It may be increased. In addition, it is expected that this support will help leverage additional financing from other DPs such as the SDC of round $ 1 million. Discussions on this are progressing well. |

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| **Title and Country** | **9. Support for An Analysis of Decision Space, Capacities and Accountability in the Healthcare Sector in WB- India**  |
| **Sector/TTL** | **Health TTL-Paolo Belli** |
| **Status** | **In progress** |
| **Context and Objectives** | Though decentralization of service delivery has taken place in India in 1992 there is still limited evidence about its impact. The Bank is interested in developing a program of work on decentralization and health to improve its support for service delivery in the sector. The Bank has conducted several studies to analyze the status of devolution of authority especially at the rural level. The study will conduct an assessment of decentralization in the health sector in the state of West Bengal. It is expected that this assessment will assist in the development of sector programs at the state, district and block levels and will serve as a baseline for evaluating those programsThe assessment will be along three related dimensions that are key to successful decentralization in the health sector. The decision space or range of actual decision making of decentralized authorities .The capacity to make and implement decisions, and the accountability of local administrative officials to local elected officials and citizens |
| **Outputs** | 1) Design of survey 2)Conduct of study in select districts3) Recommendations for policy change. |
| **Progress** | The study is under way. The team spent a full week in Kolkata in March 2009 designing the questionnaire, selecting the consultant who will carry out the field work, and working on the sampling. The selected consultants are now in the field. Field work will be completed in September 2009 and a final report by end of the calendar year. |
| **Meeting the objectives of the TF** | The assessment will be used to suggest policy reforms around decentralization of health in the state.  |
| **Additional funds leveraged** | Additional funding is possible in the future. |

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| **Title and Country** | **10. Social Audit of Local Government Reform in Bangladesh** **Bangladesh** |
| **Sector/TTL** | **Local governments TTL- Nilufar Ahmad** |
| **Status** | **In progress** |
| **Context and Objectives** | GoB has undertaken reform of the LG system to make it more efficient, responsive and accountable to citizens. It is in the process of amending key laws and regulations, setting up a LG Commission, and revising electoral laws. The Bank supported Local Governance Support Project (LGSP) aims to strengthen Union Parishads (UPs), the lowest tier of LG. The project provides UPs with transparent and predictable block grants, as well as discretion in expenditure. UPs are now held to higher standards of accountability, both to their citizens and to higher levels of government. It is expected that this would help UPs deliver services that are more efficient and responsive. It is not clear if greater autonomy and resources to UPs will translate into better services, especially for the poor, or if strengthening accountability systems will result in lower corruption. Government systems that track public expenditure do not provide answers to concerns about social and development outcomes from a citizen’s perspective. Government evaluations are vulnerable to bias. An independent social audit that captures citizen’s voices, evaluates outcomes and social and development impacts of the local government strengthening program is important. The objective is to track from a citizen’s perspective the public expenditure process—from planning, budgeting, expenditure, financial management to outcomes in a sample of LGs under LGSP. These audits would combine qualitative and quantitative information collected through independent sources to evaluate on a periodic basis successes and failures, lessons learned, and to determine course corrections to LGSP. Attention will be paid to social and developmental impacts on poor and vulnerable population groups in rural areas. |
| **Outputs** | 1) Production of training and operational manuals for training community specialists to undertake audits and for actual audits in the field.2) Training of about 50 community specialists from 10 or so nationally known NGOs in social audits in the context of decentralization and local governance.3) Independent social audits in a sample of about 100 UPs covering stages of the public expenditure process.4) Performance review of audit reports or decentralization outcomes, especially for the poor. These results will provide feedback for program improvements and policy changes. 5) Publication and dissemination of the findings of the social audit program among key stakeholders such as relevant GoB and, local government officials and civil society.  |
| **Progress** | The Social Audit Manual and Modules were drafted and training of trainers (TOT) was organized and 5 trainers trained. A number of community leaders were trained on a pilot basis for testing the social audit methodology and tools. These community leaders will organize a few social audits at the UPs and based on the results, methodology and Manual will be finalized.**Reason for delay:** As per the Bank’s procurement process, for conducting social audit in 50 UPs, TOR was drafted and Request for Expression of Interest (REOI) was published in early 2009 – both in econsult and in two newspapers – English and Bangla. Nearly 150 organizations, mostly community based applied. As most of the grassroots organizations do not have internet access, all EOIs were hardcopies. It took time to evaluate these 150 EOIs and make short-list. Currently, Bank procurement process requires that all EOIs have to be uploaded in the econsult. So the EOIs have to be scanned and uploaded – this required several days. RFP was finally sent to 6 selected firms in early July. Bank’s procurement process required econsultant, which was completed. But as most of these selected firms do not have much internet access, hardcopies have to send. A pre-proposal conference was organized with the short-listed firms on July 27, 2009. It is expected that Bank will receive technical and financial proposals by mid August. After review of the proposals, the ranked 1 will be give contract. It is expected that the work will be concluded by June 2010.  |
| **Meeting the objectives of the TF** |  |
| **Additional funds leveraged** | The work is linked to the Bangladesh Local Governance Support Project which has a Bank lending of $ and related NLTA to the tune of $.  |

Detailed Progress Report on Activities Funded in Round 3

**Progress on Activities Funded in Round 3- August 2008**

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| **Title and Country** | **1. Decentralization of Health & Education Service Delivery in South Asia Region-SAR** |
| **Sector/TTL** | **Health and Education TTL- Pablo Gottret** |
| **Status** | **In progress** |
| **Context and Objectives** | The main objective of the work program is to better understand through an analytical study the impact of decentralization, more specifically devolution, of health and education service delivery in South Asia region from a technical efficiency, allocative efficiency and equity perspectives. It will analyze the issues and gaps in knowledge and practice in decentralized health and education services in terms of intergovernmental relations (central/regional/local/community) as well as fiscal flows and public financial management concerns. The work program aims at influencing policy pronouncements and fiscal relations as they relate to the decentralization of health and education services in order to help central/local compacts in client countries. It will directly contribute to reform processes through operational support to projects in India (West Bengal, Bihar) and Bangladesh. This work program will be aligned with the broader decentralization work taking place in the region and will contribute to the proposed Regional Decentralization Strategy.  |
| **Outputs** | 1. AAA. Policy Notes will be developed to respond to the objectives outlined above. The following questions will be addressed among others,
	* What is the impact of decentralization of health and education service delivery from a technical efficiency, allocative efficiency and equity perspectives?
	* What is the evidence (from other regions as well as SAR) about the possible impact in terms of health and education outputs of alternative intergovernmental relations (central/regional/local/community) as well as fiscal flows and public financial management?
	* What is the government failure at the central level that devolution is attempting to overcome and how will this be achieved? What is the available evidence supporting success in these objectives?
	* What to decentralize and how to decentralize in terms of health and education public sector delivery?
	* What are the enabling conditions for education and health sector delivery decentralization to work?
	* What can we learn from good practices in decentralization of health and education service delivery from SAR countries and from other regions?
	* What can we learn from Conditional Cash Transfers, Results Based Financing for improving incentives for health and education sector delivery?
2. Workshops and Learning. The program contemplates two regional workshops:
3. One year after the initiation of the program. This will disseminate available knowledge and evidence based on literature review and initial lessons from the support to client countries. In addition to dissemination of the lessons learned and good practices it aims at listening to the clients and Bank staff on issues that the program may be missing and may need to be complemented in the second year of the program.
4. Dissemination workshop at the completion of the AAA and support to county support.
5. Support to Regional Decentralization Strategy. The work developed will feed into the Regional decentralization Strategy.
6. Supporting to aligning health and decentralization operations by working with health and local governance teams in South Asia to look for synergies and to also have joint programs for cross sectoral approach to decentralization.
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| **Progress** | Basic district level data is being gathered in India. Counterpart institutions for the study are being identified in the region. |
| **Meeting the objectives of the TF** | This is the first study of decentralization of health and education in the region and the aim is to suggest practical policy reforms to make decentralization work in these sectors. The work program includes support to projects in India (West Bengal, Bihar) and Bangladesh. The literature review will review evidence and good practices from different countries in the SAR and other regions of the Bank. |
| **Additional funds leveraged** | The work is being supported by the Bank to the tune of $150,000. It may also lead to future lending and technical assistance |

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| **Title and Country** | **2. Support for the development of a Municipal Borrowing Framework in India** |
| **Sector/TTL** | **Local governments TTL- Roland White** |
| **Status** | **In progress** |
| **Context and Objectives** | As urban infrastructure needs have grown and capital markets have deepened in India, access by urban local governments to these markets in order to finance their infrastructure needs has become an issue of increasing importance. However, municipal borrowing has remained low throughout the country to date. In this context, the Government of India (Ministry of Urban Development) has requested technical assistance to (i) analyze recent trends in municipal borrowing; (ii) assess the regulatory environment, focused specifically on regulatory constraints to expanded municipal access to finance; (iii) develop initial high-level proposals to address the regulatory issues responsible for the disconnect between financing need and capital market access on the part of municipalities. This is an extensive exercise which the Bank intends to fund from a variety of internal (Bank Budget) and external (Trust Fund) resources. This activity focuses on the assessment of the regulatory constraints to municipal borrowing. The specific objective is to develop a rigorous analysis of the current legal and regulatory environment surrounding municipal borrowing in India (i.e. item ii. above) which will provide the basis for the development of proposals for a regulatory framework focused on expanding a municipal debt market in India. This, in turn, will enhance the resources available to municipalities for investment in local infrastructure and services.The funds will be used to fund the services of a specialist(s) to undertake the assessment and associated costs. The work will support a process of policy reform of the regulatory environment surrounding municipal borrowing in India, which is being driven by the Ministry of Urban Development. It will engage directly with state governments - which have core powers and responsibilities in this area - in Gujarat, Madhya Pradesh, Maharashtra and Tamil Nadu. The work will focus mainly on policy analysis/design and dialogue. |
| **Outputs** | The output will be a report and related documentation (presentations, policy notes etc.) assessing the regulatory environment for municipal borrowing in India. As indicated this will provide part of the basis for and will feed into the development of policy reform proposals and related dialogue with the federal and a number of state governments on this issue. The overall outcome of the process is expected to be the initiation of reform of regulatory frameworks for municipal borrowing at central and state level. The intermediate indicator of the overall outcome will be broad acceptance of the proposals made by the Steering Committee established by the MoUD to oversee the work. |
| **Progress** |  Too early to assess |
| **Meeting the objectives of the TF** | The work feeds into the development of an institutional framework for municipal borrowing. The focus is on facilitating borrowing to fund the full range of infrastructure investment needs of municipalities. It will draw on the international experience of establishing regulatory frameworks for municipal borrowing in developing countries such as Russia, South Africa and Hungary. It is expected also to provide useful lessons for other developing countries, particularly in the S. Asia region which may wish to enhance access by municipalities to debt finance. |
| **Additional funds leveraged** | The proposed activity forms one of a suite of inter-related activities which all comprise part of an overall exercise to develop a strengthened regulatory framework for municipal borrowing in India. The project is to leverage around $200,000 additional donor and Bank funding (SIDA-$ 150,000) and Bank-$ 50,000). |

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| **Title and Country** | **3. Political Economy Analysis of Decentralization in Sri Lanka**  |
| **Sector/TTL** | **Local governments TTL- Balakrishna Menon** |
| **Status** | **In progress** |
| **Context and Objectives** | This proposal supplements the earlier grant which is currently funding three activities supporting the decentralization process in Sri Lanka. A political economy study on decentralization in Sri Lanka was being initiated under the first grant. Additional funding was sought for the study.Devolution and local government strengthening are widely debated issues in Sri Lanka, in part due to the ethnic conflict of the last two decades, which has led policy makers to explore decentralization as a potential solution to the political dispute. The 13th Amendment to the Constitution and the Provincial Council Act of 1987 were intended to decentralize the government structure by enabling the provinces to become a strong intermediate level of government. Under the 1987 Amendment, local government became the third tier government and was brought under the purview of the newly created provincial councils. Decentralization was seen as a solution to the ethnic problems in the North and East. However Sri Lanka continues to be largely centralized. From a fiscal perspective, provincial and local expenditures as a share of total public expenditures are around 12 percent. Administratively, key elements of the bureaucracy at the sub-national levels are under central control. Incentives for the bureaucracy to be accountable to citizens and their locally elected representatives are limited. Although some decentralization has taken place in Sri Lanka, it has occurred at a lesser degree than expected. LGs have not emerged as a viable unit for delivery of services and responding to constituents. Awareness about decentralization remains very limited in Sri Lanka among both policy makers and the public at large, and debates on the topic tend to be contentious. Discussions on devolution and improving government responsiveness at the grassroots level have gained more attention recently at the national and international levels following the cessation of armed hostilities in the two provinces.A comprehensive assessment of the political economy surrounding decentralization/devolution will identify and assess plausible scenarios andoutcomes that are likely to influence the wide spectrum of political, legal and policy reforms on decentralization. This will contribute to dialogue on the subject as well help target Bank programs. The cessation of armed hostilities in the Northern Province and demise of the LTTE as a threat to the country’s unity have presented a window of opportunity. It may now be easier to re-engage on issues of decentralization free from concerns about separatism or “federalism”. There is now more political space to debate issues, especially those related to the less politicized “third tier”. This could free up fiscal resources and help create a “peace dividend” for post-conflict reconstruction and service delivery functions, including those related to local governments. At the policy level, and now that the civil war is effectively over, there are signs of increasing attention being paid towards implementation of the country’s Ten Year Development Framework—the Mahindra Chintana. This places considerable emphasis on the need to improve the quality of public services to support Sri Lanka’s move towards becoming a middle-income country.The note will help better understand the evolving decentralization/devolution debate and assist dialogue with policy makers and key members of civil society. It will include a matrix of plausible outcomes against specific components of policy reforms contemplated to find out which reforms are most likely to be adopted, sustained, abandoned or modified in varying political scenarios.  |
| **Outputs** | A local institution with substantial experience on political economy of decentralization, especially in the Sri Lankan context will be engaged for this activity. The firm is expected to carry out formal and informal interviews and discussions with key stakeholders within Sri Lanka, gauge the evolving political situation based on media reports, expert opinions, etc., and review relevant documents such as existing policies, laws and regulations, parties’ election manifestos, and recent local government reform reports. The firm will also organize workshops, roundtables, focus group discussions and stakeholder surveys as needed to carry out the assignment.The note will:* Review the history of devolution and progress to date;
* Identify key stakeholders within the country and analyze their positions with regard to decentralization/devolution issues;
* Examine the current political situation based on media reports and discussions with experts to identify the likely political outcomes/scenarios;
* Review relevant policies, laws, regulations, party manifestos, local government reform reports to assess both formal and informal positions on decentralization, especially with regard to the debates and discussions surrounding 13th Amendment, and to link them with likely political outcomes;
* Identify and assess plausible scenarios andoutcomes that are likely to influence the wide spectrum of political, legal and policy reforms on decentralization and sub-national governance.
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| **Progress** |  Steps are being taken to identify the consultants for this activity. |
| **Meeting the objectives of the TF** | The note will lay the ground for policy dialogue around decentralization reforms. It is cross-sectoral to improve understanding of the forces affecting decentralization in Sri Lanka, and will inform future work vis-à-vis improving the delivery of all services, irrespective of sector. The analysis of the political economy of decentralization is being done in India, Bangladesh, and Nepal, providing opportunities for learning from other countries’ experiences.  |
| **Additional funds leveraged** | The activity is linked the North East Local Services Improvement Project (NELSIP) with lending of $ 75 million under preparation. It aims to strengthen accountable forms of local governance in the Northern and Eastern provinces of Sri Lanka. This work will also help the Bank put together a comprehensive TA program to support policy dialogue on devolution/decentralization issues and to provide capacity support for strengthening of intergovernmental systems and sub-national governments. |

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| **Title and Country** | **4. Integrated development indicators for Sub-district resource allocation -Bhutan**  |
| **Sector/TTL** | **Local governments TTL- Aphichoke Kotikula** |
| **Status** | **In progress** |
| **Context and Objectives** | Decentralization is an integral part of the democratization processes in Bhutan to facilitate a greater plurality in national and local governance for greater transparency, accountability and efficiency in public service delivery and implementation of development activities at both the national and local levels. The objective is to support the government in the allocation of resources to sub-districts (Gewog) governments by providing indicators as well as toolkit for resource allocation. The indicators at the Gewog level can improve both earmarked and non-earmarked grants. The small area estimation method (or poverty mapping), can enrich indicators for resource allocation. Indicators related to service delivery at the Gewog level would be most relevant in improving how block grants are used at the Gewog level. This would facilitate decentralization and link the process to poverty reduction. It would improve the allocation of block grants as well as other earmarked grants to Gewogs. It would improve service delivery though local level indicatorsA team is working on a poverty mapping for Bhutan to be completed in September. This would be used along with other existing data to develop the indicators The work will feed into the proposed TA on the inter-governmental fiscal system. This study is critical to implement the new results-based policy planning and resource allocation specified in the 10th Five-Year Plan (10FYP), which is Bhutan’s PRSP. RGoB is preparing a formula to determine levels of fiscal transfers from the central government to local governments based on poverty incidence, population, and geographical areas of local administrative units. To properly reflect need, inputs for the formula are to be as disaggregated as possible. The creation of a comprehensive gewog-level indicators database will be useful for the implementation of this new system. This indicator database will also be useful for monitoring the progress of development outcomes of local governments.   |
| **Outputs** | 1. Improving resource allocation mechanism to local governments. Development of indicators that will be used as a basis for rationalized discretionary grants for all local governments based on a formula that takes into consideration factors of population, geographic area, and poverty.
2. Improving service delivery though these local level indicators. Bhutan’s land-locked geography and sparse settlement pattern pose major challenges for service delivery. Providing equal access to infrastructure and services is costly due to Bhutan’s mountainous terrain, and the exploitation of externalities from urban agglomeration is limited due to Bhutan population distribution, which remains mostly rural and often remote. The indicators will make service delivery more objective than relying on perception and subjectivity.
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| **Progress** |  Work is just starting |
| **Meeting the objectives of the TF** | The design of grants based on development indicators will be an important policy reform related to decentralization and decentralized service delivery. The framework and analysis for this work will be useful for other countries that have just completed poverty map, have strong local level data. Bangladesh could benefit for the findings and examples on policy dialogue on decentralization in Bhutan. |
| **Additional funds leveraged** | It is linked to the TA on Poverty Monitoring and Statistics” which has an outlay of 85,000 and to the proposed TA on Inter-governmental Fiscal System.  |
| **Title and Country** | **5. Operations Guide and Training for Local Governance Projects- South Asia Region**  |
| **Sector/TTL** | **Local governments TTL- V. Rama Krishnan** |
| **Status** | **In progress** |
| **Context and Objectives** | The Bank is supporting local governance and service delivery in South Asia and the pipe line of lending operations has been increasing since 2007. Five local governance support projects are currently being prepared in India (Kerala, West Bengal and Bihar), Pakistan (Punjab Large Cities Project), and Sri Lanka (North East Local Services Project) with more in the pipeline (Gujarat, Andhra Pradesh, Bangladesh Urban LGSP). The concept and design of these projects are different from the usual investment lending operations of the Bank as they have a programmatic approach. While there is broad agreement on the concept, several issues come up regarding their design, from the point of the Bank’s Operational policies (OP) and Bank Procedures (BP). The standard approach to fiduciary design is not adequate to meet the decentralized nature of project implementation and the focus on institutional strengthening makes it difficult to have direct oversight of funds. The challenge is to identify operational and fiduciary designs that are in tune with the underlying concept of these projects, and within the rubric of the Bank’s Operational Policies and Business Processes. This lack of clarity leads to delays in project preparation. There is the need for guidelines on components of Bank project design including Financial Management, Procurement, Environment and Social Safeguards .This will help Task teams to view the design and operational issues, understand underlying project risks and identify solutionsThe objective is to prepare this guidance note to enable Task Teams in SAR preparing local governance operations to (1) achieve a common understanding of the operational issues involved especially regarding key operational aspects relating to Financial Management, Procurement, Environmental and Social Safeguard and not “reinvent the wheel” for every new project; (2) learn from past experience both within SAR and from other regions of the Bank on how these operational issues were addressed so that it gives the Task Teams more options to consider while designing projects and (3) make project design more efficient by informing task team members of the possible solution options that can enable them to put in place robust implementation and risk management arrangements.The ultimate benefit from well designed and efficiently implemented projects accrues to client governments. |
| **Outputs** | The expected outputs will be an “Operations Guidance Note for the Preparation and Supervision of Local Governance Projects in SAR”. In the course of preparing the note, the grant funds will be used to organize a work shop of experienced Bank staff and other specialists from various regions of the Bank to discuss the key issues relating to the Financial Management, Procurement, Safeguards and other operational aspects of local governance projects and identification of best possible options for project design and risk management. Training will be organized for local governance and staff dealing with procurement and related issues in the country offices and at headquarters. |
| **Progress** | The work is set to start shortly. |
| **Meeting the objectives of the TF** | It will help in designing projects that address the issues of reform around decentralization and service delivery.  |
| **Additional funds leveraged** | It will help prepare local governance projects in Punjab (Pakistan) Kerala, West Bengal, Bihar and Sri Lanka in the current FY, averaging around $75-100 million in outlay. It will also benefit task teams of the various local governance projects in the pipeline |