

2010

**AusAID-SAR Policy Facility for
Decentralization, Local Governance
and Service Delivery**

Annual Progress Report 2010

**The World Bank Group: South Asia Region
October 2010**

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AusAID-SAR Policy Facility for Decentralization, Local Governance and Service Delivery

Annual Progress Report July 2009 to October 2010

1. Background

The period under consideration was one of relative stability in South Asia as compared to the last reporting period which saw several regime changes that moved the region towards more democratic forms of government. South Asia however continues to be plagued by systemic and sporadic violence in Afghanistan, Pakistan and India. The security situation in Pakistan remained of concern and the country was hit by devastating floods in July 2010. In Nepal the stalemate between the ruling coalition and the Maoists now in opposition continued and in the absence of a consensus the shape of the proposed federal structure of the country remains unclear. The transition to a parliamentary democracy also gave rise to new hopes and aspirations and new voices emerged eager for greater representation and a share of the political pie. Given this the Bank's approach in Nepal has been to maintain a low foot print while continuing to engage with the government and stakeholders on decentralization and service delivery. In Sri Lanka there was a renewed focus on development in the North and Eastern Provinces after the end of conflict.

The transition to more democratic forms of government and the armed conflict both place greater emphasis on decentralizing power and to state building through greater voice, participation and accountability. The window of opportunity to engage on these issues with client governments increased. However in Nepal and Sri Lanka emerging from armed conflict, the modalities of this transition are still not clear, while the decreasing security situation and subsequent floods in Pakistan made it difficult to engage effectively on the ground. These are the varied and often difficult operating environments in which Task Team Leaders (TTLs) facilitated policy and institutional changes around decentralization, local governance and service delivery.

Within the Bank too there were some changes when the program manager for the Facility Junaid Ahmad moved from the region and William Kingdom, the Acting Sector Manager for the South Asia Urban and Water unit that administers the Trust Fund (TF), took over.

Continuity in managing the TF has however been maintained since Tara Sharafudeen has remained the Program Administrator of the Facility since its inception in January 2007.

There were no high level meetings between AusAID and South Asia Region of the World Bank during this period. The annual review of the TF took place in the region on October 26, 2010 when Tara Sharafudeen met with AusAID South Asia representatives, Mark Bailey, Development Counsellor, South Asia and Gopal Menon, Country Manager, India. The minutes of this meeting have been shared with AusAID. The Task Team Leaders (TTLs) continued to brief AusAID representatives in the region. The AusAID Country Manager in India along with four other officials from the High Commission attended the National Workshop on the Innovations Fund for Secondary Education in India in September 2010, funded by the Facility.

The report is divided into two parts the first part looks at the financial summary and the second at the impact of the TF.

2. Financial Summary

2.1 Receipts

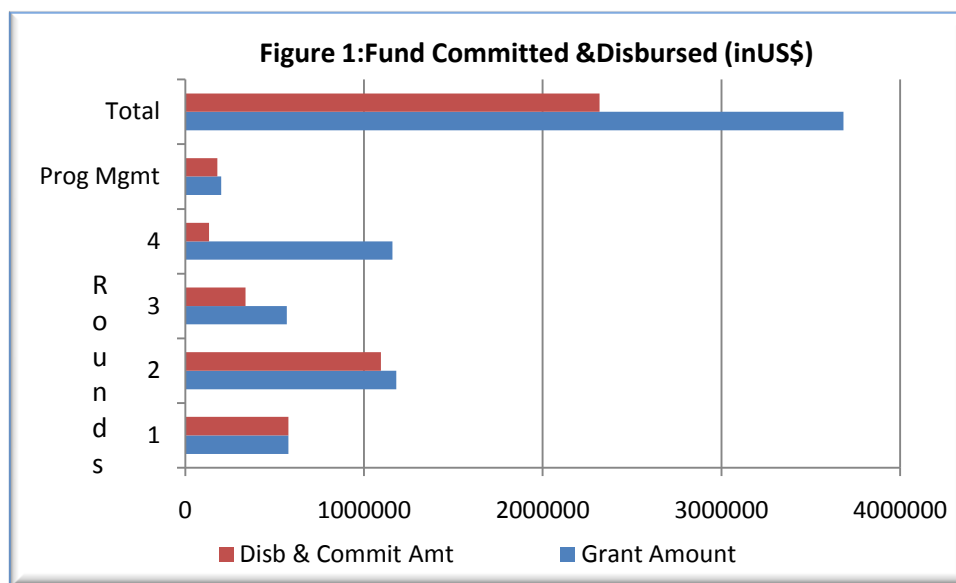
The TF has a corpus of AUD 6.15 million. A total of four tranches have been received from AusAID of 1.25m, 1.5m, 0.75m, and 0.75m from December 2006- January 2010. Besides this an additional one time AUD .4m was received for the Water and Sanitation Initiative in India (WSI-India), making a total of AUD 4.65m. Total receipts in US dollars amount to \$ 3.90m. See *Table 1 Receipt of Funds*.

Table 1: Receipt of Funds 2007-2010

	Amount in US\$		
	Amount Received by WB	TF Admin Charges	Amount Received by Unit
Tranche 1 (FY2007)	986,250.00	49,312.50	936,937.50
Tranche 2 (FY2008)	1,397,100.00	69,855.00	1,327,245.00
Tranche 3 (FY2009)	486,000.00	24,300.00	461,700.00
Tranche 4 (FY2010)	1,030,665.00	51533.25	979,131.75
Total	3,900,015.00	195,000.75	3,705,014.25

2.2 Allocations

Four rounds of activities have been supported with these four tranches. Allocations of \$ 3.68m has been made and the rest \$ 22,146.90 is held in the Just in Time (JIT) Facility. Activities in Round 1 were allocated \$ 576,468.82. Round 2 activities received \$ 1,180,833.30. While Round 3 and 4 received \$ 566,997.20 and \$ 1,158,568 respectively. The details of allocations per activity are in *Annex 1 Disbursements and Commitments in Rounds 1-4*. *Figure 1 Total Allocation*.



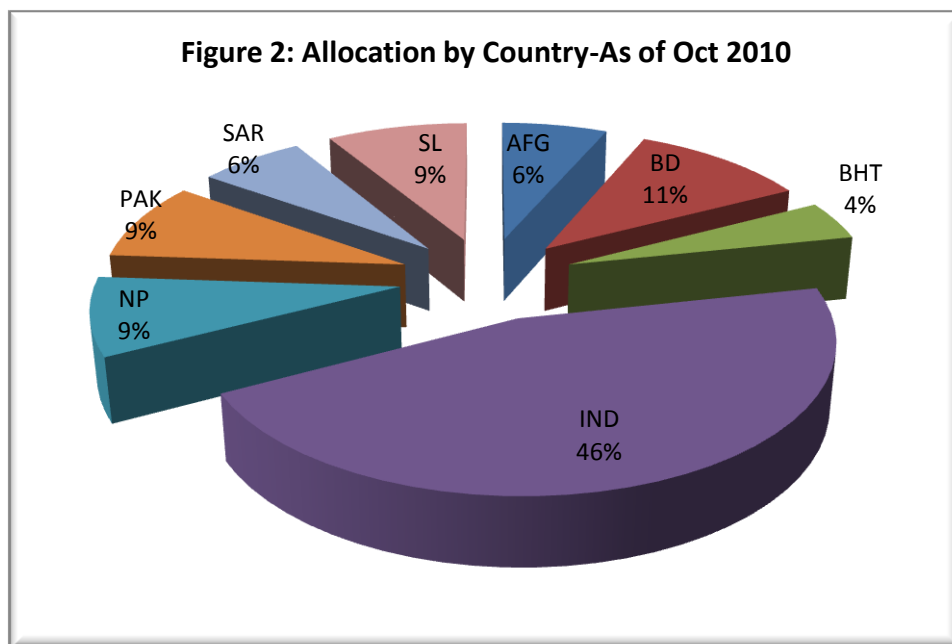
From the main window 32 activities have been funded, 8 in Round1, 10 in Round 2, 7 in Round 3 and 7 in Round 4. In addition 14 activities were funded under the JIT window and 2 under WSI-India. A total of 46 activities were funded. The number of activities funded from the main window has decreased due to the smaller tranches received. There has however been increased usage of the JIT facility.

2.2.1 Allocation by Country

Analyzing allocations by country we see that funds have been allocated for activities in all countries that make up the South Asia Region (SAR) of the World Bank except Maldives. See *Figure 2 Allocation by Country*. India received 45.7% of funds followed by Bangladesh with 10.9% and Nepal, Pakistan and Sri Lanka with 8.7% each. Afghanistan and Bhutan

received 6.5%, and 4.3% respectively. Activities that span more than one country and were regional in nature received 6.5% of funds as against 14.2% of funds last year.

In comparison to the last reporting period there were significant changes in the allocations by country. While India continued to be the largest recipient of funds under the TF (31.5% to 45.7%), Bangladesh moved to the second position from sixth (4.6% to 10.9%) The allocations to Nepal (8.1% to 8.7%), Sri Lanka (6.9% to 8.7%) and Bhutan (2% to 4.3%) also increased. Correspondingly allocations to Pakistan (16.5% to 8.7%) and Afghanistan (16% to 6.5%) were reduced. The last is due to the uncertain situation in Pakistan and Afghanistan which put the decentralization agenda on the back burner and due to the availability of other TFs for Afghanistan. The significant increase in the share of India, Bangladesh and Sri Lanka reflect the relative stability and increasing commitment of these governments to state building through voice, participation and accountability.

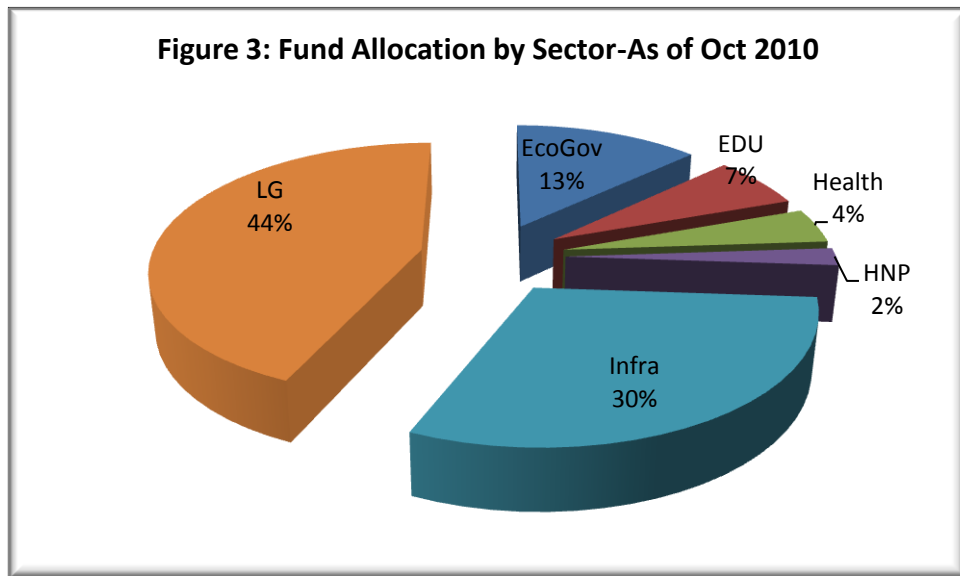


2.2.2 Allocation by Sector

The sectors covered by the Trust Fund (TF) are economic governance, infrastructure, water and sanitation, health and education. Local government receive the largest portion of allocations (43.5%). This was followed by the infrastructure sector covering energy, transport and water and sanitation with 30.4%. Economic governance which covers the work on the intergovernmental fiscal systems received 13% of resources. The health and education

sectors were funded from Round 2 and received 13% of funds. Please note that HNP is an activity that covers both health and education.

The share of local governments/governance (27.2% to 43.5%) and infrastructure (30.4% from 16.2%) increased while economic governance (29.2\$ to 13%) and health and education (25.4% to 13%) saw a reduction in their share. *See Figure 3- Allocation by Sector.*

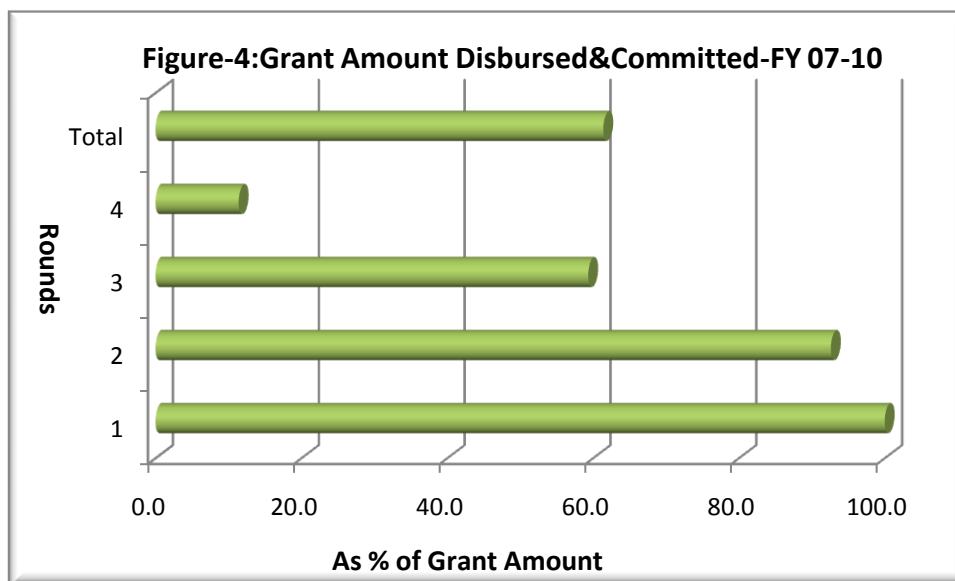


2.2.3 Allocation under Just in Time (JIT) Window

The JIT window was created to build in flexibility in responding to urgent requests from clients in the interim period between annual allocations. The 14 activities under the JIT window obtained 7.81 % of total allocations. This is an increase from the 3.25% in the last reporting period. The share of JIT activities has increased from 2 in Round 1, to 3 in Round 2, to 6 in Round 3 pointing to the increased ability to respond to opportunities for institutional and policy change around decentralization, local governance and service delivery.

3. Disbursements and Commitments

A key quantifiable performance indicator for the TF is the amount of commitments and disbursements. Commitments refer to funds set aside under contracts. The overall figure for disbursements and commitments is 62.93%. This however does not reveal the whole picture. A better indication of performance is obtained by looking at commitments and disbursements by different rounds. This is because allocations are staggered by rounds. Round 1 was completed in May 2007 and all activities are closed with 100% disbursements. Any residual funds have been reallocated to tasks in subsequent rounds. Activities were funded in Round 2 in May 2008. Several of these have closed while others are in the process of being closed. The corresponding figure for Round 2 is thus 92.6%. Round 3 has commitments and disbursements at 58.34% and the last round at 11.4%. See *Figure 4- Grant Amount Disbursed and Committed and Annexe 1 for Details of Commitments and Disbursements by Activity*. The TF is disbursing well and there are no problem projects.



4. Program Management

The innovative and strategic management of the Facility continues to be recognized as a best practice by the Bank. At the invitation of the Bank's TF department, the program administrator made a presentation on the management of the TF at a special training for TF managers from the South and East Asia regions of the World Bank, in Singapore in July 2010. TTLs and Sector Managers have appreciated the proactive approach taken in

managing the TF and the continuous engagement with Sector Directors, Country Directors, Sector Managers and TTLs regarding possible opportunities to fund activities that meet the objectives of the TF. Through this effort at building a partnership with sector and country teams the program continues to help define the Bank's work program on decentralization, local governance and service delivery. A concerted dialogue with the health and education team initiated the first work program on health and education decentralization in the region.

As a result of the smaller tranches received since 2009 a strategic decision was taken at the level of the Sector Director's Forum (SDF) the body that oversees the TF, to switch from a region wide call for proposals, to funding activities based on discussions with the concerned Sector Managers. It was also decided to allocate a portion of the funds to the health and education sectors for three years starting in 2009 to enable them to develop a work program on the decentralized delivery of health and education. It is hoped that after this period they would have an active program that would be funded from their own budget.

Quality at entry is kept high by assisting TTLs interested in applying to the Facility in strengthening their proposals. TTLs engrossed in the delivery of operations, have welcomed the opportunity afforded by the Facility, to examine in more detail, the policy impact of proposed interventions. They are assisted in thinking through the policy and institutional reform process. This requires looking at the entire reform cycle from the background of the reform to be supported to follow up to the activity being funded. For any reform to be successful there has to be strong client support. The extent of client buy in is assessed and only those proposals that have strong client and Bank country team support are funded. This is to ensure that activities funded will be completed successfully and that no stand alone activities are funded.

A TF that supports policy and institutional changes around decentralization, local governance and service delivery has to work within the political economy of each country to be successful. In administering the TF and in selecting proposals for funding an understanding of the political economy is crucial. Only activities that are supported by the political environment and will have sustainable impact are supported. This iterative process ensures that weak ideas are not taken further and that only high quality proposals make the grade. This has enabled the Facility to have an impact much beyond the small grants it makes. This active support has been appreciated by TTLs and management. Both the SD Forum and AusAID have commended the quality of proposals funded. See ***Box 1 Local Strategies to***

Address Malnutrition in Sri Lanka for an example of how the quality and focus of proposals was enhanced with substantive results.

After tasks are funded, TTLs are guided through the Grant Funding Request (GFRs) which is

Box 1: Local Strategies to Address Malnutrition in Sri Lanka

The Sri Lanka health team had initially proposed strengthening data gathering at three agencies involved in national nutrition programs. During discussions on the proposal some key information was obtained. Despite the overall high health indicators in Sri Lanka a Bank study found significant pockets of malnutrition in rural areas and in the estate sector. It was recognized that for interventions to be successful in improving nutritional status they has to be made at the local level. The proposal was reshaped to focus on designing local level interventions to tackle this issue. Such interventions would be local owned and would have the inputs and participation of the local community, NGOs, government agencies including the local government. The proposal was thus turned around and the team has achieved great success with designing local level nutritional interventions with community participation. They have now received \$ 2.9m from JICA to improve the nutritional status of persons displaced by the conflict in the North East. A small intervention thus could go a long way to changing malnutrition figures in Sri Lanka.

the Bank's new electronic system to created child TFs for each activity funded. Care is taken to ensure that all TTLs complete this process and that the funds are transferred into their child TFs promptly. Disbursements and commitments are then closely monitored on a monthly basis through a customized spreadsheet. This has allowed for interventions to be made quickly if tasks are moving slowly.

Three years of proactive dialogue and support have ensured that the value of the Facility is recognized by management and TTLs alike. The activities funded are fully embedded in the work program and strongly owned by senior management. The Sector Directors Forum (SDF) comprising all the Sector Directors, the Chief Economist and the Operations Director who represents the SARVP sign off on allocations. The program management team also reports to the Regional Management Team (RMT) consisting of the Vice President, SAR, and Country and Sector Directors

Another effective contribution from the program management side has been the creation of an innovative Just in Time (JIT) window for the Facility. In the normal course after funds are allocated once a year there would be no funds leftover to respond to requests from clients'

for timely assistance. The setting up of a JIT window has resulted in greater flexibility in responding to opportunities to support reform as they arise.

5. Impact of the Facility

The impact of the facility can be assessed at two levels, at the level of the client and at the level of the Bank. In gauging impact at the country level it is important to realize that reforms are owned and undertaken by client governments. Development partners like the Bank can only facilitate this process. These reforms are often difficult to undertake and are transaction and time intensive processes whose impact is visible many years later. An activity takes usually two years to be completed. Given this the influence of the Facility is starting to be felt as it nears the end of its fourth year.

At the Bank the Facility has impacted not only the reforms supported through lending and advisory services, it has also had a catalytic effect on the way decentralization, local governance and service delivery issues in South Asia are addressed.

Within the Bank it has raised the profile of the sector, enabling a new line of lending in the form of local governance support programs in Bangladesh, Nepal, Sri Lanka and India. Technical assistance has also been provided on issues related to decentralization, local governance and service delivery in these countries and in Afghanistan and Pakistan.

5.1 Meeting the Objectives of the Facility

Historically, services in South Asia have been delivered by line departments of the central or state governments or by public sector enterprises and utilities. In recent years, the line agency model has been complemented by community based systems. There is now a growing recognition that scaling up and sustainability of community based systems will require a counter-part tier of local governments to manage the scaled up delivery of services and offer a forum to reflect the voice and preferences of communities.

The Facility facilitates the effort of clients to develop and implement the institutional and policy reforms needed for efficient and accountable service delivery at the local level. The reforms target the institutional frameworks (fiscal, administrative, regulatory and accountability) required at the national, state and local levels for local service delivery. These reforms in the form of shifts in policy, budgetary allocations, new and better forms of service

delivery among others, would lead to direct strengthening of sub-national and local governance for delivery of services

The support offered by the Facility covers the spectrum of policy and institutional change from advocacy, dialogue, design, implementation to monitoring and evaluation. The activities funded include capacity building, knowledge sharing and networking to perform new roles, learning from regional and global best practices and maximizing innovations and synergies across sectoral and geographical boundaries in SAR.

Within the Bank the effort is to galvanize a cross-sectoral regional support program for institutional reform focusing on decentralization, governance and service delivery. This would enable sectors to think about the linkages to decentralization, in particular to local governance and service delivery

The twin objectives of the Facility are being met at multiple levels. In the region through policy advocacy and dialogue with clients, through partnering and leveraging the Bank's and other development partners' lending and through cross sectoral approaches within the Bank.

5.1.1 Facilitating Policy and Institutional Reforms in South Asia

Only activities that support the policy and institutional reforms needed for efficient and accountable service delivery at the sub-national level are funded. The work in Afghanistan that looked at inter-governmental fiscal flows led to a request from GoA for assistance to look at the entire framework with special attention to the sub-national level. The property tax administration work has led to the training of tax officers in Punjab province to implement the new property tax reforms. Citizens in Bangladesh at the level of the lowest tier of local governments will be holding LGs accountable through social audits for the first time. The metro area of Greater Raipur in Chhattisgarh state in India will for the first time have an Urban Metropolitan Transport Authority for better coordination in planning and implementing transport networks. In Bhutan funds will flow to the local level based on development indicators that take into account both poverty and infrastructure deficits. These are some of the policy and institutional reforms that the Facility has facilitated in the region.

5.1.2 Building a Cross-Sectoral Work Program

The Facility has been responsible for breaking long held sectoral silos in the region by engaging with health and education colleagues, to develop a work program that examines local health and education delivery in South Asia in relation to accountability and outcomes.

Currently the approach to decentralized service delivery of health and education in the region is through a sectoral perspective, leading to inconsistencies in approaching the issue. The lack of a common understanding of the issues involved and their impact especially the interface of local governments and communities with sectoral objectives affected the ability to be innovative and effective in meeting client demands. The work program will approach the issue from a policy reform perspective that cuts across sectoral boundaries and supports sectoral linkages to decentralization, improved local governance and service delivery. The region's first analytical study of the role of local governments, line departments and communities in efficient and accountable service delivery is now underway. At the operational level the effort is to find synergies between the region's local governance and health and education programs. Within the region the outcome would be multi-sectoral programs that allow for sectoral outcomes in health and education to be linked to the decentralization process.

5.2 Just in Time (JIT) Window

The Just in Time window is a flexible fund available all year around to support urgent interventions that utilize a time bound opportunity to be part of reforms around decentralization, local governance and support. If this opportunity for reform did not get a

Box 2: Effective Political Economy Assessment of Regime Change in Bangladesh

The transition from a caretaker government supported by the military to a democratically elected one in Bangladesh was fraught with uncertainty regarding the future of the decentralization agenda supported by the Bank. The JIT Facility enabled a rapid political assessment to be made of the implications of this change for this agenda. This allowed the Bank to engage in an informed dialogue with the new government that has paid dividends. The new government supported the agenda and held the first elections to the upazillas (one of the tiers of local government) in 20 years. The new government is also reviewing the various local government acts with a view to improving them. . It also resulted in the Bank's Local Governance Support Program being scaled up by an additional \$ 625m. The consultant who prepared the assessment went on to become an adviser to the new Prime Minister.

just in time response the window for facilitating reform would be closed. The JIT window has proven effective in meeting client and TTL requests for assistance on a turnaround basis. Requests to this window have been increasing as TTLs realize the value of the window in helping them respond promptly to an emerging situation. A case in point is the effective use of the Facility in Bangladesh as illustrated in *Box 2 Effective Political Economy Assessment of Regime Change in Bangladesh*, to keep the decentralization agenda alive when the caretaker government transitioned to an elected government. The timely use of the facility enabled a more informed dialogue with the new government which resulted in continued support to the decentralization process and increased lending to the Bangladesh Local Governance Support Program.

5.3 Leverage: Financial

The \$3.9m received from AusAID has been leveraged or boosted by \$9.22bn of Bank lending and co-financing from bilateral and multilateral partners. This includes co-financing from the Government of Pakistan, SDC, SIDA, DANIDA, JBIC, JICA, PHRD, GTZ, ADB, DfID, GEF and ARTF. The last two are multi-donor consortiums. Refer to details of this leverage by activity in *Annexe 2 Details of Funds Leveraged in Rounds 1-4*. This has expanded the reach of the Facility several fold. This leveraging has been possible through contributing to project preparation for Bank lending, or through technical assistance and/or follow up activities and projects. This indicates that activities funded were not stand alone tasks but were part of significant projects or could expand the scope or add value to proposed activities or could pave the way for Bank lending.

5.4 Leverage: Non-Financial

When assessing impact, the non-financial aspects of leverage are often down played or not given as much importance as financial leveraging. These are however significant and if not even more important in terms of the ability to increase the reach of the TF. The Facility leverages not only the Bank's lending but all its procedures and process. It also piggybacks on staff time and travel for the tasks funded, the substantial portion of which are met by the Bank. This has deepened its impact at no cost and avoided duplication of efforts. It also takes advantage of Bank's relationships and dialogue with clients, bringing the Bank and AusAID to the table when far reaching reforms are being discussed. See *Box 3-The Innovation Fund for Secondary Education in India* below is a case in point,

Within the Bank it has resulted in the mainstreaming of decentralization, local governance and service delivery and the first work program on decentralized delivery of health, education in the region. It has also contributed significantly to building knowledge in this field through the **AusAID-South Asia Decentralization Series** of seminars the premier knowledge space on decentralization at the Bank. There have been 80 presentations in the series to date. Besides staff at headquarters and in the field it draws an audience from think tanks, universities and development partners in Washington DC and around the world. It also serves as a platform to showcase the work of the Facility.

5.5 Increasing the Depth and Breadth of Bank's Engagement

The Facility has increased the depth and breadth of Bank's engagement in the sector. It has done this by bringing added value to or expanding the scope of Bank lending and advisory services. It has also enabled new areas of engagement to be undertaken. These aspects will be highlighted when we examine the sector wise impact of the Facility below.

5.6 Impact by Sector

The sectors supported by the Facility cover health, education, infrastructure, economic governance and local government/governance. In all sectors activities have been funded that have increased the scope of and brought additional value to Bank projects. Activities have also added to knowledge in the field through analytical work and given the Bank an entry point to new lines of business.

5.6.1 Human Development Sectors

The human development network at the Bank covers health and education. Since 2009 the effort has been to build a work program within this unit that covers decentralized delivery of health and education. This is becomes even more important since many of the MDGs related to education and health can be realized only through interventions at the local level. Traditionally these issues are addressed in sectoral silos and the region's increasing decentralization of functions that include primary health and education delivery to local governments has not received much attention. A discussion with the Director HD indicated that accountability in relation to local delivery of health and education is a major concern. A new position of Chief Economist (CE) had been created in the unit and the terms of reference included examining the issue of decentralization and health and education delivery. This

opportunity to engage with HD colleagues was seized upon, and as a result the first major analytical work that looks at the issues related to decentralized delivery of education and health in South Asia has been undertaken. The work which is ongoing will inform Bank's future lending and advisory work.

Education

The effort in this sector has been focused on policy dialogue and design around improving

Box 3: The Innovation Fund for Secondary Education in India

The Bank has been engaged in a dialogue with the Government of India (GoI) for sometime on support to the new centrally sponsored scheme for secondary education in India. This scheme Rashtriya Madhyamik Shiksha Abhayan (RMSA) is expected to address the issues facing secondary education in India. The Bank and several other donors are supporting the roll out of the program. As an additionality to complement the RMSA and Bank's support for it, a National Innovation Fund for Secondary Education in India has been proposed by the Bank. The NIF will be the first such fund in India and it is also supported by DfID and the EU. It will give states a greater role in the conceptualization, financing and implementation of innovations designed to improve the delivery of secondary education services throughout India. This in turn can influence GoI's future fund flows for secondary education. The JIT window funded a national stakeholder workshop where 100 key stakeholders from 35 states and union territories discussed an operations manual. The workshop was attended by the Country Manager for India, AusAID and four officials from the Australian High Commission.

secondary education in India. The quality of education is key to a providing a work force for India's rapidly growing economy. The Bank has been involved with the GoI's program to support primary education in India for several years. It was now seeking to extend this support to reform of secondary education.

The Facility funded two activities that brought significant added value to the Bank and GoI's effort to reform secondary education. This included the first roll out in South Asia of the OECD's Program for International Student Assessment (PISA) whereby secondary students in India will be compared with counterparts across 70 countries. This would be the first international comparison of reading, math and science skills of students in secondary schools in India. The second example in **Box 3** is the **National Innovation Fund** for secondary education in India.

Health

South Asia has some of the highest malnutrition figures in the world. Given the gravity of the problem the SARVP has recently asked the SD and HD units to work together to tackle this issue. A Regional Malnutrition Strategy is being drafted. However the Facility has moved faster on this issue and has funded an activity in 2008 that focused on tackling malnutrition at the local level in Sri Lanka. See details in **Box 1 Malnutrition in Sri Lanka**. Sri Lanka has some of the best human development particularly health indicators in the region; however a Bank study found significant malnutrition in the estate sector and in rural pockets. Based on this the TTL working on health issues in Sri Lanka was encouraged to explore the possibility of local level interventions to address the issue. The significant behavioural changes required to boost nutrition levels are best addressed at the local level. Based on the work funded by the Facility, which developed a framework with stakeholder participation, to tackle malnutrition at the local level, the team received a \$ 2.9m grant from JICA to address malnutrition among the displaced population in the former conflict areas in the northeast. A grant of \$ 80,000 thus has leveraged \$ 2.9m. This work has enabled the Bank to enter a new area of engagement in devising local level strategies to increase the nutritional status of the local population.

5.6.2 Infrastructure Sectors

The infrastructure sectors where activities were funded are water and sanitation, transport and energy. Besides this an activity that looked at the overall infrastructure issues in India was also supported.

Infrastructure

The GoI's High Power Expert Committee (HPEC) that is estimating the urban infrastructure financing needs of Indian cities has been supported through a JIT grant/ The grant enabled technical assistance for better estimation of the infrastructure needs, and knowledge exchanges with experts and practitioners in China and Brazil. The committee reports to the Prime Minister. The report which is expected to be released shortly, will influence GoI's and the private sector's investments in urban infrastructure in India in the coming decade.

Water and Sanitation

Activities related to the WSS sector are ongoing and their impacts are expected to be realized from 2011. They have enabled the Bank to sustain a policy dialogue on the sectoral reforms

needed in India to address the low tariffs, poor cost recovery, lack of clearly delineated service providers, and the poor accountability/autonomy of providers where they exist. Other challenges include low managerial/financial capacity and excessive politicization in the larger cities, often with supply driven/monopolistic agencies having sector responsibility at the state level. Sectoral financing is reliant on grants from government for investment and recurring expenses. In the rural segment WSS has relied on community based schemes, these need to be linked to local governments for greater accountability and sustainability, reforms are needed to decentralize service delivery, improve governance, build capacity and involve NGO's and private sector providers. Local governments remain weak and their capacity needs to be augmented both in the rural and urban areas. Urban schemes face a lack of interest from local governments to provide WSS services since they can blame the state for poor service.

The activities supported leverage the Bank's collective experience in the sector. This has ranged from policy advocacy and dialogue on incentive based reform in the state of Maharashtra, to examining W&S reforms in Mumbai, to supporting GoI's flagship Jawaharlal Nehru National Urban Mission (JNNURM) for scaling up 24x7 water supply in Indian cities. The JNNURM is to be supported by the Bank through a \$ 1 billion Urban Transformation Project. At present there is no city that receives 24 x7 water in India.

The WSI-India initiative funded work that looked at the institutional and capacity building needs of service providers in cities in Uttar Pradesh that contribute to polluting the Ganga in a major way. This work feeds into the \$ 1bn proposed Bank support to the National Ganga River Basin Authority for cleaning up the Ganga, which is under preparation. A JIT grant also enabled the Bank to compile and then organize a workshop to present the lessons learnt from the Bank's 10 year experience of Rural WSS (RWSS) programs in India as an input to GoI's review of its RWSS schemes. This review in turn will influence future policy and institutional changes in the sector in India.

Transport:

In the transport sector too, the Facility has contributed to significant institutional reforms. In India, fragmented institutional arrangements and ineffective planning and coordination in the urban transport sector have been identified as critical institutional barriers which prevent Indian cities from providing efficient and accountable urban transport services. In metropolitan areas with multiple local jurisdictions, several agencies are involved in the

delivery of transport services overlapping national, state and several municipal actors. The National Urban Transport Policy 2006 of GoI took note of this problem calling for the establishment of “Unified Metropolitan Transport Authorities (UMTAs)” in all metro regions with populations over one million for coordinated planning and implementation of urban transport. However no framework or capacity building was provided for constituting UMTAs. A few cities designated UMTAs, which were at best consultative committees at the state level with insignificant representation from cities in the metro region. The proposal funded by the Facility piggybacked on the Bank’s policy dialogue for the Sustainable Urban Transport Project (SUTP), for the development of a detailed policy framework and implementation plan for setting up UMTAs in one metro Greater Raipur from among the 9 demonstration metros in the project. The work is expected to be completed in December 2010. This again illustrates how additional value was added to the engagement on SUTP to cover UMTAs.

In Pakistan a strategic assessment of transport needs in Punjab province has been funded under the JIT window. This increases the scope of the proposed \$ 300m Punjab Large Cities Project (PLCP) to include urban transport. In Pakistan there is no separate agency that is in charge of urban transport. The Planning Commission was identified as a key counterpart to take ownership of reforms in this sector. The objective of the assessment is to help identify the key policy and institutional issues to be addressed, as well as major infrastructure requirements in the urban transport sector in Punjab province. It is expected to not only provide critical inputs to the preparation of the PLCP, but also utilize the window of opportunity provided by the preparation of the project to advance the policy dialogue with the government on urban transport issues.

Energy:

Two tasks have been funded in this sector. One evaluated and documented the experience of power sector reform in the state of West Bengal (WB) in India and used it as a learning experience for other states and countries in the region contemplating reforms. This was done through preparing a report on the reforms and presenting it at a knowledge and experience sharing workshop in New Delhi to which key policy makers from Indian states were invited. It was important to take note of the WB experience of power sector reforms, since this left leaning government of the state has traditionally been reluctant to reform this sector. The

report and workshop thus served as an entry point to discuss the politically difficult topic of power sector reform in India.

The support for off grid rural electrification in Pakistan enabled the Bank to support a new area of engagement. Pakistan despite its large renewable energy sources faces severe energy shortages. There is a dispersed population of 15 million in coastal, desert or mountainous areas away from the grid where renewable energy could be a feasible solution. Both the government and donors have supported numerous projects and tested most renewable energy forms in the last two decades. While neither technology nor funds were major impediments here, these investments have proved to be unsustainable. Decentralization by putting local governments and communities in the driving seat in project decisions, implementation, financing, and maintenance offers a solution for sustainable scaling up.

An in-depth analysis of the present off-grid rural energy projects that looked at key underlying socio-economic and governance factors was done. The testing of sustainable decentralized solutions for large scale rural electrification was also done in sample villages. Frameworks for off-grid rural electrification projects through either community operation and maintenance or a private operator model were developed. The Alternate Energy Development Board in Pakistan has started to implement these models to stabilize projects installed in the recent years without a sustainable governance framework AEDB is piloting the models with investment from GoP to the tune of \$5m

5.6.3 Economic Governance

Economic governance covers the work that looks at the inter-governmental fiscal system to improve service delivery by local governments. This work has covered reform of the inter-governmental fiscal framework in Afghanistan to developing a municipal borrowing framework in India to enable local governments to borrow from the open market. In Pakistan the scope of Bank's work on tax reforms was expanded to support effective administration of the property tax reforms. In Nepal it has taken on the restructuring of the Town Development Fund, and the development of a business plan in the light of the proposed transition to a federal structure. The TDF is responsible for funding municipal infrastructure in Nepal.

In Bhutan as an add-on to the country's poverty assessment supported by the Bank, the same data was used to develop indicators that would allow for transfer of funds to the local

level by the National Gross Happiness Commission based on poverty indicators and infrastructure needs. In India a training program and a pilot training course is being developed for State Finance Commissions in India opening up a new field of involvement. See **Box 4-Training for State Finance Commissions in India.**

Box 4: Training for State Finance Commissions in India

Under India's legal framework for local governance, all states have to constitute State Finance Commissions (SFCs) every five years to make recommendations to concerned state governments on the transfers to local governments. The SFCs thus play a crucial role in terms of the funds available at the local government level for service delivery. The capacity of SFCs is weak in many states. There are usually no technical secretariats providing institutional memory and ongoing data collection and analysis. Four states, (Karnataka, Bihar, Kerala and West Bengal) with local governance support projects supported by the Bank are setting up technical units for the SFCs. They would be the first clients for a training program. The proposal just funded is to design training modules for SFC members and technical staff in partnership with international and national institutes and to deliver one training on a pilot basis. The training module can then be finalized after getting feedback from participants and can be implemented on a regular basis by reputed Indian institutes.

5.5.4 Local Government and Local Governance

Support to this sector addresses core issues around voice, participation, accountability and the strengthening of local governments to delivery accountable and effective services. In the first category falls the first Social Audits of local governments in Bangladesh illustrated in **Box 5: Holding Local Governments Accountable in Bangladesh.**

In addition to this in Round 4 the development of accountability frameworks that support social audits by women of the infrastructure works under taken by the Bank's North Eastern

Local Services Implementation Project (NELSIP) has been funded. These are all new engagements for the Bank in South Asia. In Round 1 the economic evaluation of the multi-donor supported National Solidarity Program (NSP) in Afghanistan resulted in additional support for a third round and in convincing the Ministry of Finance of the economic value of the infrastructure projects undertaken at the community level.

Box 5: Holding Local Governments (LGs) Accountable in Bangladesh

The Facility has funded the training of NGOs for the first social audits of LGs in Bangladesh. GoB has undertaken reform of the LG system to make it more efficient, responsive and accountable to citizens. The Bank supported Local Governance Support Project (LGSP) is providing Union Parishads (UPs), the lowest tier of LG with transparent and predictable unconditional block grants. 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 reduction in corruption. An independent social audit that captures citizen's voices, evaluates outcomes and impacts is crucial. An NGO the Village Education and Resource Center has been contracted through open bidding to conduct social audits in 50 UPs in Dhaka Division. A Social Audit Manual has been finalized with feedback from government, UP leaders, communities and development partners. The senior program officer from Australian High Commission attended the roundtable to provide feedback on the manual. Training of Trainers (TOT) was completed in September 2010 and a social audit strategy and work plan with monitoring indicators has been developed. Citizens' groups at the village and UP level are being set up. A Manual for the Citizen's Groups is being developed and training is to commence shortly. The social audits will be initiated shortly. With additional funds from LGSP, a media agency has been hired and some of the open meetings

At the local government level in Pakistan, a JIT grant made effective use of an opportunity to facilitate the development of an institutional and fiscal framework for improved management and governance of urban areas in Punjab province, in Pakistan. It also took advantage of Bank's engagement with the provincial government on the proposed \$ 300m Punjab Large Cities Project. Following the expiry of the Punjab Local Government Ordinance (PLGO) 2001, the Government of Punjab (GoPunjab) embarked on a review of its local government framework with a view to replacing it with one that would be developed by the province itself instead of being imposed by the federal government. This is the first such exercise by an elected provincial government in Pakistan. The Facility is helping to inform the proposed framework for urban areas in Punjab through an analysis that examines the weakness and, operational overlaps of the existing institutional and policy framework, and suggest ways to

Box 6: Implementing PESA in Chhattisgarh State, India

The first exercise to support the implementation of the Panchayats (Extension to the Scheduled Areas) Act, 1996 (PESA) in Chhattisgarh state in India was undertaken through a grant from the Facility. 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 act extends the provisions of the 73rd Amendment of the Constitution (1993) covering decentralization to tribal dominated areas. 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. All state acts that were relevant were reviewed and amendments suggested to bring them in conformity with PESA. A number of policy briefs were prepared. Legal Literacy Camps were organized in the tribal villages to educate them about their rights under PESA. With extensive stakeholder consultations a framework has been prepared to implement PESA in state and an implementation plan developed for Korea district of the state. Given that most forest wealth in tribal areas is controlled by mafias this was a strong step.

streamline implementation arrangements, improve coordination and supervision. The work on a Property Titling law in Delhi funded by a JIT grant helped in the drafting of a new property titling law that is to be discussed by the state legislature. In addition the two local governance support programs in Bangladesh and Sri Lanka and the Emerging Towns Project in Nepal were supported. It also developed a framework for implementing the Panchayat Extension to Scheduled Areas Act (PESA) in Chhattisgarh state in India illustrated in **Box 6: Implementing PESA in Chhattisgarh State, India.**

6. Partnership with AusAID

The partnership with AusAID has been invaluable in enabling a focus on policy dialogue, advocacy, design, implementation and monitoring and evaluation, for facilitating policy and institutional reforms around decentralization and service delivery. It has brought global thinking on issues to clients and to weigh the policy and institutional options available when pursuing reforms.

During this period the partnership with AusAID continued to be strengthened through the annual review of the TF in the region. The AusAID representatives are also being briefed by TTLs on activities funded. AusAID representatives are also free to call the TTLs at any time to enquire about the progress of tasks. They were also invited to take part in workshops and important meetings with clients. The Country Manager, India and four officials from the Australian High Commission attended the National Workshop on the Innovations Fund for Secondary Education in India on September 27-28, 2010 in Delhi.

To ensure Australian identity TTLs are asked that all final reports have the AusAID logo and acknowledge that the work was funded by AusAID. Clients are also informed when activities are funded by AusAID. To strengthen the effectiveness of the Facility it is necessary that a strong relationship be built with AusAID regional representatives in South Asia and with sectoral experts in Canberra. While the first has been attempted with relative success, the second still needs to be achieved.

7. Future

The Facility is now in the third year of its five year operational life. A mid-term review of the performance of the TF is to be undertaken. Decentralized delivery of services and the strengthening of local governments and local accountability will remain key to improving living standards of millions in South Asia. A follow up to the TF that will sustain and build

on the impact of the Facility needs to be addressed. This acquires even greater importance given the expected growth in Australia's ODA and its strategic priorities in the region.