

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

Annual Progress Report 2011



The World Bank Group: South Asia Region-March 2012

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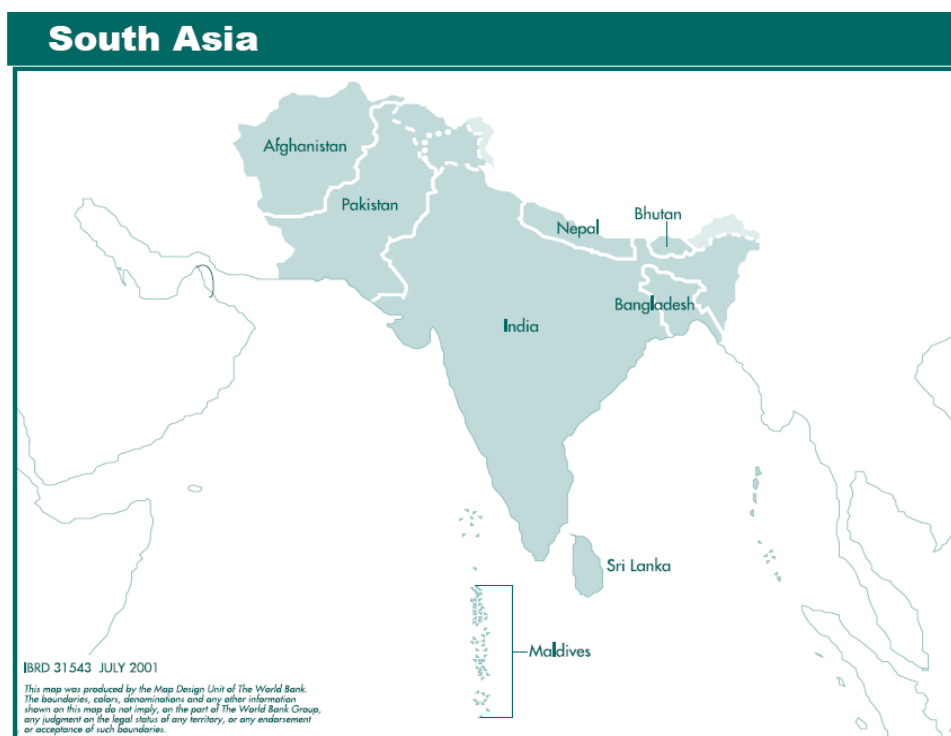
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AusAID-SAR Policy Facility for Decentralization, Local Governance and Service Delivery

Annual Progress Report November 2010-December 2011

1. The Policy Context

The story of South Asia over the past two decades has been one of consistent economic growth. This growth has resulted in significant reduction in income poverty. A statistic that is often overlooked while highlighting growth is that the region, home to 1.4 billion people still accounts for approximately half of the world's poor. The high growth rates and poverty reduction have not translated into an equally positive story of access to services especially for the poor.



This can be illustrated in the case of water supply, where official figures suggest 95% access to improved sources in rural areas, the reality is that access to a safe, reliable and affordable

supply of water fails to reach 50% of the rural population. Often after pipes are laid and connections provided, the water that flows through the pipes is intermittent and the quality is poor.

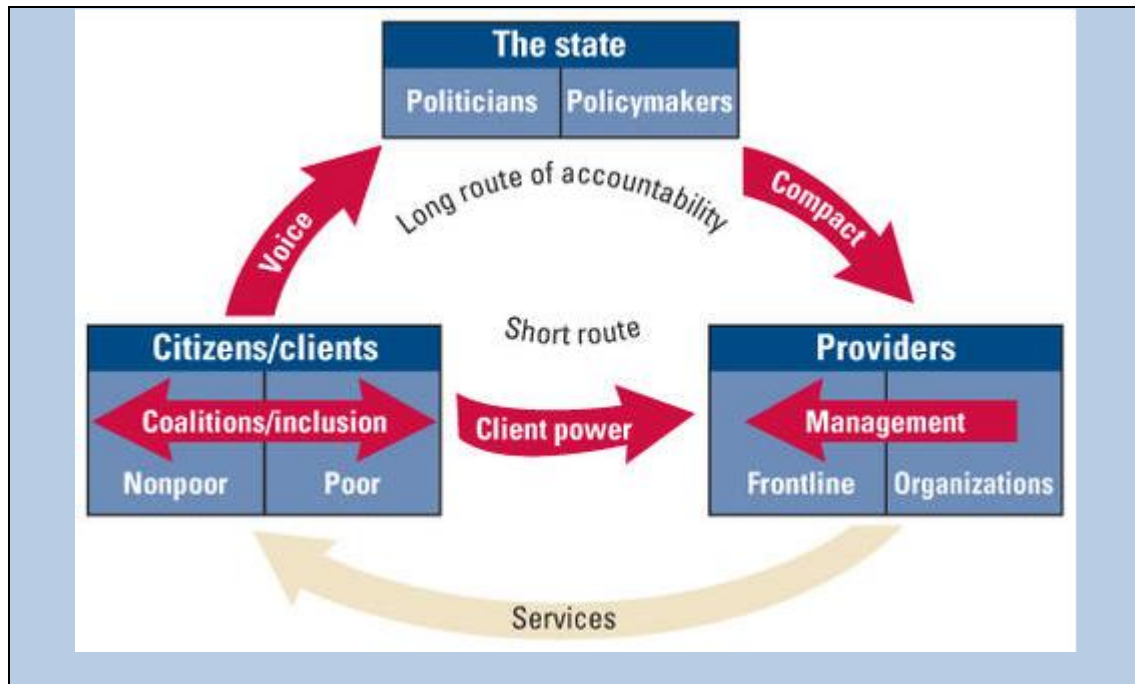
This duality between growth and service delivery outcomes has emerged as a central policy dilemma in South Asia. While economic growth is a pre-requisite for reducing poverty this growth by itself does not resolve the problems of social inequities and poor access to services that are created by class, caste, and gender or geographic divides. If market growth on its own cannot resolve the trap of service delivery failure and inequities, then public policy will have to intervene to reduce service delivery inefficiencies and inequities. In redressing these dysfunctions, new policies will have to be designed to correct for the failures of the existing policies. Ensuring that basic public services (i.e. water, sanitation, health, education) are provided at the local level in an accountable and inclusive manner will be critical to ensure that growth dividends are translated into improved social outcomes.

1.1 The Policy Framework

Achieving this goal will require a fundamental restructuring of the delivery mechanism – how resources flow between different tiers of government to the local level, the nature of the institutions involved, the separation of powers between different players in this delivery chain, and how the poor and the marginalized are given a stake to influence the delivery system. Ultimately, it is the nature of the linkage between the households and communities and the delivery system that will determine whether social inequities can be overcome and access to services secured for all.

The problem of duality is institutional in nature and cannot be addressed by simply shifting resources from one sector to another. Addressing the nexus between inequity and growth will demand fundamental changes in how the institutions of service delivery interface with citizens across sectors. For instance, the most important policy interventions in improving health outcomes may reside outside of the health sector - in access to safe water, or improved sanitation or better access of adolescent girls to education.

Figure 1: WDR 2004 Framework of Service Delivery



In South Asia, services have historically been provided either by government line departments or state-owned utilities – a model which has been largely unsuccessful. Conventional service delivery mechanisms across South Asia have tended to be based on the supply driven, bureaucratic and specialized modes of operation. Whilst this form of service delivery may have been effective in expanding coverage of infrastructure (protected water supplies, schools, primary health clinics), these approaches have failed to ensure sustainable access to high quality services. Of late community based delivery has become popular and has been supported by development partners. However service delivery by communities often cannot be scaled up and sustained. This has turned the attention of policy makers to local governments as the link between communities and higher levels of government and as a key to local service delivery that meets community priorities.

The ability of clients/citizens to hold providers accountable for services is essential to improving and sustaining the access of the poor to high quality services. Addressing this is not just a matter of improving the management and/or capacity of service providers or increasing funding to specific projects that are designed to provide services to the poor. What is required is reform of the institutional relations in service delivery. This includes the reform of: (1) the relationships of

upward mechanisms of accountability (i.e. intergovernmental relations and the compact between policy makers and providers - including the various regulatory regimes); (2) the downward mechanisms of accountability (mechanisms of voice and client power – both generic and pro-poor, systems of monitoring and evaluation), and (3) the systems for the management of service provision (improving the financing, budgeting, reporting processes of the provider).

Across South Asia countries like Pakistan, India, Bangladesh, Sri-Lanka, Bhutan, and Nepal are devolving services down to local governments. Whilst devolution is ‘value neutral’, it does offer an opportunity for fundamental reform of the institutions of service delivery. The fact that devolution is emerging within different contexts and countries, also presents an opportunity for learning and exchange across the region.

1.2 The Policy Facility for Decentralization and Service Delivery

It is in this context that the South Asia Region of the World Bank in partnership with AusAID set up a Facility to support policy and institutional reforms to facilitate decentralized service delivery enabling the poor to hold providers accountable for basic public service delivery. The Policy Facility for Decentralization and Service Delivery would act as an innovation fund enabling governments and citizens to make the changes needed to provide access to sustainable and quality services and for citizens to hold service providers and local governments accountable. It would support the entire policy change continuum from advocacy where new reforms are proposed, to design to help structure policy and institutional reforms and new ways of service delivery, to implementation and monitoring and evaluation to reform existing policies. The TF covers all the countries that were defined as South Asia by the Bank which includes India, Pakistan, Afghanistan, Nepal, Bhutan, Sri Lanka and Maldives. The original corpus of the TF was AUD 5m which has been augmented with two additional tranches to AUD 6.15m. The TF is now in its fifth year of operations.

1.3 The Reporting Year

In the reporting year conflict and fragility remained recurring motifs in the region. The aftermath of violent conflict persists in Nepal and Sri Lanka. Natural disasters and political uncertainty too

continued to plague the region. Pakistan suffered from earthquakes and floods and a political stand-off between the civilian administration and the army which sometimes led to the Bank work being affected. Afghanistan is in an anticipated transition to self rule. The work funded by the Facility with regard to the inter-governmental fiscal framework has acquired greater importance in the context of this transition. In Sri Lanka the displaced families that have returned home in the North needed to be rehabilitated and provided with basic services. Two activities that were funded in Sri Lanka are through follow on projects attempting to tackle the issue of malnutrition among them and to improve local service delivery in the North and Eastern provinces. In Nepal a positive development was that political parties reached an agreement on the contentious issue of the rehabilitation of the former Maoist fighters which had stalled political transition for over four years. This will now pave the way for a stronger agreement on the new federal structure and Constitution. Bank through the Facility had been quick to facilitate the access of policy makers to best practices with regard to fiscal decentralization, the outcomes from this task are to be realized now after a long wait. Due to the political limbo Bank had been maintaining a low footprint in Nepal while engaging in policy dialogue and going ahead with projects. Low level but persistent violence continues to plague many lagging regions in India with the resentment at the lack of equitable development continuing to simmer. There has been growing recognition from government as stated by the Prime Minister that decentralization remains important to giving voice to the disenfranchised in these areas. With several scams coming to light, a new and vigorous national debate has risen over transparency and corruption in the use of public resources. This debate points, to the importance of voice and accountability, in fostering inclusive growth. The relevance of the Facility for supporting reforms around decentralization and service delivery in the region is thus self evident.

The period saw increased communication between AusAID and the Bank at multiple levels. There were a record three visits to Canberra by senior SAR management in 2011. The first in May 2011 was a visit by the Sector Director, Sustainable Development Jack Stein. This was followed by visit in August of the Vice President, Isabel Guererro and finally in November 2011, came the visit of the Sector Director, Human Development, Michal Rutkowski. At the program level close coordination was maintained both with Canberra and the Posts. The Country Manager, India AusAID was briefed on issues in the respective sectors by the Sector Managers for Urban and Water and Sanitation, Ming Zhang, Transport, Michel Audige and Energy, Jyoti

Shukla. The program administrator Tara Sharafudheen met with the AusAID Country Managers and Counsellors at the India, Bangladesh and Sri Lanka Posts for Annual Portfolio Reviews. In an effort to build a seamless partnership with the Posts task teams have been briefing the Posts from time to time on tasks funded by AusAID TFs. In India and Bangladesh the Task Team Leaders also briefed the AusAID teams on tasks funded by the Trust Fund (TF). Staff from AusAID posts participated in a number of workshops organized by the region related to tasks funded by the TF. This included the final workshop for the Social Audit and the workshop for the presentation of the Urban Growth study in Bangladesh that was part of the Country Economic Memorandum. Brek Bately, Director South Asia and Mark Bailey Counsellor Bangladesh also participated in an Impact Evaluation workshop organized by the Bank in Dhaka. These exchanges point to the increasing importance given to the partnership by the region and the strengthening of the partnership over time.

2. Financial Summary

2.1 Receipts

With additional funds the corpus of the TF has now grown to AUD 6.15 million. A total of five tranches had been received from AusAID until December 2011. Tranche six for 2012 of AUD 750,000 has just been received and is not included in this discussion. Total receipts to date including the AUD 450,000 for the Water and Sanitation Initiative India (WSI-India), is AUD 5.4m. Total receipts in US dollars amounts to \$ 4.65m of which \$4.42m was available for allocation after the administrative fee charged by the central TF units. See *Table 1 Receipt of Funds*.

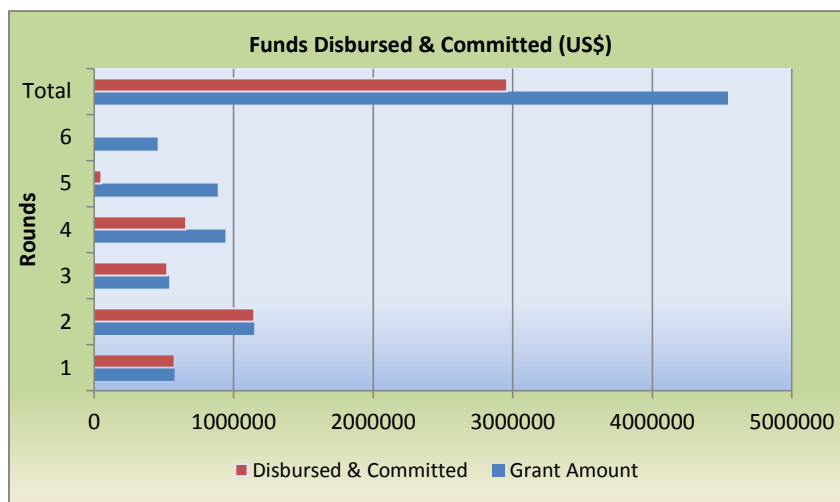
Table 1: Receipt of Funds 2007-2011

	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	51,533.25	979,131.75
Tranche 5 (FY 2011)	752,700.00	37,635.00	715,065.00
Total	4,652,715.00	232,635.75	4,420,079.25

2.2 Allocations

Five rounds of allocations have been supported with these five tranches. See details of each activity funded in *Annex 5*. The sixth round of allocations commenced recently in anticipation of the tranche for 2012. Allocations to 55 activities amounting to \$ 4.54m has been made and including project management and knowledge dissemination a total of \$ 4.71m has been allocated. 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. Round 5 got \$ 885,000. The increase in some rounds indicates larger tranches received in those years and in round five amounts reallocated from activities that have closed. The details of allocations and disbursements per activity are in *Annex 1 Disbursements and Commitments in Rounds 1-4*.

Figure 2: Total Allocation (Rounds 1-6)

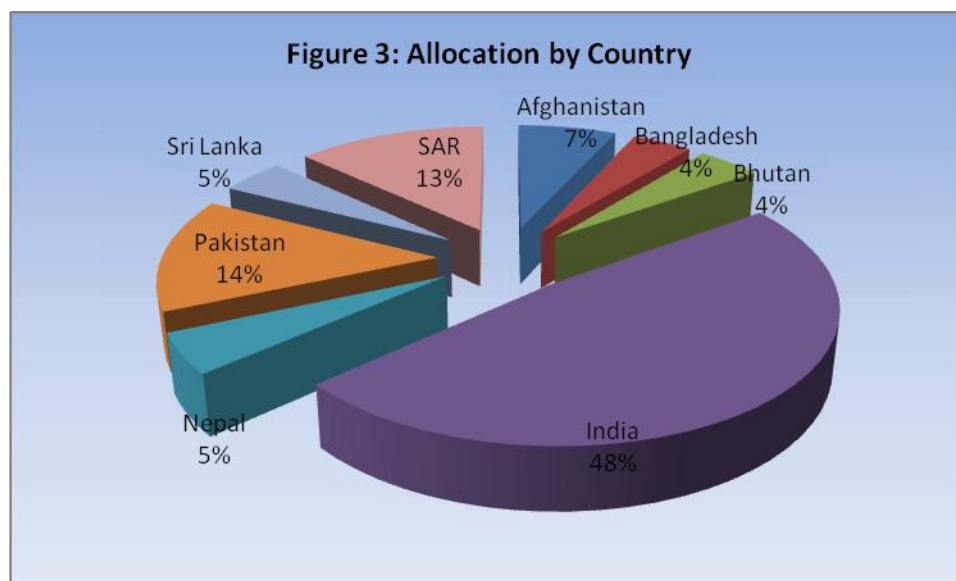


A total of 55 activities have been funded, 8 in Round1, 10 in Round 2, 7 in Round 3, 12 in Round 4 and 6, in Round 5 and 3 in Round 6. Allocations in Round 6 are yet to be completed. These include 3 activities under WSI-India. The number of activities funded from the main window has decreased due to the smaller tranches received except in 2009 when additional funds for WSI were received.

2.2.1 Allocation by Country

Allocations have been made for activities in all countries that constitute the South Asia Region (SAR) of the World Bank except Maldives. Maldives does not figure on this list as the country

has not adopted decentralization reforms. See *Figure 3 Allocation by Country*. Twenty six tasks in India received 48.3% of funds followed by six in Pakistan with 14.1%, Afghanistan received 6.8%. The rest of the countries averaged around 4-5%. Activities that span more than one country and were regional in nature also obtained 13% of funds.

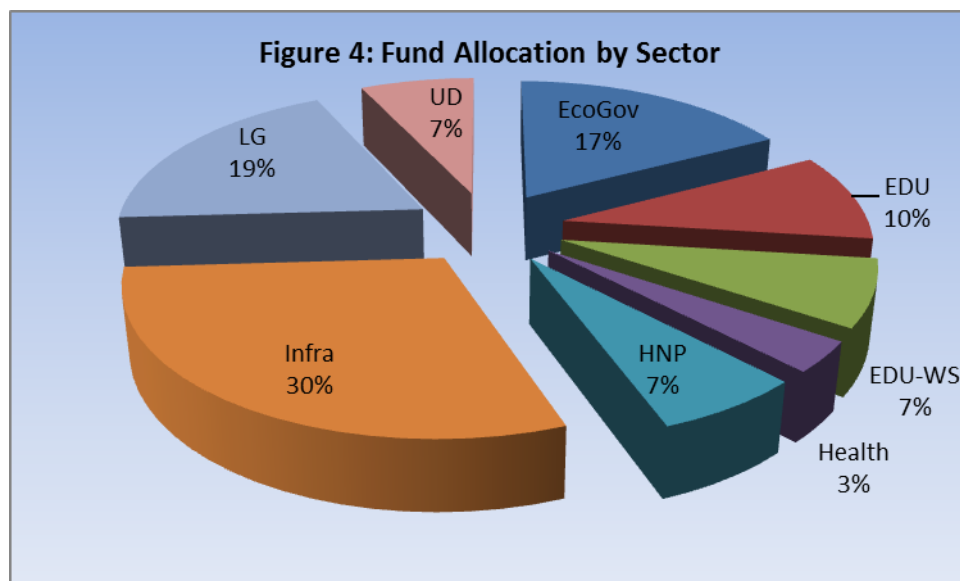


While India continued to be the largest recipient of funds under the TF the increase also reflects the additional funds under WSI India. Pakistan moved to second position reflecting better security conditions and the increased engagement after the 18th amendment that devolved health and education delivery to the provinces and disbanded the central ministries of health and education.

2.2.2 Allocation by Sector

The sectors covered by the Trust Fund (TF) are economic governance, local government, infrastructure (energy, transport and water and sanitation), health and education. Infrastructure service delivery received the largest portion of allocations (30%). This was followed by the local government sector covering rural and urban local governments with 19%. Economic governance which covers the work on the intergovernmental fiscal systems received 17% of resources. The health and education sectors were funded from Round 2 and received 13% of funds. HNP an activity that covers both health and education got 7%. Urban development received 7% and the

cross sectoral task covering education and water and sanitation received 7%. *See Figure 4- Allocation by Sector.* Infrastructure covered water and sanitation, energy and transport. Among the infrastructure sectors water and sanitation got the largest share 46.7%, followed by energy with 30.5%, and transport with 14.5%. Infrastructure covering multiple sectors got 8.3%.

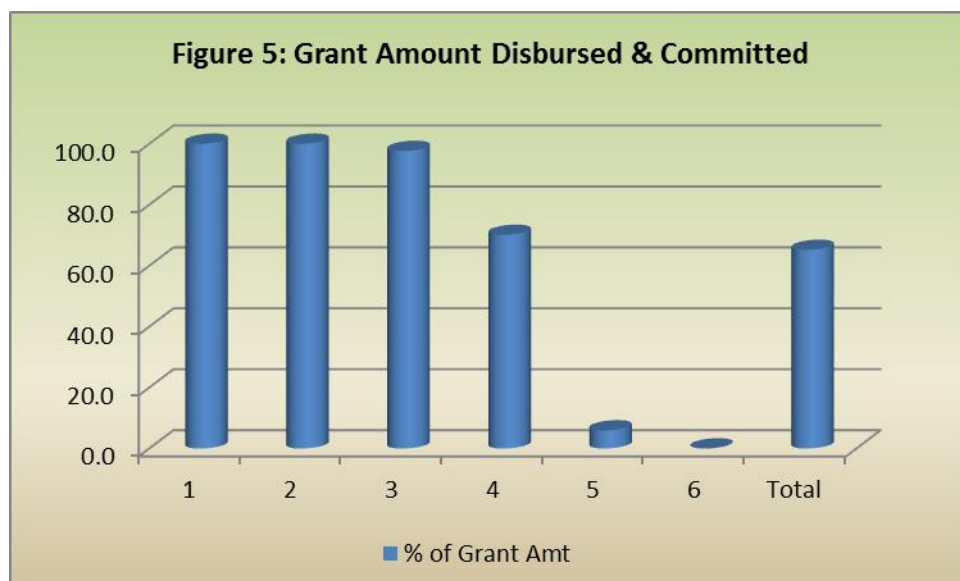


2.2.3 Allocation under Just in Time (JIT) Window

The JIT window within the Facility was an innovation (since copied by other TFs around the Bank) to build in flexibility in responding to urgent requests from clients on a rolling basis. A small pot of funds is kept aside so that an opportunity to engage in a reform process was not lost due to lack of funds. The 16 activities under the JIT window obtained 6.2% of total allocations. This reflects an 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 a TF is the amount of commitments and disbursements. Commitments refer to funds set aside under contracts. The overall figure for disbursements and commitments is 66.2%. 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. All of these have closed. The corresponding figure for Round 2 is thus 100%. Round 3 has commitments and disbursements at 97.6% and the one remaining task is about to close. For Round 4 the figure is 70.1%. Round 5 which is ongoing is at 11.4%. See *Figure 5- 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 activities.



4. Program Management

The innovative and strategic management of the Facility continues to add value and has been recognized as a best practice by the Bank. At the recent regional retreat, a presentation on the

AusAID TFs including this Facility was made to staff based on popular demand. Both Task Team Leaders (TTLs) and Sector Managers have appreciated the proactive approach taken in managing the TF. Continuous dialogue is maintained with Sector Directors, Country Directors, Sector Managers and TTLs to ascertain opportunities to fund activities that meet the objectives of the TF. Through this effort at building a partnership across sectoral and country teams the program continues to help define the Bank's work program on decentralization, local governance and service delivery. The concerted dialogue with and support to the health and education teams has resulted in the first work program on health and education decentralization in the region and the first cross sectoral activity covering water and sanitation and education and health delivery.

To utilize the smaller tranches received since 2009 more strategically a 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 that provide maximum leverage based on discussions with the concerned Sector Managers and teams. To incentivize the health and education teams to turn their attention to decentralized delivery of services discussions were held with the Sector Director, Sector Managers and Lead Economist. It was decided to allocate a portion of the funds to the health and education sectors for three years starting 2009 to enable them to develop a work program on the decentralized delivery of health and education. This has resulted in an active work program that has influenced lending in these sectors.

Quality at entry is kept high by seeing that each proposal meets the objective of the TF, is supported by the client and the Bank and offers strategic value. TTLs interested in applying to the Facility are asked to think through the policy and institutional reform process to be facilitated, from the context to follow up. For any reform to be successful there has to be strong client support. The extent of client buy in is assessed and only 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. This effort has meant that there have been no problem activities to date. Applicants are required to think through a dissemination strategy and also examine the possibility of cross sectoral and cross country learning if any. Another contribution from program management is to connect applicants to previous work funded by the Facility enabling this learning to happen. For instance the Off Grid

Rural Electrification work in Pakistan is now informing the current work on the same theme in India.

Policy and institutional changes around decentralization, local governance and service delivery have to work within the political economy of each country to be successful. 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. Both the SD Forum and AusAID have commended the quality of proposals funded. See **Box 1: The Iterative Process of Strengthening Proposals** for an example of how the quality and focus of proposals was enhanced with substantive results.

Box 1 The Iterative Process of Strengthening Proposals -The Sri Lanka health team had requested a grant to strengthen data gathering capacity of the three national agencies administering nutrition programs. During discussions around the proposal 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 have to be made at the local level. The proposal was reshaped to focus on designing local level interventions to address 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 JSDF to improve the nutritional status of persons displaced by the conflict in the North East and their host families. A small intervention thus could go a long way to reduce malnutrition in Sri Lanka.

After tasks are funded, TTLs are guided through the Grant Funding

Request (GFRs) which is the Bank's electronic system to create 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. Five 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. It has resulted in better relationships with clients due to the increased ability to deliver quick inputs and keep the momentum of the reform process going.

On the partnership front though the Facility is funded by AusAID's Regional Programs, a concerted and conscious effort has been made to have TTLs meet AusAID Posts to brief them in person on tasks funded by the TF and to hold portfolio reviews with them. Sector managers are also encouraged to meet the AusAID representatives while they are in the region. This effort to keep the Posts informed has been appreciated by them.

5. Impact of the Facility

The Facility's impact is felt both at the level of the client and the Bank. In gauging the impact at the country level it is important to realize that reforms are owned and undertaken by client governments. Development partners can only facilitate this process. These reforms are often difficult to undertake and are transaction and time intensive iterative processes whose impact is visible many years later. An activity under the Facility normally takes two years to be completed.

At the Bank the Facility has impacted not only the reforms supported through lending and advisory services, it has had a catalytic effect on the way decentralization, local governance and service delivery issues in South Asia are addressed. In recognition of the growing importance of decentralization, the regional management asked for the development of a regional strategy to support Bank's work on decentralization.

Within the Bank it enabled 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, Bhutan, Afghanistan and Pakistan. It has also fostered cross sectoral work programs that cover multiple sectors across the Bank.

It has provided greater flexibility to respond to client demand quickly and effectively and to leverage Bank's policy dialogue and lending for greater impact. On the partnership level it has laid the foundation for a sustainable and strategic partnership with AusAID the impact of which will be left for years to come in improving development aid effectiveness in the region.

5.1 Meeting the Objectives of the Facility

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 directly strengthen 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 has been 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. Under economic governance it includes the design of inter-governmental fiscal flows in Afghanistan which has acquired even greater importance in the transition to independent rule. The development indicators and Map Portal in Bhutan has resulted in more focused block grants to the local level. The property tax administration work has led to the training of tax officers in Punjab province in Pakistan to implement the new property tax reforms and in the inclusion of a component on tax reforms in the proposed \$ 300m Punjab Large Cities Project. The Town Development Fund in Nepal has been restructured to provide funds for infrastructure in towns in a more sustainable manner. Citizens in Bangladesh at the level of the lowest tier of local governments have held their LGs accountable through social audits for the first time. The metro area of Greater Raipur covering four cities in Chhattisgarh a lagging state in India will for the first time have a Unified Metropolitan Transit Authority (UMTA) for better coordination in planning and implementing transport networks. In Bhutan a municipal finance policy will help in making cities financially sustainable so that they can contribute better to economic growth. These are only some of the policy and institutional reforms that the Facility has facilitated in the region

5.1.2 Building Cross Sectoral Work Program

After concerted efforts spread over three years the Facility has successfully broken long held sectoral silos in the region by engaging with health and education colleagues, in developing a work program that examines local health and education delivery in South Asia in relation to accountability and outcomes.

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 reduces 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 nearing completion. 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 are multi-sectoral programs that allow for sectoral outcomes in health and education to be linked to the decentralization process. This has resulted in several key pieces of analytical work and a cross sectoral work program covering health and education and infrastructure sectors and an innovative model about to be tested that converges multi-stakeholder and multi- sectoral service delivery as explained in detail in *Section 5.6.2 Innovations*.

5.2 Just in Time (JIT) Window

The Just in Time window is a flexible fund available all year around to support urgent requests from clients and interventions that utilize a time bound opportunity to be part of reforms around decentralization, local governance and support. If this opportunity for reform does not trigger a 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 strategic and timely as TTLs realize the value of the window in helping them respond promptly to an emerging situation. A case in point the effective use of the Facility to foster reforms in the Delhi Jal Board the water utility responsible for providing water in the city, is illustrated in *Box 2 It is Not All Water Down the Drain*.

Box 2: Not All Water Down the Drain Reforming water utilities in India has been a contentious issue with the Bank often serving as a lightning rod for protests around privatizing water delivery or charging user fees. The previous attempt at reforming the Delhi Jal Board (DJB) the utility that provides water to the Indian capital had resulted in the Bank getting its fingers burnt with a successful campaign that played out in the media, by NGOs against the effort by external agencies to privatize the delivery of water. With this experience development partners were reluctant to engage on the issue of reforms in the sector. Given this a request from the government for support in thinking through DJB reforms was responded to quickly with a JIT grant that helped organize a high level workshop with the Chief Secretary and senior officials to discuss among others splitting the DJB into regional entities. A careful effort was made to maintain a low profile and to ensure that the reform process is driven and seen to be driven by the state and DJB itself. Based on this the state has come up with its own reform program which it is taking forward. Bank continues to support this process in a discrete manner by largely offering advice as requested

The timely use of the facility to assess the political economy of decentralization reform as seen in **Box 3 Gauging the Direction of the Wind** enabled a more informed dialogue with a new government in Bangladesh which resulted in continued support to the decentralization process and increased lending to the Bangladesh Local Governance Support Project. It has helped to design a project to improve service delivery at the local level in the Northern Province emerging out of conflict in Sri Lanka. It helped to bring the best legal expertise to the drafting of the first Property Titling Act in the national capital of Delhi in India. It also enabled to bring together stakeholders from all the Indian states to agree on the first National Innovation Fund for Secondary Education in India.

5.3 Leverage: Financial

The \$4.42m received from AusAID has been leveraged or boosted by another \$21.46bn of Bank lending, of which \$ 5.4 bn is proposed lending and co-financing from bilateral and multilateral partners and from client governments. This includes co-financing from the Government of Pakistan, India, SDC, SIDA, DANIDA, JBIC, JICA, PHRD, GTZ, ADB, DfID, PISA, GEF and ARTF. The last two are multi-donor consortiums. This leverage has been made possible also through the support of large national programs in many countries (more details in **Section 5.6.7 Leveraging National Programs**). The details of this leverage by activity is provided in **Annexe 2 Details of Funds Leveraged in Rounds 1-6**. This has expanded the reach of this small Facility several fold. The leveraging has been possible through contributing to project preparation for Bank lending, or through technical assistance and/or follow up activities and projects. This includes the framework to address malnutrition at the local level in Sri Lanka which led to a \$ 2.9m pilot. 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 existing or proposed activities or pave the way for Bank lending.

5.4 Leverage: Non-Financial

When assessing impact, the non-financial aspects of leverage are as significant if not more important in terms of the ability to increase the reach of the TF, as financial leverage. This aspect of leverage is often down played. 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. 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.

5.4.1 Knowledge and Dissemination

Dissemination of the work funded is a key outcome sought actively by the Facility. See *Annexe 4-DisseminationActivities* for illustrations of news reports, bulletins, blogs, workshops and announcements from the seminar series. A total of 33 workshops and trainings were integral part of 27 of the 40 tasks that have closed under the Facility. These included national and regional workshops in Pakistan, India, Bangladesh, Sri Lanka and Nepal. South-South exchanges across the region has also been sponsored where by key policy makers from Sri Lanka were taken to meet counterparts in the Indian state of Kerala a leader in decentralization in the region. A knowledge exchange was arranged between Brazil and India to inform the High Power Expert Committee on Urban Infrastructure set up by the Government of India. In Bangladesh citizens in rural areas were trained in holding their local governments accountable through social audits. *See cover photos on the Social Audits in Bangladesh*. Among the key national workshops was the dissemination of the study of the successful restructuring of the power sector in the Indian states of West Bengal that led to similar programs in Haryana and Maharashtra states. The Metropolitan Management workshop in Punjab province in Pakistan led to the government agreeing to a reform agenda for the five large cities of the province. In Sri Lanka, national and

provincial level workshops helped to obtain feedback to develop a framework to tackle malnutrition through local level interventions to change long held behaviours. In Bhutan a workshop to share the development indicators and Map Portal led to great interest from sectoral ministries to use the important policy tool to change the allocations of financial, human and physical resources for service delivery at the local level. The work on Urban Growth in Bangladesh was presented at a workshop to obtain feedback from stakeholders and at the Bangladesh Urban Forum. See photo of the workshops in *Annexe 4.2*.

The Facility also contributed significantly to building global knowledge through the **AusAID-World Bank South Asia Decentralization Series** of seminars the premier knowledge space on decentralization at the Bank. The series is considered a best practice in the Bank and the 84 presentations to date have attracted close to 5,000 staff and guests. This is a large audience since there are always numerous competing events at the Bank. This does not include the number of enquiries received from field offices. It also draws an audience from think tanks, universities and development partners in Washington DC and around the world. It serves as a platform to showcase the work of the Facility. The work on social audits in Bangladesh and the development indicators and Map Portal in Bhutan were two successful activities that were presented in the series in the reporting year and evoked wide spread interest including from several development partners. See *Annexe 4.5* for an announcement from the seminar series. The Swiss Agency for Development Cooperation asked for a presentation in the region for their staff on these two activities. Task Team Leaders have also written popular blogs on tasks funded by the TF like the work on the development indicators in Bhutan. See *Annex 4.6*. Steps are being taken to share the learning from the activities funded through the preparation of short Decentralization Field Notes.

5.5 Higher Level of Bank Engagement

The Facility has resulted in a deeper and more finely tuned engagement by the Bank in the sector. It has increased the depth and breadth of Bank's engagement 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 impact of the Facility over five years.

5.6 Impact and Key Results

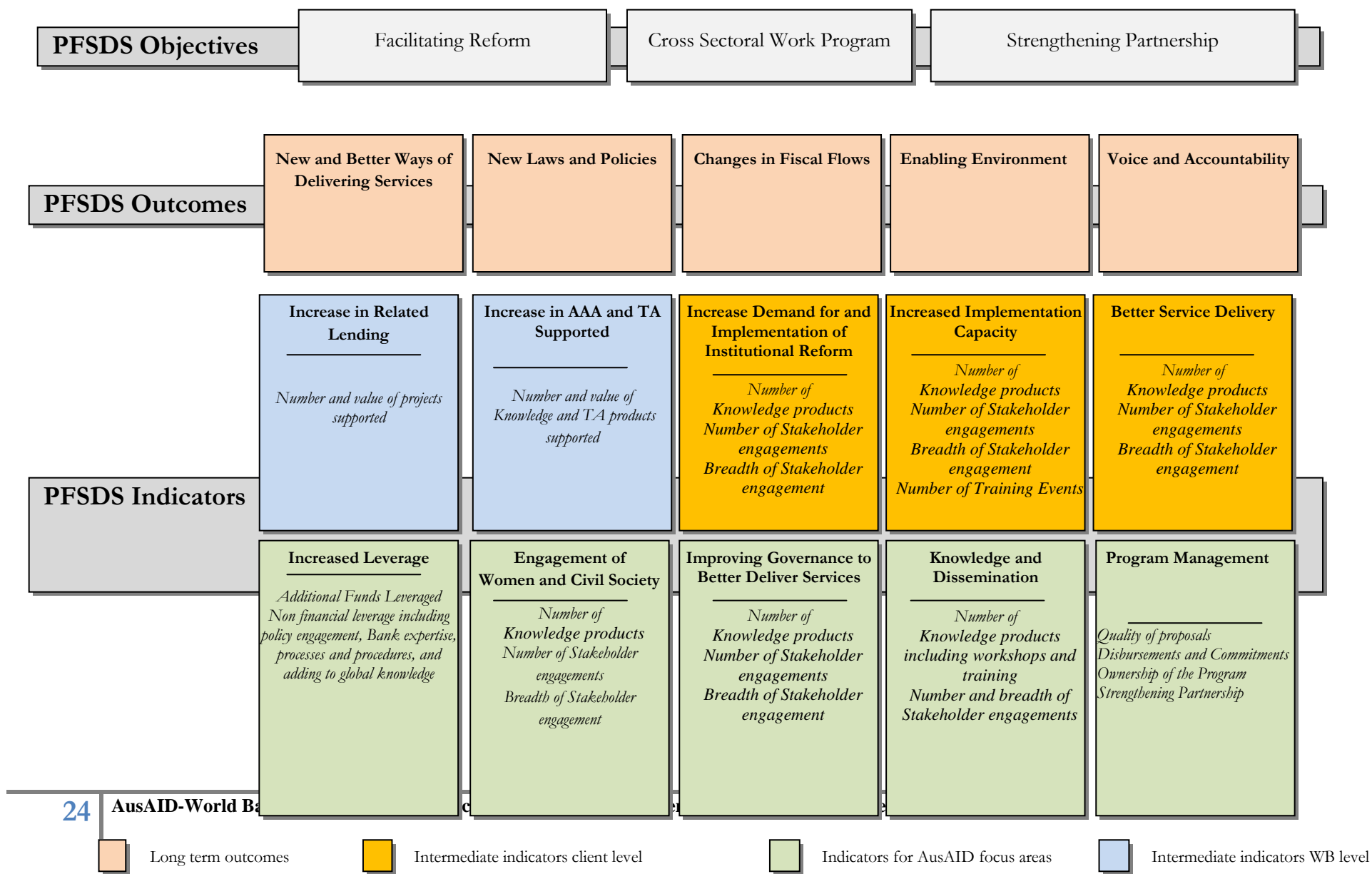
It is essential to reiterate that any discussion of results around the policy and institutional reforms around decentralization, local governance and service delivery which are the first line of the outcomes that the Facility seeks to deliver are functions of partner governments' actions. The impetus for policy change has to come from clients. The second key factor is that the nature of reform is such that it is a long term and iterative process. With regime changes there are often clawbacks, this has been avoided in many cases by studying the political economy to identify who are the key stakeholders whose support would be necessary to keep the reforms alive. See

Box 3 Gauging the Direction of the Wind Assessments of the political economy of reforms around decentralization and service delivery have been successfully used as a tool to avoid claw backs during regime changes and to design a project within the realm of what is possible. In Bangladesh the transition from a caretaker government to a democratically elected one left the reform supported by the Bangladesh Local Governance Project in doubt. A rapid political economy assessment led to informed dialogue with the new government that resulted in the program being actively supported and successfully completed. A second phase of the project is now under implementation. In Sri Lanka in the post conflict situation in the north east and the lack of support for decentralization reforms meant particular care had to be taken in designing a project. Again the political economy assessment of decentralization was crucial in the design of the North East Local Service Improvement project now under implementation. Government wants to scale up the project nationwide and AusAID is to co-finance it to the tune of AUD 38m.

Box 3 Gauging the Direction of the Wind. See also *Figure 6* for the *Results Framework* for the Facility.

Five years is a relatively short a time to assess policy and institutional change where the attempt is to remove bottlenecks that have become institutionalized over time.

Figure 6: Policy Facility for Decentralization and Service Delivery Results Framework



The final outcomes sought by the Facility are of a high order. These are new policy pronouncements, new fiscal and service delivery instruments. Shifts in budgetary allocations at the national, state and local levels (including the decision of donor partners to support expenditures by government), even tougher in democracies is to have new legislation in place and the design / implementation of new service delivery mechanisms. An intermediate outcome was to embed within the World Bank lending program in South Asia, a greater focus on the institutional reform promoting decentralization and improved delivery of services. Given the short time in the reform cycle that the Facility has been operational and the small amount of funds averaging under \$ 1m per year for a regional program, significant results have still been delivered in 35 of the 40 tasks that have closed so far. *See Annexe 3 Outcomes Matrix* for details. Where it has been felt that client is not ready to move forward or where the security situation has meant that the outcomes will be delayed inordinately the decision has been to close these activities as partially completed and reassign the funds.

5.6.1 Increase in the Local Governance Support

A performance indicator laid down for the TF was that from year four there should be increased lending for projects around decentralization, local governance and service delivery. This target was reached much earlier than year four. Within the Bank the work supported by the Facility has resulted in increasing support to decentralization and service delivery within the region. The Bank has funded a new pipeline of projects with lending of over \$ 1bn supporting local governance. The first was the Bangladesh Local Governance Support Program which provided for the first unconditional block grants to the entire lowest tier of governments the Union Parishads in one of the most centralized countries in the world. The first phase is complete and LGSP II which will also introduce performance grants along with the block grants and scale up social audits of local governments is under implementation. The TF supported many key activities related to the project including piloting the first social audits of local governments in Bangladesh. Subsequently local governance support projects were approved for Nepal, Sri Lanka, and the Indian states of Karnataka, West Bengal and Kerala. The Sri Lanka project is to be co-financed by AusAID to the tune of AUD 38m.

Another outcome indicator was an increase in Analytical Advisory Assistance (AAA) and Non Lending TA (NLTA) by year three. This was also achieved early with several key AAA and

NLTA products that often leveraged Bank lending. Some key pieces of AAA are the report on Municipal Borrowing Framework for India. Regional AAA included a look at decentralized health and education delivery in India, Pakistan, Nepal and Bangladesh. This work has fed into several Bank operations in the sector. The TA provided to the government of Afghanistan to define the intergovernmental fiscal framework has become even more important in the transition to independent rule. The TA for implementation of the OECD's PISA test has resulted in a national debate on improving secondary education in India. See some media reports in *Annex 4.1*. Economic analysis of the National Solidarity Program led to support from the Ministry of Finance and donors for a third phase of this flagship program in Afghanistan.

5.6.2. Innovation

Several innovations in service delivery across multiple sectors in several countries have been supported by the Facility. This includes the first innovation fund for secondary education in the region, in India that leverages the government's national program for secondary education of \$20 bn. Social audits by communities of their local governments in rural areas of Bangladesh were piloted in a novel effort to improve voice and accountability. This model is now being taken to the next level in Sri Lanka by supporting accountability frameworks in which women will take the lead in assessing the performance of local governments. Developing a local level framework for interventions to address malnutrition in Sri Lanka also comes under this rubric. The framework developed is now being implemented with a \$2.9m grant from the Japanese to improve the nutritional status of those who were displaced by the conflict in the North East and that of the families who gave them refuge. Convergent service delivery where several sectors and stakeholders work together to gauge the needs of a community and address the service delivery issues by converging their expertise and efforts is a new concept. This model of service delivery is being tested by the water and sanitation and education teams in India by selecting wards in a city to deliver convergent services. Another innovation was the concept of professionalization of urban water utilities through grouping them together and bidding out the setting up of systems, institutional framework and capacity through a long term contract to private firms. This would lead to faster and more effective capacity building.

5.6.3. New Policy Instruments

A key outcome indicator for the TF is the introduction of new policy instruments related to the focus area of the TF in at least one country by year three. This outcome indicator has been reached. In Bhutan poverty and infrastructure gap data has been used in a map portal format to provide a simple but effective tool to help policy makers, elected representatives and communities to plan and target scarce resources at the local level. *See Box 4*

Box 4: Bhutan's Innovative Map Portal Poverty data disaggregated to the gewog or sub-district level has been overlaid with infrastructure data in a Map Portal format to develop a simple but powerful tool to plan and target scarce resources for service delivery and poverty reduction. This data has been used by the Gross National Happiness Commission to refine and redirect its block grants to the gewog level for the last two years. These indicators are now informing the development of the next Five Year Plan. Interest has been expressed by several line ministries in using the Map Portal to direct human, physical and financial resources as needed at the local level. In a second phase data on MDGs at the local level is being collected to include in the portal. This is to be done using mobile telephony. The first elected gewog representatives are being trained in how to use the tool for planning at the local level and to compare performance on key development indicators across gewogs

Bhutan's Innovative

Map Portal. Discretionary and expanded Block Grants have been provided for the first time to the 4,488 lowest tiers of local governments in Bangladesh.

5.6.4 Shifts in Budgetary Allocations and New Fiscal Instruments

The indicator here is shifts in budgetary allocations from year 2 in at least one country and new fiscal instruments introduced in at least two countries from year three. Both these outcomes have been met.

The Bhutan Development Indicators and Map Portal work has resulted in better calibration of block grants from GNHC to gewogs or sub-districts. *See Box 4 A Gift That Keeps on Giving.* The LGSP introduced unconditional expanded block grants for the first time to all the lowest tiers of local governments in Bangladesh. The restructuring of the Town Development Fund (TDF) in Nepal will lead to better ways in which funds flow into municipalities for infrastructure services.

5.6.5 New Legislation

Several new legislation and policies have been supported by the TF. This includes Cabinet approval for the restructuring plan for the Town Development Fund in Nepal. A Municipal Finance Policy, for Bhutan also to be approved by the Cabinet before July 2012. See **Box 5 A**

Box 5: A Financial Framework for Bhutan's Municipalities. The first Municipal Finance (MF) Policy for Bhutan is under review. TA was provided building on the experience of South Africa in designing policies to allow for city led to national growth. An earlier attempt through TA provided by DANIDA was too voluminous and a request was made by the government for help in designing a focused policy document that would define the framework for fiscal transfers and finance for the municipalities in Bhutan. This activity leveraged the

Financial Framework for Municipalities in Bhutan.

The Municipal Policy is a pre-condition for the Bhutan Development Policy Credit (DPC) and a key component of the Bhutan Urban Development Project 2. An act to set up the

first Urban Metropolitan Transport Authority (UMTA) in the new capital city of Naya Raipur as laid down in the National Transport Policy is before the cabinet of Chhattisgarh state in India. The TF also supported the drafting of a Property Titling Act for the National Capital Territory of Delhi to be placed before the state legislature.

5.6.6 New Ways of Delivering Services

Several new ways of delivering services have been supported. An example is the work for setting up the UMTA in Naya Raipur in India. See **Box 6 Making Sense out of Chaos.** This will enable metropolitan wide

planning of transport networks. The work on, off grid rural electrification in Pakistan and India enables those who are away from the grid to receive electricity through alternate renewable and green sources.

Box 6: Making Sense Out of Chaos. Urban transport in India is a neglected sector and with rapid urbanization this has led to congestion in major cities. The situation is more complicated in metropolitan areas with multiple jurisdictions and agencies with overlapping responsibilities. As a result metro wide planning and coordination does not happen. The National Transport Policy had called for the establishment of Unified Metropolitan Transit Agencies but had left the structure and establishment of the UMTAs to the states. Building on the policy dialogue around the Sustainable Urban Transport Project, an UMTA was designed in the lagging state of Chhattisgarh for the Greater Raipur Area covering the four cities of Naya Raipur, Raipur, Durg and Bilai. Naya or new Raipur is the new capital and originally there had been no plan to link the transport networks between the new and old Raipur city. The framework was outlined and agreed to in consultation with key stakeholders. The draft legislation for setting up the UMTA is under review. The Executive Order approving the UMTA is

5.6.7 Leveraging National Programs

The TF though small in size has managed to strategically leverage national programs several times its size in India, Bangladesh, and Nepal. It has also contributed to the national dialogue and debate on key issues in Bangladesh, Pakistan and India. It has added an innovation fund the first in the region to the roll out of the \$ 20 billion National Secondary Education Program (RMSA) in India. It has through the introduction of OECD's PISA test, and the release of the results which showed India performing at the bottom but one, among 70 countries ignited a national

Box 7: Leveraging Secondary Education Reforms Building on the policy dialogue with GoI on improving secondary education seen as key to exploiting the country's youth dividend, a JIT grant was utilized to organize a stakeholder workshop with all the states to set up an Innovation Fund for secondary education to be funded by the Bank, DfID and the EU. The workshop approved the Operational Manual for the fund. The fund has now been incorporated into the government's new national program for secondary education. A grant was also used to introduce the Programme for International Scholastic Assessment (PISA) of OECD which compares the performance of secondary students across the world, to the region. The PISA was administered to 10,000 secondary students in public schools in two states in India. The results were eye opening since India was the worst performer but one from among 70 countries. After agonizing for over a year GoI released the results in December 2011 triggering a national debate on improving education in India. Several policy reforms are expected to follow. A JIT grant has been provided to engage with GoI on the reform issues that will need to be tackled after the PISA.

dialogue and reform process on secondary education. Some of the news reports on this debate are given in *Annex 5*. See also ***Box 7 Leveraging Secondary Education Reforms***. It supported the Local Governance Support Program in Bangladesh which introduced unconditional block grants to the lowest tiers of local governments, the 4, 488 Union Parishads. It has supported a review of 20 years of Bank's support to RWSS which was used to inform the second stage of the National Rural Water Mission in India to support lagging regions. It is also supporting the effort to clean the Ganga River in India a \$3bn effort by the Bank and the government. It is also contributing to the National Program on Housing and Upgradation in slums in India (RAY). It has helped to restructure the Town Development Fund, the national entity in Nepal that directs fund flows for infrastructure in municipalities in Nepal. Technical assistance was provided to the High Power Expert Committee on Urban Infrastructure that reported to the Prime Minister of India. It has contributed in significant terms to the national debate on growth and urbanization in Bangladesh,

Pakistan and Nepal, and on benefit sharing from natural resources in India a sensitive issue often leading to violent confrontation in India. It has also contributed to discussions on the impact of the 18th amendment in Pakistan that did away with health and education ministries at the federal level and devolved service delivery to the provinces.

5.6.8 Voice and Accountability

Giving citizens' voice to hold local governments and service providers accountable is key in ensuring access with sustainable service especially for the poor. For the first time Social Audits

Box 8: How Did Your Local Government Score? The social audit pilot covering 50 Union Parishads which are the lowest tier of local governments (LG) in Bangladesh resulted in communities holding their UPs accountable for service delivery and for setting community based priorities for investments. A credible and experienced NGO Village Education and Resource Centre were contracted through a competitive process to prepare a training manual and to train communities to audit their UPS. The manual was prepared after extensive consultations with key stakeholders including UP leaders, communities and development partners. Audits were conducted of 50 UPs and open meetings were held in each UP to present the results. A score card was used to rate UPs, another was used for UPs to assess themselves. A surprising fact was that in many cases UPs estimated their performance as lower than the scores given by communities. An innovative media campaign was funded through the related Bank project which included TV coverage of several of the open meetings. These social audits are to be scaled up in the follow up Bank project currently under implementation.

of local governments in Bangladesh were conducted. See ***Box 8 How Did your Local Government Score?*** This is to be scaled up nationwide with LGSP II being supported through Bank lending. Learning from this experience a similar attempt is being made to develop social accountability frameworks in Sri Lanka where women take the lead. This is relevant in the case of Sri Lanka with its high literacy rates among women. The first jirga or gathering of local Community Development Councils in Afghanistan with significant participation by women was supported by the TF. An important task currently being supported is an effort to ensure that communities in the areas of hydro power projects receive benefit sharing from these projects in a transparent and equitable manner and that part of these funds are used to support infrastructure that meets community priorities.

6. Results at the Partnership Level

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.

Australian identity has been ensured through seeing that all reports and workshops feature the AusAID logo. AusAID Posts are invited to and have participated in workshops and events funded by the TF. The MoU between Government of India and OECD to introduce PISA was signed in the presence of AusAID representatives. Staff from Posts and the High Commission in India have attended stakeholder workshops on the urban growth study in Bangladesh and the Innovation Fund for Secondary Education workshop in India. Task teams have briefed the Posts in person in India and Bangladesh. Portfolio reviews have been held with Posts in India (which includes Bhutan), Bangladesh, Sri Lanka and Nepal. Similar reviews are planned in Pakistan and Afghanistan.

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 is only partially achieved. In summing up the partnership through the Facility it went from the first TF which was this Facility to a relationship which serves as the foundation on which a stronger and larger partnership can be built on. To keep the relationship strong focal points also need to be appointed by both partners and retained in place to allow the partnership to be built upon.

7. Lessons Learnt

Five years and 55 activities later key lessons have been learnt. Reforms around decentralization and service delivery are often political and therefore messy. Support to be effective and deliver results needs to be provided long term and in a programmatic manner. At times there may not be immediate impacts as in the case of the fiscal federalism work in Nepal which had been waylaid by the lack of consensus on defining the new constitution and federal structure but which is now

being taken forward after the bone of contention regarding the rehabilitation of the former Maoist fighters has been moved, indicating that when the right time comes things start moving at an accelerated pace. Windows of opportunity have to be seized for reform as and when they arise. Having a flexible pool of funds to seize these opportunities often makes a real difference. Even small interventions can be transformational if they are strategic. Countries are investing large amounts in national programs that are not yielding value but sometimes changing the incentive model can make a difference. Voice and accountability in empowering citizens to hold service providers accountable are keys to access with sustainable quality of service delivery. Telling the story well and highlighting innovations through a forum like the decentralization series is important to knowledge and innovation dissemination. As experience has been gained using the Facility, the tasks supported have become more innovative. Rounds 5 and 6 embody this with the funding of innovative tasks like convergent service delivery, service delivery in slums, benefit sharing, and by taking the development indicators work one step ahead. All this shows that being persistent and putting your money where your mouth is matters in fostering change even within the Bank.

Effective program management makes a difference in increasing the impact of the activities funded and in proactively scanning the region for opportunities to influence reform. Building a partnership with AusAID that extends from the Posts to Canberra helps to build confidence and strengthen the partnership. Taking the time to brief AusAID Posts from time to time helps to strengthen the relationship.

8. Future

Decentralized delivery of services and the strengthening of local governments and local accountability still remain key to improving living standards for millions in South Asia. The Facility is now in the fifth year of its five year operational life. A review of the performance of the TF is to be undertaken. A successor facility to replace this one is under discussion and it is hoped that the early success and the flexibility and strategic leveraging achieved by the Facility can be built upon effectively.