

Progress Report on Activities Funded in Round 1

AusAID Funded
Policy Facility for Decentralization, Local
Governance and Service Delivery

South Asia Region, The World Bank
September 2008

Policy Facility for Decentralization and Service Delivery - The World Bank Annual Progress Report on Activities Funded in Round 1 –September 2008

This report covers the period from January 2007 to September 2008. The Policy Facility became operational in January 2007. The initial effort was to obtain buy in from the staff at headquarters and in field offices. In the first three months of 2007 a series of meetings and presentations were held with managers and staff with this objective in mind. The objectives of the Facility and its scope were explained and the process of calling for and selecting proposals for funding was presented and feedback obtained. The idea was to make the process as transparent and user friendly as possible.

In Round 1, 8 proposals were funded out of the 24 received in June 2007. Round 2 was held in June 2008 and 10 proposals were selected for funding from among the 30 requests received. Funds have been allocated and work has just begun on activities funded in Round 2. It is too early to report on progress and this report only covers progress on activities funded in Round 1.

Of the eight activities funded in Round 1, two have been completed, another two are nearing completion in October and December respectively. Three activities which include the two in Nepal and the one in Andhra Pradesh state in India have a longer implementation span and are expected to be completed in June 2009. In Nepal the speed of implementation was dependent on the momentum of the reform process. This process has now begun to pick up with elections to the constituent assembly held and a new government in place since August 2008. These activities are now expected to be completed as scheduled. The metropolitan management workshop in Pakistan has been delayed first due to elections and then due to the deteriorating situation in Pakistan. Elections were finally held in February 2008 and a new provincial government was in place in Punjab Province. However the macroeconomic situation deteriorated and the Bank took a decision not to proceed with the \$ 300m Development Policy Loan which was to take the form of budgetary support. It was decided instead to convert the DPL into a Sector Investment Loan (SIL) with the same agenda for metropolitan management and reform. . The Government of Punjab has recently agreed to the SIL and the workshop is to be held by December 2008 with the same focus and agenda. The political uncertainty in Nepal and Pakistan were matters beyond the Bank's control. A more detailed progress report on each activity is below.

With the two rounds of call for proposals and 18 activities being funded the Facility has been well established. There has been increasing demand for the resources provided by the Facility from all sectors. The next three installments of \$ 750,000 each will be inadequate to meet this demand.

This partnership between the Bank and AusAID has added value in the form of the ability to leverage substantial institutional change. The Facility has enlarged and deepened its impact by funding policy engagement and institutional reforms linked to proposed Bank lending or other donor funds to the tune of \$ 1.05 billion and by enabling funds to be leveraged in the future through laying the groundwork for policy reforms for which Bank will provide technical assistance for implementation. These funds have been strategically used to assist client governments with major institutional change that will have impacts many years into the future. The two examples are the assistance to Nepal as it transforms from a centralized monarchy to a federation and the assistance to Afghanistan for long term fiscal reform. The last came at the request of the Government of Afghanistan based on work undertaken in Round 1.

Title	1. Policy Support for Intergovernmental Fiscal Flows to CDCs Afghanistan
Context and Objectives	<p>Afghanistan lacks a lower tier of government. In the absence of this tier the effort is to strengthen the elected Community Development Councils (CDCs) set up under the National Solidarity Program (NSP) that are serving as de facto local governments. The NSP covers all 34 provinces and reaches almost 20,000 villages. CDCs are in the process of being institutionalized. The CDC By-law (November 2006) provides a legal basis for CDCs as independent entities, with expanded administrative and service delivery roles and the ability to receive funds.</p> <p>The objective is to analyze current fiscal flows and design direct fiscal flows to CDCs.</p>
Outputs	<p>(1) Analysis of current fiscal flows focusing on service delivery and governance and NSP/CDC funding modalities.</p> <p>(2) Ongoing policy dialogue</p> <p>(3) Design of fiscal flows to CDCs</p>
Progress	<p>This activity has been completed. The analysis of inter-governmental fiscal flows was completed in July 2008 and well received by the government and the donor community. The report entitled "Intergovernmental Fiscal Relations and Sub-National Expenditures" launched at a high-profile event, chaired by UNAMA and attended by a number of senior officials and members of the donor community in August 2008. The third output the design of fiscal flows to Community Development Councils has been modified in the light of new developments. GOA has constituted the Independent Directorate of Local Government (IDLG) as the oversight agency for sub-national issues. IDLG's Strategic Plan gave priority to reform of the fiscal structure. The Bank has decided to delink the work on CDC and take it up as a separate activity. Based on the current study IGLD has asked the Bank to be involved with the design of the entire sub-national service delivery and governance systems. The fiscal flows study thus became the first step of support to the reform of the inter-governmental fiscal architecture. The Facility is funding this expanded technical assistance for the development of a long term inter-governmental fiscal reform framework in Round 2.</p>
Outcomes	<p>1) An analysis of the intergovernmental fiscal system which became the basis for the development of policies to strengthen the system, currently being formulated by IDLG and MoF.</p> <p>2) Substantial impact on the draft sub-national governance policy framework released by IDLG in September 2008. The extent of this is difficult to quantify in the form of a precise indicator, but the impact of the report and the dialogue undertaken in connection with it is clear in the fiscal sections of the policy framework e.g. the proposal that expenditure norms be developed to ensure an equitable distribution of fiscal resources across sub-national jurisdictions.</p> <p>3) Request by IDLG and MoF for technical input and support from the Bank in developing key elements of the intergovernmental fiscal framework over FY 09 and 10, focusing in particular on developing expenditure norms (mentioned above) and reforming the intergovernmental structure of budget authority - this work has already begun using a second grant from the Facility.</p>
Title	2. Evaluation of National Solidarity Program and Support for CDCs. Afghanistan
Context and Objectives	<p>To garner support for a policy that formalizes CDCs as part of the intergovernmental system. The CDC by-law of November 2006 is a first step. Buy in from other ministries is limited inhibiting the institutionalizing of CDCs as part of a sub-national governance system. CDCs will be transitioning out of the NSP from 2007 in a phased manner. A limited window exists to integrate them into the intergovernmental system or they face the risk of collapse despite the funds invested and the social capital built.</p>
Outputs	<p>(1) CDC National Conference or Jirga.</p> <p>(2) Economic Impact Assessment of NSP</p> <p>(3) By law revision and support</p>
Progress	<p>This activity has been completed. The CDC Jirga or national conference was held over six days in Kabul in November 2007. It brought together around 700 elected CDC members who called upon the Afghan Parliament to approve the CDC By- law making CDCs a part of government at the village level. The economic impact assessment of NSP was completed. The By- law revision was dropped since IDLG was</p>

	opposed to any role for CDCs in the intergovernmental structure.
Outcomes	<p>1) The CDC jirga demonstrated the tremendous social capital built. Over one third of the participants were women. The funds enabled an independent film maker and a journalist to record this important event. The documentary has been widely used to publicize the achievements of the NSP and has been instrumental in generate additional donor support, in particular in the US. The film can be seen on youtube: http://www.youtube.com/watch?v=P0KoZA1cvdw. Two articles were produced and are attached to this report. They are particularly convincing in demonstrating the effects of the NSP on the empowerment of women and on more conservative villages. The short article featured on the World Bank's intranet and the long article will be printed as a report shortly.</p> <p>2) The ex-post economic analysis of completed sub-projects has convincingly demonstrated the positive economic return and significant creation of temporary and permanent employment. Economic rates of return were calculated across the main infrastructure sectors (drinking water, roads, irrigation, and power) and have an average rate of 19%. During construction 1.9 million labor days were created and an estimated 470,000 labor days annually are now available because of the newly created infrastructure and related economic opportunities. The study findings were presented at a recent ARTF donor meeting in Kabul and this report was particularly important to convince the Minister of Finance of the positive economic impact of NSP.</p> <p>3) The IDLG presented its draft sub-national governance policy in September 2008 and the CDCs have been recognized as the crucial local institution until 2011. At that point the constitutionally mandated village councils shall be elected and CDCs may continue to exist as civil society organizations. This is a major breakthrough because the IDLG initially opposed the role of the CDCs and lobbied for immediate election of village councils. The draft policy is attached to this report.</p>
Title	3. Metropolitan Management and Governance in Punjab's Large Cities - Pakistan
Context and Objectives	<p>Pakistan's devolution has been underway since 2001. The challenge now is to improve service delivery in the metro cities.</p> <p>A workshop on metro governance is planned for key policy makers in Punjab province, focusing on integrated planning, public finance and service delivery. It will share lessons of metro governance from around the world through the experience of practitioners. These global experts will spend time beyond the workshop working with key policy makers on policy design. The workshop and follow up activities will support key reforms to be implemented through the Bank's Punjab Large Cities Development Policy Loans (DPLs) with three consecutive DPLs of \$100m each.</p>
Outputs	<p>(1) Workshop in Lahore on metro governance for key policy makers with global experts sharing lessons from other metros.</p> <p>(2) Follow up activities where these experts will work on specific problems identified by policy makers.</p> <p>(3) Creation of Metro Planning Committees (MPC) in five City District Governments (CDGs)</p> <p>(4) Leverage of reform processes supported by three DPLs in integrated planning and land management, financial management and improved service delivery for W&S, SWM and transport.</p>
Progress/ Reasons for delay	<p>This activity was to be completed by June 2008. The workshop was delayed due to elections in Pakistan. With a new government in place in the province the workshop was scheduled for September 2008. However the macroeconomic situation deteriorated and the Bank decided to convert the \$ 300m DPL which offers budgetary support to a Sector Investment Loan (SIL). This SIL has been recently endorsed by GoPunjab and the workshop is to proceed with the same focus and agenda. A mission was to be in Pakistan from Oct 8 to finalize the dates for the workshop however due to the deteriorating security situation in the country it has been postponed. It is expected the activity will be completed December 2008.</p>
Outcomes	Too early to obtain outcomes
Title	4. Off grid Rural Electrification with Renewable Energy - Pakistan
Context and Objectives	<p>Pakistan has enormous renewable energy (RE) sources but it faces severe energy shortages. There are about 7000 villages with a dispersed population of 15 million un-served in coastal, desert or mountainous areas that GoP wants to support. RE might be a feasible solution, since it is uneconomical to serve them through the national grid. Both the government and donors have supported numerous projects and tested most RE forms</p>

	<p>in the last two decades. Neither technology nor funds are major impediments for the planned electrification. With a few exceptions these projects were in-kind donations by government or donors. They have proved to be unsustainable and some might be abandoned. Decentralization by putting local governments in the driving seat in project decisions, implementation, financing, and maintenance offers a solution for sustainable scaling up.</p> <p>The objective is to do an in-depth analysis of the present off-grid RE projects with the aim of examining key underlying socio-economic factors, governance factors, and exploring and testing sustainable decentralized solutions through local governments for large scale rural electrification.</p>
Outputs	<p>(1) Analytical study based on large sample survey, establishing baseline indicators, testing public-private-participation issues, and drawing lessons from implemented projects</p> <p>(2) Developing policy proposals for the legal, institutional, organizational, financial, and procedural framework for large scale off-grid rural electrification and policy dialogue</p> <p>(3) Testing the new governance models in a few pilot cases in each RE area</p> <p>(4) Preparing final proposal for the federal and provincial governments for financing an off-grid electrification program.</p>
Progress	<p>This activity will be completed by October 2008. The analytic study including evaluation of the results of the field surveys is completed and was shared with the Government of Pakistan and key donors (e.g. UNDP, GTZ) and discussed in a workshop. The key policy proposals have been discussed and accepted. As a result 90 percent of the TF fund has been utilized.</p> <p>The testing of new governance models is still to be completed. Repeated changes in the management of the key counterpart the Alternative Energy Development Board, has delayed the kick off of the pilots. They are however expected to be completed by end of October.</p>
Outcomes	<p>As a result of this study and pilots new and sustainable governance and financing models suitable to the circumstances in Pakistan have been identified. These are expected to be implemented in 2009, when the initial contracts with the private renewable energy developers expire. The analytic study provides a good foundation for developing a long-term off-grid electrification strategy.</p>
Title	<p>5. Evaluation and Documentation of the Power Sector Reform Process in West Bengal- India</p>
Context and Objectives	<p>The activities to be funded will cover the documentation of the reform process.</p> <p>DfID has funded a project that is underway to augment the capacity of the Department of Power to develop an efficient, accountable and financially viable power sector in the state. The project supports the government's efforts to build the capacity of the state power utilities in order to improve their commercial viability and service delivery on a sustainable basis.</p> <p>The objective is to evaluate and document the experience of power sector reform in the state and use it as a learning experience for other states and countries in the region contemplating reforms. This will be done through a knowledge and experience sharing workshop to which key policy makers will be invited.</p>
Outputs	<p>(1) Monitoring and documentation of the power reform process. This would include documenting the extensive consultation experience that lead to reform, the unique structure and sequencing of reforms and the use of governance initiatives to achieve customer orientation and sustainable operational efficiency of the newly corporatized entities.</p> <p>(2) A knowledge and experience sharing workshop with key policy makers from states in India and other countries in the region followed by a seminar in Washington.</p>
Progress	<p>This activity is almost complete with a final report due in December 2008. The draft report on the WB Power Reforms was discussed at a national workshop involving major Indian states and important stakeholders in New Delhi on July 23, 2008. It was very well received with Planning Commission requesting documentation to be shared with other states. It was well covered by the national media. An international workshop was also held at the World Bank in Washington DC on October 1, 2008 to share the findings. It was attended among others by the Adviser from AusAID to the Executive Director from Australia to the World Bank, Robert Christie. The final policy paper documenting the West Bengal reform is to be completed by end of December, 2008.</p>
Outcomes	<p>Discussion and knowledge sharing with other Indian states about the successful WB power sector reform</p>

	process.
Title	6. AP Urban Reform-Monitoring, Implementation and Fiscal Support India
Context and Objectives	<p>The AP Government has undertaken an ambitious urban reform agenda. The Bank has funded the \$ 233 million AP Urban Reform and Municipal Services Project, providing technical assistance and loans to finance client identified and implemented subprojects tied to local reform contracts between state and local governments.</p> <p>This study that will lead to policy dialogue and design to reform the monitoring and contracting of the reform process under this Bank project. It will also design criteria for allocating various external flows to local governments. The insights from the monitoring study would be used to redesign intergovernmental transfers so that discretionary grants and loans are allocated matching financial capacities of Urban Local Bodies to maximize efficiency and equity. It would examine whether general transfers can be modified to enhance reform incentives through matching grants and equity based on a measure of poverty.</p>
Outputs	<p>(1) Evaluation of reform</p> <p>(2) Redesign of fiscal flows</p> <p>(3) Workshop with key clients to obtain feedback on initial design</p> <p>(4) Full draft of design</p> <p>(5) Second round of consultations</p> <p>(6) Final report and new policy documents</p>
Progress	The activity is to be completed in the next fiscal year. The principal consultant has started work; and the initial consultation with the government has been completed. The State Government has made a strong commitment to seriously consider and act upon the study's results. A work plan is drafted incorporating the Government's interests, and local consultants have been identified. Data collection and analysis is scheduled to start in October 2008.
Outcomes	Too early to report.
Title	7. Federalism in New Nepal: Analysis and Options - Nepal
Context and Objectives	<p>Nepal is in the process of transforming from a centralized monarchy to a federal state. The structure of different tiers of government, their roles and responsibilities and the nature of fiscal flows are all under discussion</p> <p>The objective is to examine the experience of countries in SAR and other regions for lessons relevant for Nepal at this juncture, and engage in policy dialogue with key policy makers.</p>
Outputs	<p>(1) Series of workshops with key policy makers and regional and global experts on various aspects of federal structures.</p> <p>(2) Learning visits for key policy makers</p> <p>(3) Organizing discussions among practitioners and policy makers.</p> <p>(4) Preparation of policy notes and position papers to inform decision makers</p> <p>(5) Viable options proposed.</p>
Progress	<p>The activity is to be completed in the next fiscal year. The federalism agenda in Nepal was delayed due to the slow transition from monarchy to a federal structure. The Constituent Assembly elections were finally held in April 2008 and a new government has been constituted in August 2008. Issues around the new federal structure are now under discussion and the Bank team is working with key stakeholders on several activities.</p> <p>A well attended policy forum on "Intergovernmental fiscal reforms: what are the basic design questions?" was held in Kathmandu in September 2008. The forum drew upon experiences from around the world with the design of intergovernmental fiscal systems to debate the lessons and options for Nepal. The focus was on developed and developing countries, both unitary and federal. Two basic issues discussed were: what are the important questions to be answered in designing a new intergovernmental fiscal system and how should reforms be sequenced and implemented? The presentation highlighted the choices available to government planners in offering a design of a new system. It helped to debate the roadmap on how to design the system, and how to develop an implementation plan.</p> <p>Work on a policy note on the political economy of federalism in Nepal is currently ongoing and is to be completed by December 2008. The policy note draws upon the manifestos of political parties to articulate</p>

	their positions on federalism, including the key characteristics along which sub-regions are classified (e.g. by ethnicity, geographical potential, economic base, population), the relationship between the center, states and local governments (e.g. revenue and expenditure assignments), and the role of intergovernmental fiscal relations, among others.
Outcomes	Too early to report
Title	8. Decentralized Local Infrastructure Service Delivery in Nepal- Nepal
Context and Objectives	<p>To develop a set of policy recommendations and a legal framework for improving the institutional structure for decentralized local infrastructure delivery. This study will be used to inform the ongoing debate on the structure of the state.</p> <p>The study will review the various sectoral legislations to identify gaps with the Local Self Government Act or its update and support amendments as needed .It will examine policy options to improve revenue generating capabilities of local governments to finance the development and maintenance of local infrastructure.</p>
Outputs	<p>(1) Study examining the experience of other countries in the region and select countries outside the region, with effective decentralized provision of local infrastructure services and recommendations on the optimal institutional set up for the delivery of local infrastructure in Nepal.</p> <p>(2)Policy Note and Implementation Plan</p> <p>(3) Two workshops to engage policy makers and obtain feedback</p>
Progress/ Reason for delay	The activity is to be completed in the next fiscal year. The background country case studies have been completed for Indonesia, Peru and Bolivia. Literature review and analytical framework for infrastructure decentralization have also been completed. Case studies on Uganda and Tanzania are underway. A Policy Note and Implementation Plan will be delivered this FY, and workshops in Nepal will be conducted afterwards. The delay in the Policy Note and the workshops was due to the changing political circumstances in Nepal.
Outcomes	Too early to report.