PROCEEDINGS

External Support for Decentralization Reforms and Local Governance Systems in the Asia Pacific:
Better Performance, Higher Impact?

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ABBREVIATIONS

ADB	-	Asian Development Bank
CDIA		Cities Development Initiative Asia
COA		Commission on Audit (Philippines)
CSO		civil society organization
DeLoG	-	Development Partners Network on Local Governance & Decentralisation
DLG	-	decentralization and local governance
MDG	-	Millennium Development Goals
PBG	-	performance-based grant
PBL	-	policy based loan
SDG	-	Sustainable Development Goals

EXECUTIVE SUMMARY

This report records the proceedings of the Learning Program on *External Support for Decentralization Reforms and Local Governance Systems in the Asia-Pacific: Better Performance, Higher Impact?* The event was held at the Asian Development Bank (ADB) headquarters on 25–27 August 2015 and was organized by the ADB and the Development Partners Network on Local Governance & Decentralisation (DeLoG). The seminar aimed to (i) provide a venue for structured exchange of information, experiences, lessons, good practice, learning from success and failure and (ii) bring together experts, resource persons, advisers, and practitioners to share their diverse perspectives.

The 3-day learning program was opened by **Bambang Susantono**, Vice President (Knowledge Management and Sustainable Development), ADB and **Jochen Mattern**, Head of Secretariat, DeLoG who shared the respective work of ADB and DeLoG in the areas of decentralization and local governance and reported on the beginning of the partnership between the two organizations. **Som Lal Subedi**, Chief Secretary to the Government of Nepal, gave the keynote speech noting the timeliness and relevance of the seminar especially to Nepal, which was about to adopt a new Constitution which includes the transition from a unitary to a federal system of government.[1]

The technical inputs by experts were arranged into modules, including an open space for topics suggested by the participants. The 3-day learning program consisted of eight modules on (i) decentralization and local governance (DLG) reforms in Asia; (ii) political economy; (iii) sector decentralization; (iv) aid modalities and development partner instruments for supporting DLG reforms; (v) fiscal decentralization; (vi) social and political accountability; (vii) the new Sustainable Development Goals; and an (viii) open space to be defined by participants.

Some of the key messages that emerged from the seminar are as follows:

- DLG reforms in Asia are characterized by a great diversity of experience in terms of sources of demand, purpose, structure, length of process, and outcome. Policy objectives can range from improved citizen participation to better service delivery. Systems have to be customized to respond to the intended policy objectives. Experts agree that DLG reforms should adopt a comprehensive approach. There is a consensus on the difficulty of measuring the success of decentralization, because reform progress is usually not linear. In their marginal yet facilitative role in the reform process, development partners will need to be flexible, tolerate some imperfections, and adopt a genuine belief in local governance whose objectives—improved public service delivery, equalization, citizen empowerment, etc.—remain the subject of political discourse in many countries. There is value in continuously reviewing the existing decentralization systems in view of results achievement and in keeping the legislation flexible, by i.e. minimizing the decentralization framework that is enshrined in the constitution.
- The political economy of reform, including the so-called "window of opportunity", is crucial to be understood by those who advocate for and support DLG reforms. Decentralization is a highly political process. The context that defines who or what is driving the reform, and the dynamics between and within levels of government, or between politicians and bureaucrats, or between government and citizens shape both the process and the results.

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[1] The new Constitution has been adopted on 20 September 2015 outlining 7 Provinces.

- Structuring sector decentralization can use different functional assignment techniques to achieve clarity on who is doing what, not generally through an omnibus legislation, but by a well-defined sector framework. While techniques for addressing functional assignments are emerging, there is not a clear cut relationship between the investment made in the process and techniques, and the resulting robustness of the functional (re)assignment; reflecting in part the rather unpredictable role of political dynamics in this process. In terms of technical aspects, some optimism is in order, but also some caution. Unbundling sector functions should be approached with caution to avoid losing sight of how sub-functions work together, or decentralizing public administration activities instead of assignments. Functional assignment should capitalize on the right technical expertise, stakeholder participation, and core principles that guide decisions. In aiming for effective implementation of new distribution of functions, gaining stakeholder understanding and consensus is more important than insisting on a scientific rationality to the assignments.
- Development partners have used different instruments for supporting DLG reforms, such as policy dialogue, technical assistance, grants, and policy-based loans. Since these instruments can have high impact, albeit have the tendency to be high risk and politically sensitive, careful attention should be given not only to the project design, but also to the implementation strategy. Change management, effective communication strategy, balance between bottom-up and top-down approaches, and local governance work anchored in a sound fiscal framework foundation are crucial.
- Fiscal transfers need to be carefully designed in terms of the policy objectives that are intended. Following the trail and measuring the level of resources going to the local level is a challenge, in particular when it comes to line agency spending at the local level. In view of recent discussions on the need for domestic resource mobilization to finance development, countries need to increase the own-source revenues of subnational governments, such as property tax revenues. Performance-based grants are controversial because there is a risk that they undermine autonomy at the local level, but they have potential in developing countries with limited capacities as there have been cases where they have been successfully used to encourage compliance with newly decentralized systems.
- Social and political accountability mechanisms can improve local governance as shown by citizen empowerment in Indonesia through the Kinerja Programme and the citizen participatory audit in the Philippines. Constructive engagement of civil society organizations and continuing dialogue between them and the local government to build trust are key in both cases. Moreover, local elections, although infrequent, can be an effective means for incentivizing local officials to do their job well.
- Although local governments were not directly involved in defining the new Sustainable Development Goals, they need to play key roles in adapting and localizing the goals and targets, and in creating the enabling environment, implementing initiatives, and tracking progress. These roles should be matched with corresponding political commitment to decentralization, financing, and capacities. Efforts and support will also be needed to enhance the statistical and M&E capacities of local governments to track local SDG progress but equally important to produce evidence-based data to reduce inequalities within countries. Communicating the meaning, value, and requirements of the goals at the local level in a way that does not threaten local development and political priorities will not be easy.

Additionally, the seminar had the opportunity to discuss federalism in Nepal as provided for in the draft Constitution. The exchange raised questions on the expected benefits of the move

from a unitary to a federal system and highlighted the necessity for clarifying the link between rationale, design, and desired outcome of decentralization. Promising stances in aid of this transition would include: engaging decision-makers in a debate to gather more evidence that informs decisions; undertake equalization between the new subnational government regardless of the huge work it would entail; and limit the subnational government framework details put in the Constitution to allow for some flexibility. In a parallel meeting, the participants working in Indonesia clarified what they could take home from the seminar discussions. They reflected on the relevance of the inputs in the Indonesian context and explored practical applications of insights gained.

In closing, **Jochen Mattern** and **Claudia Buentjen**, Principal Public Management Specialist, ADB, assured the participants that the learning exchange would continue through the global network of practitioners that DeLoG is facilitating, the dialogue and newsletter that the ADB Governance Thematic Group produces, and other learning events that DeLoG and ADB may jointly or separately undertake in the coming year(s).

The event gathered over 60 participants comprising ADB staff, representatives of DeLoG development partner members; and country delegations from Indonesia, Nepal, and the Philippines.

I.   INTRODUCTION

1.   Over the last three decades, numerous countries of the Asia-Pacific region have engaged in decentralization reforms and in initiatives to strengthen their local governance systems. The rationale and motivation for such reform initiatives has been as diverse as the reform context of each country, ranging from big bang decentralization as part of regime transformation (Indonesia) to efforts to re-build the state and create new social capital after 25 years of internal unrest and war (Cambodia) and to many initiatives to strengthen sub-national governments in order to improve their service delivery for citizens. The international community has supported such reform initiatives by means of capacity development and advisory services, and by facilitating national and cross-national learnings. Development partners have increasingly sought a common approach for their support to decentralization reforms. In line with the global debate on aid effectiveness they have made visible efforts to harmonize their support amongst themselves and to align external support with the partner country's strategies and systems. The joint learning event took stock of past and existing reforms and their support by development partners in order to generate joint learnings and contribute to a better understanding of such reform processes. The event focused on reform processes and their results in developing member countries of the ADB (especially countries like Cambodia, Indonesia, Nepal, Pakistan, and the Philippines). It reviewed both the national reform processes, as well as at the support strategies and instruments provided by development partners.

2.   The Asian Development Bank (ADB), in partnership with the Development Partners Network on Local Governance & Decentralisation (DeLoG),[2] organized the *External Support for Decentralization Reforms and Local Governance Systems in the Asia-Pacific: Better Performance, Higher Impact?* held at the ADB headquarters on 25–27 August 2015. The seminar aimed to (i) provide a venue for structured exchange of information, experiences, lessons, good practice, learning from success and failure and (ii) bring together experts, resource persons, advisers and practitioners to share diverse perspectives.

3.   The 3-day learning program consisted of 8 modules on (i) decentralization and local governance (DLG) reforms in Asia; (ii) political economy; (iii) sector decentralization; (iv) aid modalities and development partner instruments for supporting DLG reforms; (v) fiscal decentralization; (vi) social and political accountability; (vii) the new Sustainable Development Goals (SDGs); and an (viii) open space to be defined by participants. (Appendix 1).

4.   The seminar gathered over 60 participants comprising ADB staff; representatives of development partner members of DeLoG; and country delegations from Indonesia, Nepal, and the Philippines (Appendix 2).

II.   OPENING

5.   The seminar was opened by **Bambang Susantono**, Vice President (Knowledge Management and Sustainable Development), ADB. He noted that numerous countries in Asia have engaged in DLG with the rationale and motivation for such reform initiatives being as diverse as the reform context of each country. The international community has supported DLG initiatives in Asia. ADB, for instance, has provided technical assistance and policy-based loans

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[2] For more information on DeLoG, visit http://delog.org/web/

to support DLG reforms in its developing member countries. Development partners have sought to harmonize their support for DLG reforms and align such support to country priorities and systems. Related to this is the decision of ADB to join DeLoG this year on the request of ADB's Governance Thematic Group. ADB's partnership with DeLoG begins with this seminar which seeks to provide a forum for joint learning on external support for decentralized governance. (Appendix 3a)

6.   **Jochen Mattern**, Head of Secretariat, DeLoG, thanked ADB for hosting the seminar and deciding to join DeLoG this year. DeLoG was founded in 2006, after the Paris Declaration on Aid Effectiveness in 2005. The Secretariat was established in 2008 with funding from Germany's Federal Ministry for Economic Cooperation and Development (BMZ) and the Swiss Development Cooperation. Hosted by GIZ, DeLoG currently has 29 bilateral and multilateral development partners. Its main task is knowledge sharing carried out through annual meetings, website and newsletters, global seminar series, Learn4Dev training courses, and different work streams. (Appendix 3b)

7.   **Som Lal Subedi**, Chief Secretary to the Government of Nepal, gave the keynote speech (Appendix 4). At the outset, he emphasized the relevance of the seminar to countries in the Asia Pacific region, and its timeliness, particularly for Nepal, which is about to transit from unitary to a federal system of government that will give more powers to local governments.

8.   **Chief Secretary Som Lal Subedi** shared Nepal's decentralization experience. The Local Self-Governance Act enacted in 1999 has ushered in the implementation of the Local Governance and Community Development Programme. Despite the political conflicts that have led to the suspension of local elections since 2002, Nepal has moved forward to decentralizing fiscal resources through performance and formula-based grant systems to local governments, making it one of the few countries in the region that do so. It has also implemented community empowerment initiatives through the Ward Citizens Forum and Citizen Awareness Centers at the local level. These mechanisms have proven to be well-functional in the rescue, relief, and recovery efforts in the aftermath of the earthquake in April 2015. However, **Chief Secretary Subedi** acknowledged that despite these initiatives, the road to decentralization remains challenging, particularly how to address the people's expectations in the new constitution and the lingering effects of the earthquake. Overlapping functions, patronage politics, budget and capacity constraints, and a centralistic mindset pose challenges. To conclude, **Chief Secretary Subedi** expressed hope that the seminar would help to improve understanding and cooperation toward decentralization and local governance, while acknowledging that there is no one size fits all model for decentralization.

9.   After the keynote speech, the facilitator, **Socorro Feliciano**, introduced the participants and led them to a warm-up exercise which showed that the majority of the participants have 6 or more years of direct experience in DLG. In terms of working knowledge, participants are least familiar with the topics on performance and equalization grants, and mainstreaming gender and social inclusion. Finally, **S. Feliciano** explained the objectives of the seminar and program overview, and encouraged the participants to give their comments and suggestions throughout the sessions.

III. MODULE 1: OVERVIEW

10.   To give the participants a general idea of what is happening in DLG reforms in Asia and the issues that need to be addressed, three resource persons shared their perspectives on Southeast Asia, South Asia, and the People's Republic of China (PRC). A discussant provided a synthesis of the presentations.

11.   **Juan Luis Gomez Reino**, Principal Public Management Specialist, ADB, explained DLG reforms in Southeast Asia, particularly those in the Philippines and Cambodia. He noted that most countries in the region have initiated decentralization but their experience varies greatly. The three main drivers are (i) demand for improved mechanism for local accountability, normally expressed through concerted efforts by civil society organizations (CSOs); (ii) need to achieve value for money as a result of pressures on government budget; and (iii) political dynamics or considerations coming from different actors. DLG reforms in the Philippines, despite focusing on local accountability and results, do not address the core design flaws of decentralization such as the unfunded mandates given to local governments, underdeveloped local government revenues, formula for unconditional grants that ignore fiscal capacities, and proliferation of new local government units, among others. The Local Government Code is a good law, but it needs to be amended. In the case of Cambodia, the preconditions were absent when decentralization was introduced and communes were given powers. The process has been slow, but it is currently showing some progress. (Appendix 5a)

12.   **T.R. Raghunandan**, Adviser to the Accountability Initiative, Centre for Policy Research, India presented on DLG reforms in South Asia. He emphasized that decentralization in the region is mainly a political rhetoric, particularly in India because what is actually happening is de-concentration. However, some interesting innovations and practices are currently taking place. Examples are the performance-based grant system in Nepal and Bangladesh, consensual decision on intergovernmental fiscal transfers in Pakistan, and new trends in revenue sharing and grants to provinces and local governments in India. The universal issues that need to be addressed include patronage-based grants, equalization (who gets more), monitoring the fiscal transfer system, and treatment of urban and rural system. The big question is how to follow the money. In India, and probably in many other countries as well, no one really knows how much money goes where. As a way forward, **Mr. Raghunandan** suggested constant work on functional assignments, strengthening institutions and monitoring, developing capacity to use information for evidence-based policy making, and nurturing champions. (Appendix 5b)

13.   **Roy Bahl**, Regents Professor Emeritus, Georgia State University, described the fiscal reforms in the subnational governments of the PRC. Subnational governments account for about 80% of expenditures, and yet they have no taxing powers. Over half of intergovernmental fiscal transfers are based on derivation-based shared taxes, and the remainder comes through unconditional and conditional grants. The process of fiscal reform begins with a policy plan prepared by the central committee. The state council works with the Ministry of Finance in drafting the implementing rules, and then the provinces implement the policy. Professor Bahl observed that problems persist in each of the four pillars of decentralization in the country: expenditure assignments, own source revenues, intergovernmental transfers, and subnational government debt. Corresponding reforms have been introduced, but the fundamental issues have not been addressed. However, given the history of the PRC, a comprehensive reform will be introduced when the right time comes. He reminded the group that no one gets

decentralization right the first, second, or even the third time. It is important to measure and monitor progress and adjust as needed. (Appendix 5c)

14.   Serving as discussant, **Paul Smoke**, Professor of Public Finance and Planning, New York University, gave the following observations. Understanding the context of decentralization is very important. There has been a tendency to look for norms or best practice in DLG reforms because of the lack of understanding of what decentralization means for a particular country, or why decentralization is happening in the first place. Political economy is a driver of decentralization. Unfortunately, some do not think about how political realities relate to the kind of reforms the people should or want to do. *Paul Smoke* opined that the weakness of local revenue authorities is not a fiscal problem, but a government problem. The most important indicator of local governance success is when people are willing to pay taxes to local governments for the services they avail. DLG reforms should not be fragmented but comprehensive, and implementation strategy, along with design, should be given adequate attention.

15.   Plenary discussion highlights:
- The seminar presents a rare opportunity for addressing DLG issues in a comprehensive manner. There was an expectation among some participants that the learning program should come up with a recipe for reform that would help countries link all the local ingredients together.
- Most countries in Southeast Asia and even South Asia have taken a comprehensive approach to DLG reforms, at least in fiscal decentralization. However, reforms need to wait for a window of opportunity such as the ASEAN economic integration or the political agenda or priority of an incumbent leadership.
- Decentralization in Cambodia was used to stabilize the country; it has revolutionized the country in peaceful way. The process has been slow, but significant development is expected in the coming months.
- Decentralization in Cambodia is not donor-driven. Donor contributions include unconditional grants. They are less project-specific and the results framework is developed by the government.
- The success of decentralization can never be measured. Everybody has a different view. What can be measured is improvement in service delivery or fiscal decentralization. However, it is hard to tell if changes in public services after decentralization are brought about by unfunded mandates or fiscal transfers, good sector framework, or monitoring, among others. Another indicator could be the re-election of a political champion of decentralization.
- Looking into the political economy of donors, or their incentives for supporting DLG reforms, is equally critical.
- It is important to have a clear strategy for reforms; understand the context and respond as conditions change and opportunities arise.
- There has been a lot of talk about improving DLG reforms, but the challenge remains on how to make countries believe in what is being said by experts about these reforms.
- Decentralization is put together by central government officials who are often more concerned about better services than citizen participation.

IV.   MODULE 2: POLITICAL ECONOMY OF REFORMS IN ASIA

16.   The political economy of reform, including the so-called window of opportunity, is crucial to be understood by those who advocate for or support DLG reforms. The context that defines

who or what is driving the reform, and the dynamics between and within levels of government, or between politicians and bureaucrats shape both the process and the results.

17.   **Paul Smoke** explained political economy as a framework for analyzing DLG reforms in Asia. He argued that more than a technical exercise, development partners should approach decentralization by analyzing the political and institutional dynamics that affect reforms. Politicians and bureaucrats support decentralization if it serves their interest and decentralization depends on the views and incentives of the people on the ground. The three levels of analysis of decentralization involves understanding the (i) national political economy origins of decentralization; (ii) relationships at the central government and among administrative and government levels; and (iii) political economy at the local level. For development partners, the challenges and opportunities include understanding and influencing political and institutional realities, identifying which actors to work with and how, aligning what government and what donor wants, piloting innovative approaches, and doing careful navigation and flexibility in programming. (Appendix 5d)

18.   To encourage a more meaningful and participatory discussion, the participants were grouped into five buzz groups to discuss or reflect on some questions and to share their views at the plenary. A summary of the buzz discussions is provided in the table below.

Question	Response
What political economy factors underlie the current decentralization policy and framework in your country?	• To keep the country together • To move public services closer to the people; demand for efficiency • Many gaps in planning, budgeting, and formula-based allocation of resources • Geographical and ethnical diversity • Disaster (earthquake in Nepal) • Trust with local authorities • Central party or central government agenda • Political agenda of a new political party
Who are the key actors—of various types and at various levels--involved and how do their priorities support or impede decentralization (e.g. is there policy consistency or do some agencies promote decentralization while others try to constrain it)?	• Political parties, politicians, parliamentarians and bureaucrats • Those who participate in the participatory planning process, CSOs. • Large private sector contractors who are against decentralization
How have development partners been involved and how do they fit into the landscape of counterpart actors (e.g. do they reinforce conflicting policies or help to reduce them)?	• Most of them are pushing for or supporting decentralization • Support capacity building and community empowerment • Participate in sector working groups • Provide technical advice • Do philanthropy (IT billionaires in India)
Given current conditions (including political economy dynamics), what are the realistic	• It depends on the outcome of the next election, or retention of some champions in the government • People's demand for local election

Question	Response
prospects for further reform and how it might be pursued.	• Transition from unitary to federal government (Nepal)

19. Plenary discussion highlights:
- Introducing local governance reform through public service delivery proved more effective than trying to bring in political reform. A local government in the Philippines worked to shut down the CSO who was trying to introduce political reforms. But when the CSO worked with the local government in public service delivery, the partnership has worked and has brought about the desired change.
- It is important to clarify the meaning of local governance reform, that is, if it is about individuals as users of government services, a political reform, direct engagement of people, etc.
- The political economy framework for analyzing DLG reforms is a good one. There are no grand solutions to DLG reform, but it can work if it is linked to broader issues.
- We should have realistic expectations of what DLG reforms can accomplish in a particular timeframe because it is a complex and highly political process.
- All technocratic and programmatic perspectives will not affect the outcome of the elections. Practitioners need to engage with political entities.

V.   MODULE 3: SECTOR DECENTRALIZATION

20.   Sector decentralization seeks to achieve clarity on who should be doing what and to align the sector framework with the overall DLG framework in the country. Two resource persons talked about functional assignments as a methodology for structuring decentralized sector system and the respective experiences of Cambodia and Indonesia.

21.   **Rainer Rohdewohld**, Senior DLG Advisor, introduced functional assignment as one of the core elements of DLG reforms. Unfortunately, functional assignment is often done badly due to a lack of knowledge and expertise of those involved in the process, missed linkages with the other elements, and inadequate understanding of the political economy. The emerging functional assignment methodology can be described as a business process with a defined goal and scope. Three major steps are (i) functions mapping where actors are organized; (ii) functions review to decide changes to the existing allocation of functions; and (iii) effecting the change or transfer of functions. The functional assignment approach is flexible, highlights stakeholder participation, and allows sector institutions to play a lead role while the process is steered by local government or interdepartmental coordination body. More importantly, it seeks changes in sector framework rather than omnibus legislation. The core techniques involve the use of principles and criteria to aid decisions, unbundling of sector and management functions, and distinction of modes of decentralization and types of functions (like obligatory versus discretionary functions). (Appendix 5e)

22.   **Gabe Ferrazzi**, Senior DLG Advisor, Rural Development Consultant, and Adjunct Faculty, University of Guelph, shared the experiences of Cambodia and Indonesia (Aceh) in functional assignment. Cambodia has undergone a 5-year decentralization process supported by different development partners using a most extensive methodology, albeit with minimal transfers or results. The missing element appears to be the lack of demand, although recently the Prime Minister has directed ministries to transfer some of their functions to local governments. Indonesia has a more positive experience. The outcome in the initial reform round

exceeded the investment in the methodology of functional assignment or the support provided by development partners. However, in the special autonomy deal reached between the state and Aceh province, a more elaborate methodology was applied, and supported by GIZ and the results were proportional to the support given. Demand was strongly expressed. Consultation, clear identification of functions, and unbundling played key roles. With respect to development partners, Gabe Ferrazzi observed that they need to fit in the political process at the right time and should not expect too much from the methodology itself or external support provided. The tendency to set targets in sector reforms or service delivery by means of vertical programs may undermine DLG reforms. (Appendix 5e)

23.   Plenary discussion highlights:
- Care should be taken when using the techniques of functional assignment. Unbundling certain functions can lead to losing sight of how sub-functions work together, or if done at too granular a level can be reduced to minor public administration activities or rather small tasks which is no longer meaningful decentralization. Attention to the desired modes of decentralization is necessary.
- Functional assignment can entail a long process, because mindsets do not change instantly. Along with capacity development that matches functions with resources, incentives, pressures, and sanctions should be put in place to ensure that implementation will stay on track and keep improving.
- The methodology for functional assignment under a federal system or a unitary system is the same in some respects (especially if the federal unit has jurisdiction for lower levels of government, it acts towards these levels as a unitary state might). Effectiveness and efficiency should guide which functions should be assigned to whom, regardless of state structure.
- Aside from demand, the difference in the respective outcomes of decentralization in Cambodia and Indonesia lies in the link of existing sector functions from central to local level. In the water sector, for example, this link is present in Indonesia, but not in Cambodia; commune and district do not yet have discrete functions in the sector.
- The issue with Cambodia is partly the lack of political will to do decentralization, but behind this lies also the concern about a lack of capacities at the local level and uncertainty regarding how capacity is addressed in the process of decentralization. Unlike in Indonesia, local governments are still rather new. However, ADB's experience with the construction of district offices shows that local governments have done well in the limited tasks or projects they have been allowed to undertake. One lesson learned is that subnational governments should be given suitable roles and discrete functions for which they have responsibility, and requisite resources. With proper support and guidance, they can do the job. The Cambodia experience indicated that subnational governments can be trusted; given more experience and responsibilities, they will likely deliver. Development partners should be ready to tolerate some "imperfections" and trust that local governments will mature in time.
- ADB's support for decentralization through policy-based loans, as with other loans, cannot happen without the government expressing demand for it and committing to policy reforms.
- Expenditure assignment, along with revenue assignment, regulation, relationships between different levels of government, is part of functional assignment. All of these dimensions need to be considered in a decentralization reform effort.
- Functional assignment can entail constitutionally guaranteed assignments. This is typical of federal nations, or hybrid state structures as seen in South Africa. It is important,

however, to have the flexibility in the legal framework to clarify and elaborate the constitutional assignment, as needed over time.

VI.   MODULE 4: AID MODALITIES AND DONOR INSTRUMENTS

24.   Development partners have used different instruments for supporting DLG reforms. This module looks at ADB's technical assistance and policy-based loans (PBL), including a multi-donor program currently being implemented in Nepal, and the Cities for Development Initiative Asia (CDIA).

25.   **Bruno Carrasco**, Director, Public Management, Financial Sector & Trade Division, South Asia Department, ADB, described how ADB has used policy-based instruments to target interventions. PBLs can transform governance and institutions, but they operate in high impact/ high risk environment. They are used to support legal or regulatory reforms, new legislations, or amendments. Governance work in ADB lies in the public management sector, and in projects with governance and capacity development as themes. Decentralization accounts for only 4% of ADB projects under the sector during 2008-2014. The success rates of projects under the public management sector and those themed governance are relatively low, attributed to excessively complex design and weak implementation. Some of the lessons learned are: policy reforms are very politically sensitive, change management through champions in the government or CSOs is key, an effective communication strategy is essential, there should be balance between bottom-up and top-down approach, and local governance work should be anchored in a fiscal framework foundation. (Appendix 5f)

26.   To highlight the last point made by Director Carrasco, **Rachana Shresta**, Senior Public Management Officer, Nepal Resident Mission, ADB, shared the experience of Nepal in implementing the Public Management Program. Currently on its second phase, the program seeks to improve public finances at the national and subnational levels. It focuses in developing tools and systems (e.g., accounting software), and policies and guidelines (e.g., internal audit). The findings are rather expected: policy-related activities are more challenging because they need lots of engagement between the government and donors, capacity development activities need to be more strategic, and the program design is deemed very relevant, hence the second phase.

27.   **Eva Ringhof**, Social Urban Development Specialist, CDIA, presented an alternative way for financing urban development. CDIA is a multi-donor project that assists medium-sized cities in Asia to bridge the gap between development plans and implementation of infrastructure projects. It supports the identification and development of urban investment projects and links them with potential financiers. The idea is to better package projects to attract private sector financing by adapting to the needs of the city and the financiers. The process requires identifying capital financing sources, adapting to local conditions especially risk mitigation measures, and examining the feasibility for establishing a potentially valuable working relationship between the public and private sector. CDIA has supported infrastructure projects for solid waste management in Bophal, India and ferry terminal at Guimaras, Philippines. (Appendix 5g)

28.   Plenary discussion highlights:
- For ADB projects with governance as a crosscutting theme, measuring success is difficult given its broad definition and interpretation, and many projects do not define good mitigation measures. Governments usually back off from implementing mitigation measures and continuing the policy dialogue with them has proven difficult. Additionally,

building institutions and reforms in the enabling environment precedes service delivery, although the citizens may care only about the services they access.

- Strengthening subnational systems can be promoted by providing finance directly to local governments. However, this has to go through proper channels, depending on the country's legal and institutional framework. ADB conducts diagnostics of country systems and tries to build them when needed. Local government systems tend to have more risks, but those deemed ready can qualify for intergovernmental transfers.

VII.   MODULE 5: FISCAL DECENTRALIZATION

29.   Fiscal decentralization in Asia still has more room for improvement. The module covers the financing side of the budget for subnational governments, own source revenues, and intergovernmental transfers, including equalization and performance-based grants.

30.   **Roy Bahl** reported that subnational governments in Asia are not producing enough own source revenues. Property and land taxes have significant revenue potential because of the huge size of the base, but in developing countries, these account for less than 0.5% of gross domestic product (GDP). Developed countries average over 2% of GDP. Non-property tax revenues (e.g. individual income tax, payroll taxes, gross receipts, selective service tax, motor vehicle, business licenses, and user tax) can also make a big contribution to the income of subnational governments. These own source revenues are complemented by intergovernmental fiscal transfers, which consist of money given by the central government to subnational governments, sometimes called grants or shared taxes. Transfers can be done through vertical sharing (e.g., tax shares, ad hoc, cost reimbursement) or horizontal sharing (e.g., formula, derivation, cost reimbursement). They can be conditional or unconditional, each with a different impact on fiscal decentralization, compliance and administrative cost, incentives, or support for central policy directions. Most countries in Asia use a combination of mechanisms for transfers and they have differing results. (Appendix 5h)

31.   Similar to producing own source revenues, Asian countries have not done a good job at using grants to promote equalization. Equalization is used to narrow the gap between the rich and poor jurisdictions, or to guarantee every jurisdiction a good enough resource base to provide a minimum level of services. The formula is, Minimum Service Level (ME) = Revenue Potential (NP) + Transfer (IT) needed to fill the gap. Equalization should not be done on the basis of actual revenues and expenditures. Indonesia, the Philippines, and Pakistan use the formula approach; India tried the expert judgment approach of giving more to the poor states; the former Soviet states provide grants to guarantee certain service level; and the PRC and India give on the basis of responsibilities assigned to the provinces. Professor Bahl concluded that fiscal decentralization could be structured in many ways depending on its purpose. Therefore, aside from political economy, decentralization should be clear on what it wants to achieve through intergovernmental fiscal transfers.

32.   **Paul Smoke** asked what is actually meant with performance-based grants (PBG) to subnational governments. Do they really incentivize local governments to improve their performance, or do they merely infringe on local autonomy? Should local elections and other downward accountability measures be sufficient? He opined that international experiences in PBGs are not looking at results but about meeting certain standards. The approach is either sectoral or general PBG, but most of them measure compliance in delivering the service, especially when decentralization is new. To conclude, he said that PBGs have potential, but the impact that has mostly been demonstrated encourages compliance in newly developing

systems. There is much less documentation of improvements in service delivery and measurement of PBG indicators can be a challenge. (Appendix 5i)

33. Plenary discussion highlights:
- If data such as potential revenues are available, use formula for tax sharing. Otherwise, use rough formula (that is, land area and population), or use expert judgment by giving more to poorer or backward jurisdictions.
- When the formula for fiscal transfers is laid down in a law, it would be difficult to adjust it, as in the case of the Philippines.
- Equalization, despite its good intent, is difficult to succeed because the would-be losers or the richer jurisdictions that have a lot of clout or political power oppose such measures.
- For PBG to work, there must be a negotiation process between the local government, provider of grant, and the citizens. How to do this on a larger scale is one territory that academics and practitioners need to think about.
- The bottom-up budgeting in the Philippines introduced in 2012 is not a PBG, but a form of conditional grant to cities and municipalities that allows for CSOs to identify and prioritize projects from a long list provided by national government agencies.
- Mongolia has introduced a grant scheme similar to that of the Philippines and has also received lots of criticisms. The system may be inefficient, but doing it is necessary because decentralization cannot be learned by listening to the experiences of other countries, but by undergoing decentralization process directly. Allowing local governance actors to do things by themselves is a necessary step to decentralization.
- Experience in PBG differs by country in response to national and local realities. Local elections or audit of public funds can incentivize local governments to perform better. If they do well in service delivery, they can win the next elections. If audit shows good management of public funds, they can receive (more) fiscal grants. Paying taxes to local governments can promote commitment to accountability among the citizens. Additionally, parliamentarians who scrutinize the government budget and the CSOs can also evaluate local government performance and exact accountability.

VIII. MODULE 6: SOCIAL AND POLITICAL ACCOUNTABILITY

34. Social and political accountability mechanisms have the potential to improve local governance through citizen empowerment and citizen participatory audit. Constructive engagement of CSOs and continuing dialogue between them and the local government are necessary ingredients.

35. **Jana Hertz,** Governance Advisor, RTI International, presented how the USAID-funded Kinerja program in Indonesia used social accountability tools to engage citizens in identifying shortcomings to improve frontline service delivery, such as healthcare. Frontline services are the point at which service providers and citizens interact. The Kinerja tools comprise (i) complaint handling survey; (ii) service charter negotiated between citizens and providers; and (iii) multi-stakeholder forum. Regardless if the context is conducive or resistant to social accountability, the local governments and providers proved responsive to the citizens, but the providers' commitment was weaker than the citizens'. The citizen-centered commitment to social accountability perceives citizens as partner for improving service delivery, while the client-centric helps the provider to identify improvements in service delivery. The Indonesia experience showed that citizen engagement and alignment of expectations and attitudes of the

citizen and provider are crucial for sustaining the enhancements in service delivery. (Appendix 5j)

36.   **Arlyn Encarnacion**, Director, Commission on Audit (COA), Philippines, presented the pilot citizen participatory audit program implemented in Marikina City barangay health centers and Quezon City solid waste management service. The program, which started in 2012, involves a memorandum of agreement between COA and a CSO to spell out their respective duties and responsibilities. The barangay health centers in Marikina used a community score card. Beneficiaries are generally satisfied and became more aware of their entitlements. In the case of solid waste management in Quezon City, the CSO served as census taker. The result revealed many areas for improvement, but the people came to know their right to a clean environment. COA wanted to institutionalize the program and is now using the same audit for all local government units in the National Capital Region. The audit findings will be incorporated in the regular annual audit report. The approach has proven effective in promoting accountability. It cannot totally eradicate corruption but it gives flesh to people empowerment. (Appendix 5k)

37.   **Vivien Suerte-Cortez**, Country Innovations Manager, Affiliated Network for Social Accountability in East Asia and the Pacific (ANDA-EAP) which is the CSO partner under the citizen participatory audit, supplemented what **Arlyn Encarnacion** shared. She explained that social accountability is constructive engagement multiplied by citizen monitoring. She noted that the experience of the Philippines in this kind of performance audit where the citizens can contribute the most has been shared with Nepal. The audit general was very interested in the model and is currently coordinating with COA on how a similar program could be implemented in Nepal.

38.   Plenary discussion highlights:
- Local government response to social accountability in Indonesia was mixed, although they have responded to the recommendations. In the Philippines, both pilot cities have been responsive and one city even wanted to have its own or internal citizen participatory audit to get immediate feedback from its constituents.
- Citizen engagement can be facilitated by CSOs and leaders of people's organizations. The techniques used for engagement can also be adapted to suit the local context (e.g., text messages or oral survey).
- Sustaining the tools used in Indonesia is still in discussion, particularly whether to use state funds, membership contribution or other means. In the case of the Philippines, COA, which is a constitutional body, can continue the program regardless of the outcome of the next elections.
- On the citizen participatory audit program of COA
    - The Constitution guarantees the independence of COA and its audit. Audit findings and recommendations are based on proper documentation. If not acted upon, the same will be noted in succeeding audit(s).
    - Social accountability can be applied even to sensitive areas such as audit. The training program for auditors includes a module on social accountability. CSOs are involved only in public performance audit; not in the frontline or financial audit.
    - The selection of CSO followed certain criteria. To avoid CSOs getting politicized or captured by the government, the COA issued guidelines to be observed by the CSO with respect to conflict of interest and disclosure policy, among others.

- CSOs in the Philippines are relatively strong because they have a legal backbone and have undergone a process for accreditation.

IX. MODULE 7: OPEN SPACE

39.   The seminar was designed to allow for topics or activities that the participants themselves would want to tackle or do in Module 7. The group from Indonesia decided to have a separate discussion, while the rest participated in an 'intellectual exercise' about decentralization as envisioned in the draft Constitution of Nepal, as proposed by the Nepal delegation.

40.   **Reshmi Raj Pandey**, Joint Secretary, Ministry of Federal Affairs and Local Development, Nepal, presented the background, political economy, and relevant provisions of the draft Constitution on functional and revenue assignments, which will transform Nepal's government from unitary to federal. (Appendix 5l) The sense of urgency to approve the draft Constitution comes from the post-earthquake situation, in addition to the ethnic/geographic tensions and political polarization. The questions he posed to the plenary were,

- What could be the next step in elaborating constitutional provisions in terms of devolution?
- How to design local government system which increases political participation, strengthens cohesion, and provides incentives for people to debate choices to make collective decisions?
- What would be the immediate step to implement in designing the structure and elaborating the Constitution?

41.   Without going into specifics, the discussion highlighted the necessity for clarifying the link between the rationale, design, and desired outcome of decentralization proposed in the draft Constitution. It seems that a unitary system looks more appropriate for Nepal, and using ethnic groupings as basis for creating jurisdictions is inadequate. It was suggested that Nepal pays critical attention to the process of strengthening a sense of nationalism among people of one country, to provide a clear backdrop to federalism. Clarifying what the Constitution is trying to achieve—better governance, improved public services, or equity—would help to structure the decentralization mechanism. Doing equalization for intergovernmental transfers, despite the huge work it entails has been suggested. The delegation was also advised to engage the decision-makers or political leadership in a dialogue to gather more evidence that will inform decision, and to limit the details put in the Constitution to allow for more flexibility.

42.   The Indonesian Group discussed how to strengthen the fiscal policy framework and the fiscal capacity of the Provincial Health Office of Papua. This province, recipient of special autonomy fifteen years ago, is a disadvantaged province marked by poorly governed health systems, poorly resourced and managed health facilities, and low engagement of communities and accountability of service providers. The above state of affairs stands in contrast to the resource endowments of the province and its fiscal flows received by its government. The province has access to sufficient funding through national and regional funding streams. One of the funding streams, the Special Autonomy Funds (Otsus) was discussed in detail in the Indonesia group session.

43.   In 2014 the Otsus funding for health alone reached an equivalent of $100 million. The province with its 3.1 million inhabitants has a high commitment to usefully allocate these funds

to the 29 districts, however lacks the knowledge on how to manage this effectively. The big problem the province is facing is the lack of fiscal management capacity (planning, budgeting, monitoring and reporting). The group discussed the various related issues such as the complexity of various funding streams, spending mechanisms, and the need for monitoring of fiscal transfers to learn about the results on the ground.

44.   Financial management capacity of both provincial and district staff is very low. The allocation of the Otsus funds from province to local level is quite progressive but lacks criteria and oversight. Delay in the transfer of funds causes an additional problem, where funds often only reach the districts in the fourth quarter of the year – but must be spent in the little time remaining. This is not always possible, and funds are rolled over into the following year, a practice that is to be avoided.

45.   The lack of sound financial management capacity of heath sector staff at province, district and sub-district levels is a major concern. Specifically, there are glaring gaps in understanding and skills on how to manage the process of planning and implementing a budget and monitoring its spending. Weaknesses are felt particularly in how to be strategic in planning; how to take into account nationally set standards; how to respond to local circumstances; and how to measure results.

46.   There is an urgent need to establish a policy framework in the Papuan health sector, which is linked to the province's medium plans and larger financial management framework that includes the guidelines, operational policies, procedures on how to put this into practice for the use of funds by both provincial and district/city government. Clarity is needed on which model of fund allocation and transfer should be applied, e.g., performance/result based grants or direct allocation based on certain criteria.

47.   The need for a firmer conceptual foundation to allocate these funds based on the medium term perspective was discussed, and the group suggested that the provincial government should be encouraged to set clear performance targets based on the provincial annual plan link and its link to the medium term development plan. These performance targets would be properly mapped, announced and explained, and monitored over time. Furthermore, the performance targets will be oriented toward the achievement of minimum service standards, and a transparent allocation process arising from need and performance in this regard will need to be embedded in a policy framework. The group suggested that the province needs to address this challenge as a reflection of its role and function to properly manage and oversee fiscal management and build local capacity. The policy framework needs to be established as early as September 2015 so that it can be applied in the 2016 budget cycle and further refined and sustained in 2017 budget cycle. The province is committed to taking up this challenge in the view of the Papuan representatives in the group discussion.

48.   In principle, citizen engagement and civil society plays an important role in the supervision of services. This is all the more critical in Papua since the district offices cannot reach all health posts sufficiently. In this respect the local parliament also plays a significant role. Strengthening them to be more in touch and responsive to citizens/health system users, and to understand better perspectives on fiscal decentralization, implementation and measurement related to health services are very important issues to be tackled. In the engagement of provincial and district government health managers with parliaments and the public, the support of development partners can be fruitful.

49.   The participants discussed the establishment of a training program to train provincial staff plus district level staff (mid-level staff from the District Health Office, from the Planning Bureau and the Finance Department) of all districts on outcome-based financial management with result-based planning and implementation.

50.   It was agreed to encourage the province to implement this program through the provincial government training center (Balatkes) to strengthen the fiscal capacity of mid-level staff and decision makers. The Papua health sector managers will need help to understand their basic roles and core functions, which will need to include very detailed support down to the establishment of guiding checklists. In this approach, the national training modules of the State Administrative Agency will need to be simplified and adjusted to the Papua context. Group participants emphasized that the formal capacity building needs to be accompanied by an intensive mentoring and coaching process or 'hand holding' initially to enable step by step learning, particularly in the early stages of the process.

X.   MODULE 8: SUSTAINABLE DEVELOPMENT GOALS

51.   Four resource persons contributed to the final module of the seminar about the new SDGs expected to be approved in September 2015. They explained the background of SDGs, how SDGs differ from the Millennium Development Goals (MDGs), and how to localize or customize the goals and targets.

52.   **Jochen Mattern** gave an overview of international debate in localizing the SDGs. He explained that DLG matters in SDGs in respect to public service delivery and promotion of participation, transparency and accountability. Subnational governments are also closer to the people and can adopt national strategies to local priorities. But it was not until 2011 when the role of local governments for development was acknowledged in the Busan Global Partnership for Development Cooperation. The Turin Communique in 2015 resulting from a broad consultation process specifically highlights the importance of subnational governments in implementing the SDGs. The 17 SDGs are grouped into 8 thematic areas, with 169 targets. The indicators are expected to be discussed in 2016. The synthesis report of the UN Secretary General acknowledged that many of the investments to achieve SDGs will take place and be led by subnational governments. They will play a crucial role especially in goals 9 on resilient infrastructure, industrialization and innovation; 10 on inequality; 11 on cities and human settlements; and 16 on effective, accountable and inclusive institutions at all levels. (Appendix 5m)

53.   **Lucy Slack**, Deputy Secretary-General, Commonwealth Local Government Forum, added that local governments have come together as a community, a force to reckon with. Localizing SDGs will mean more than just that SDGs will happen at the local level, but will define what roles local governments will take. Achieving the SDGs is a very complex process. The number one issue is always financing because responsibilities should be matched with resources. The issues that emerged from discussion with local governments include recognition of developmental role of local governments, multilevel governance and importance of partnership between levels and with other sectors, political leadership that commits to decentralization, local leadership to translate a complex agenda, fiscal decentralization, and recognition that local capacity needs to develop. Local governments are the crucial agency for realizing the concept of leaving nobody behind espoused by the new SDGs.

54.   **Anuradha Rajivan**, Advisor, Strategy and Policy Department, ADB, highlighted the difference between MDGs and SDGs. She said that SDGs have a longer time horizon; they

focus on sustaining development gains while giving equal status to environmental, social, and economic aspects of development. MDGs mainly focus on the deprivation in poor countries. SDGs likewise shift the approach from development finance (donors to poor countries) to larger financing for development. Financing SDGs will come from public, concessional and private market. The problem is not shortage of money, but shifting it from one place to another; hence, local governments need to make themselves a good destination to attract money. The future is urban, and a study finds that Asia-Pacific perspectives are consistent with global SDGs, but with nuances. The areas for action that development partners can support include SDG customization, identification of indicators, and developing capacities especially of cities. (Appendix 5n)

55.   **Patrick Duong**, Regional Advisor on Decentralisation and Local Governance, UNDP, Asia-Pacific, explained what localizing SDGs means for UNDP. He said that the Asia Pacific region has unfinished MDG business and ongoing DLG reforms which can be drivers for the SDGs. UNDP will support countries localize the SDGs, meaning supporting national ownership and political commitment for the 2030 Agenda and helping define priorities and related indicators to track and report on progress. Improve capacities for core LG functions and especially to collect/analyze data and drive local development priorities. Possible roles of local governments in the process include tracking SDGs, contributing to their implementation, and providing enabling and facilitating environment to support actors on the ground. One of the the main challenge is now to adapt a genuine multi-stakeholder approach which UNDP describes as a 'whole local government' approach, moving away from vertical projects to increase ownership and accountability at the local level. (Appendix 5o)

56.   Plenary discussion highlights:
- Localizing the SDGs in Nepal would be difficult without a single framework that guides the national and subnational governments. The planning process is complex.
- Customizing indicators involve ensuring comparability across different subnational jurisdictions and countries, and identifying the minimum required, which is the internationally comparable indicators. Fiscal indicators, including amount of discretionary funds at the local level, have been proposed but their acceptance depends on the heads of state.
- Some local governments were involved in the consultations, but not in the process at the international level because this is a matter between national governments or heads of state. Local government ownership of SDGs happens when the goals and targets are localized within the country context.
- The SDGs are decided by the member states; development partners merely facilitate.
- The SDGs are very comprehensive because they present a more inclusive agenda and involve the majority of stakeholders in the process. Articulating their meaning, value, and requirements to subnational governments without posing a threat to the local development and political agenda would be a challenge.

XI.   CLOSING

57.   To conclude the seminar, some participants were asked to share their observations as follows.
- Nepal needs a clear policy framework for DLG reforms, one that empowers subnational governments, makes them accountable to the people, and is decided by people coming together as one, and not by different ethnic groupings. This is an area where development partners can contribute.

- Moving forward, it would be good to reflect on lessons from failures, development as a highly political process, and more importantly, collective citizen engagement, which is the heart and price of DLG reforms. The role of development partners in the process is very marginal.
- It is hard to appreciate what is going on in your country until you hear about what is happening in other countries.
- For a fragile state like Afghanistan, basic security comes first before any discussion of development.
- The seminar is very informative, refreshing, useful even for networking, and timely. The resource persons are great, as well as the program design and facilitation.

58.   **Jochen Mattern** expressed his delight at the way the seminar had turned out, particularly the energy displayed by the participants and the sharing on the vast experience of Asian countries. He acknowledged the need to reflect on the questions posed during the seminar, including the roles of development partners in the DLG reform. He assured the participants that the learning exchange would continue through the global network of practitioners that DeLoG is facilitating and the events it organizes, such as the upcoming e-learning course on Enhancing Development Effectiveness in DLG and the learning event about DLG in fragile environments. He particularly thanked ADB, the resource persons and participants, and acknowledged the excellent design of the program, facilitation, and overall organization of the event.

59.   **Claudia Buentjen**, Principal Public Management Specialist, ADB, gave the final remarks by thanking DeLoG for bringing in the development partners and thanking other development partners for funding the participation of country representatives in the seminar. The partnership with DeLoG had transformed the usual textbook type of exclusive training for ADB staff, to a higher level of learning involving practitioners and government representatives. The discussion could continue through the ADB Governance Thematic Group newsletter or succeeding events, which could take up the political aspects of decentralization, or what is happening in the region with regard to localizing Sustainable Development Goals. She invited interested participants to contribute to the ADB newsletter, and committed to including participants in the distribution list. She concluded that decentralization is never perfect, and practitioners should keep trying to improve the system.