



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

Development Policy Instruments to Support Decentralization and Local Governance Reforms

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Outline

1. Policy Based Loans (PBLs) – Why is it important?
2. What constitutes governance work in ADB?
3. PBLs in Governance – Benefits and Challenges
4. Public Sector Management and Governance at ADB – Success Ratios
5. Lessons from Governance PBLs
6. Case Study

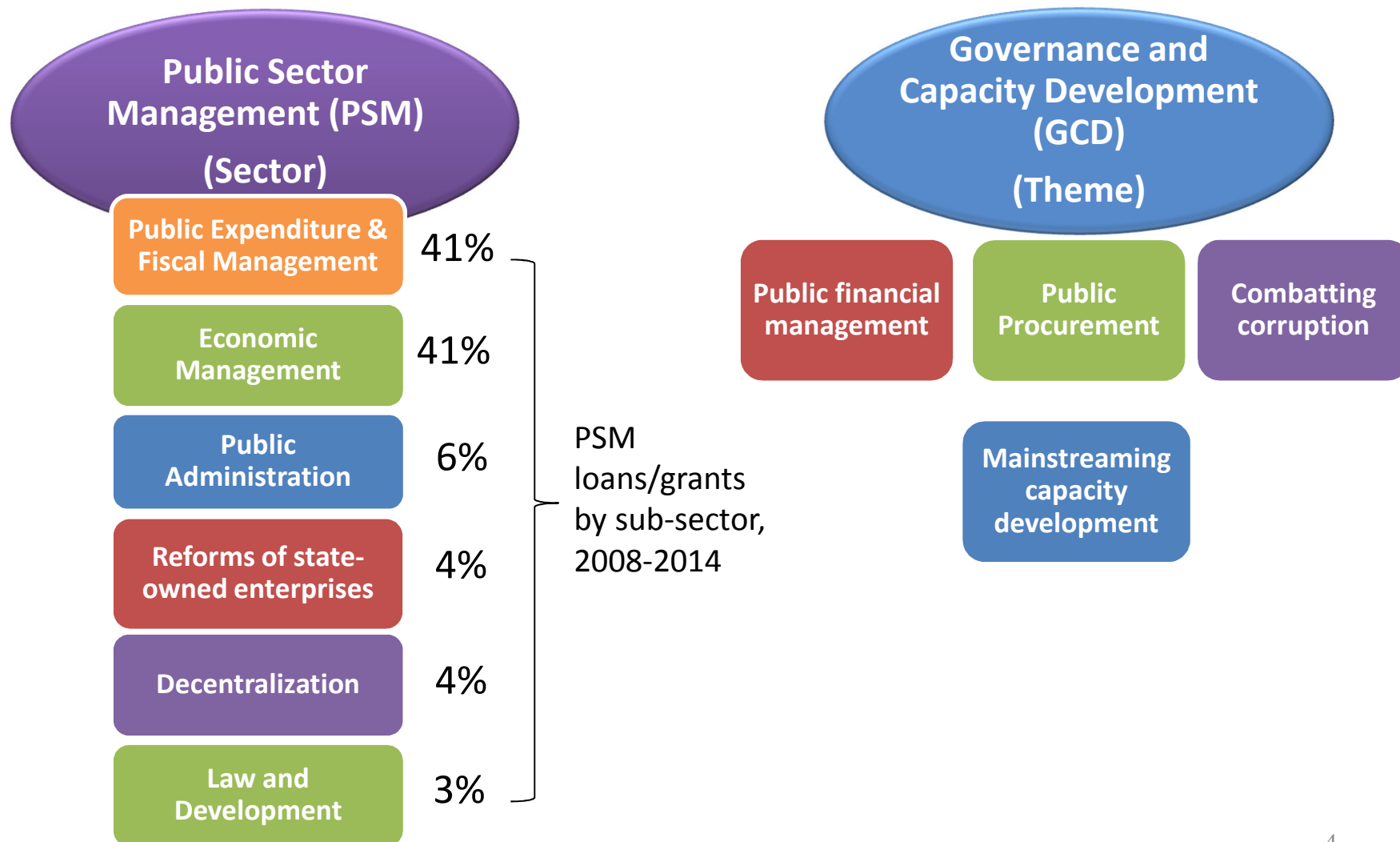


PBLs – Why is it Important?

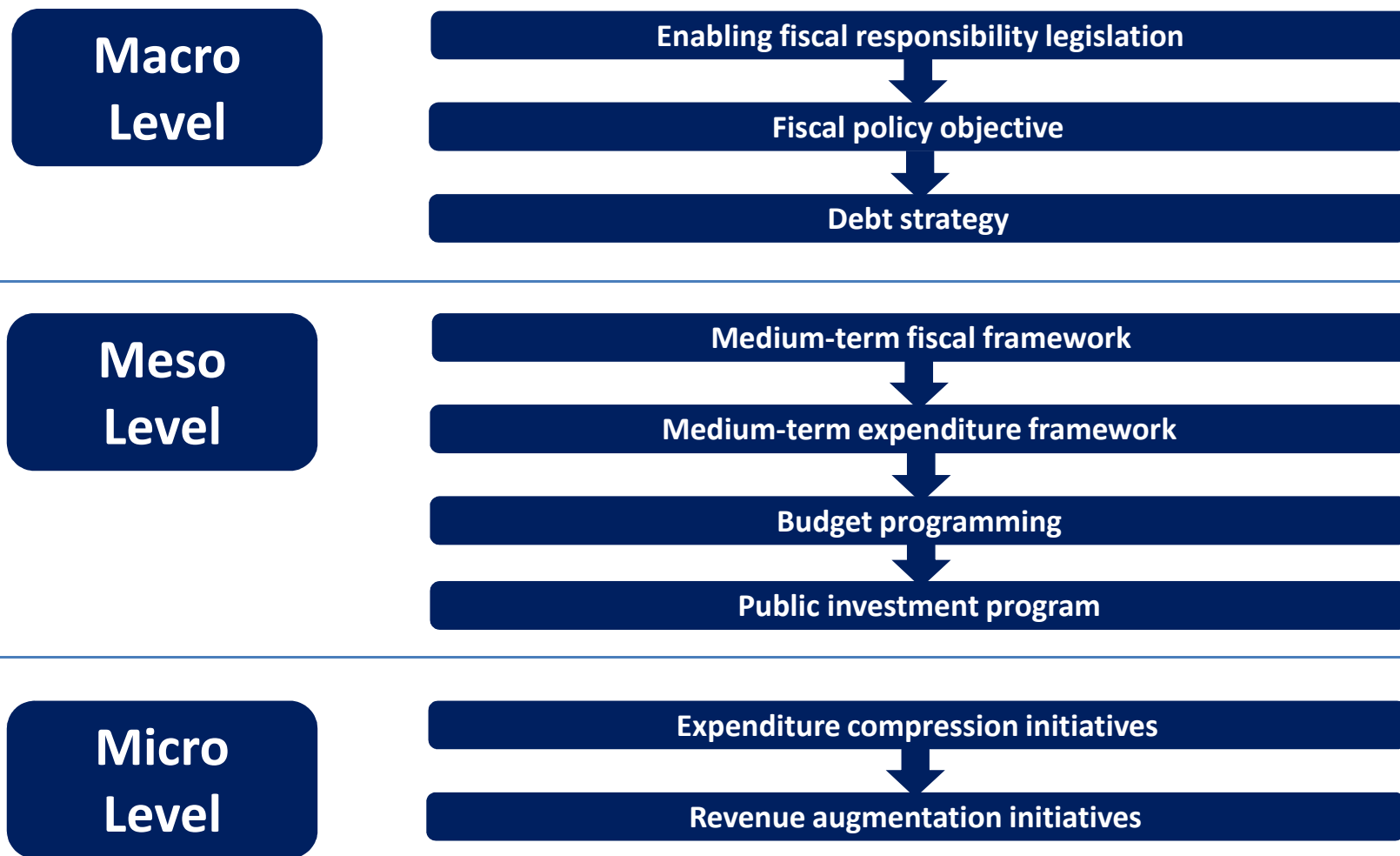
- PBLs are important instruments to address policy constraints – legal and regulatory – to develop a more conducive environment.
- PBLs are sector-wise initiatives that begin with a Government commitment to pursue change and involves an on-going policy dialogue.
- PBLs provide quick disbursing budgetary support to the Government for implementation of policy actions and to reflect costs of adjustments or development financing requirements until reforms gain traction and lead to desired outcome.



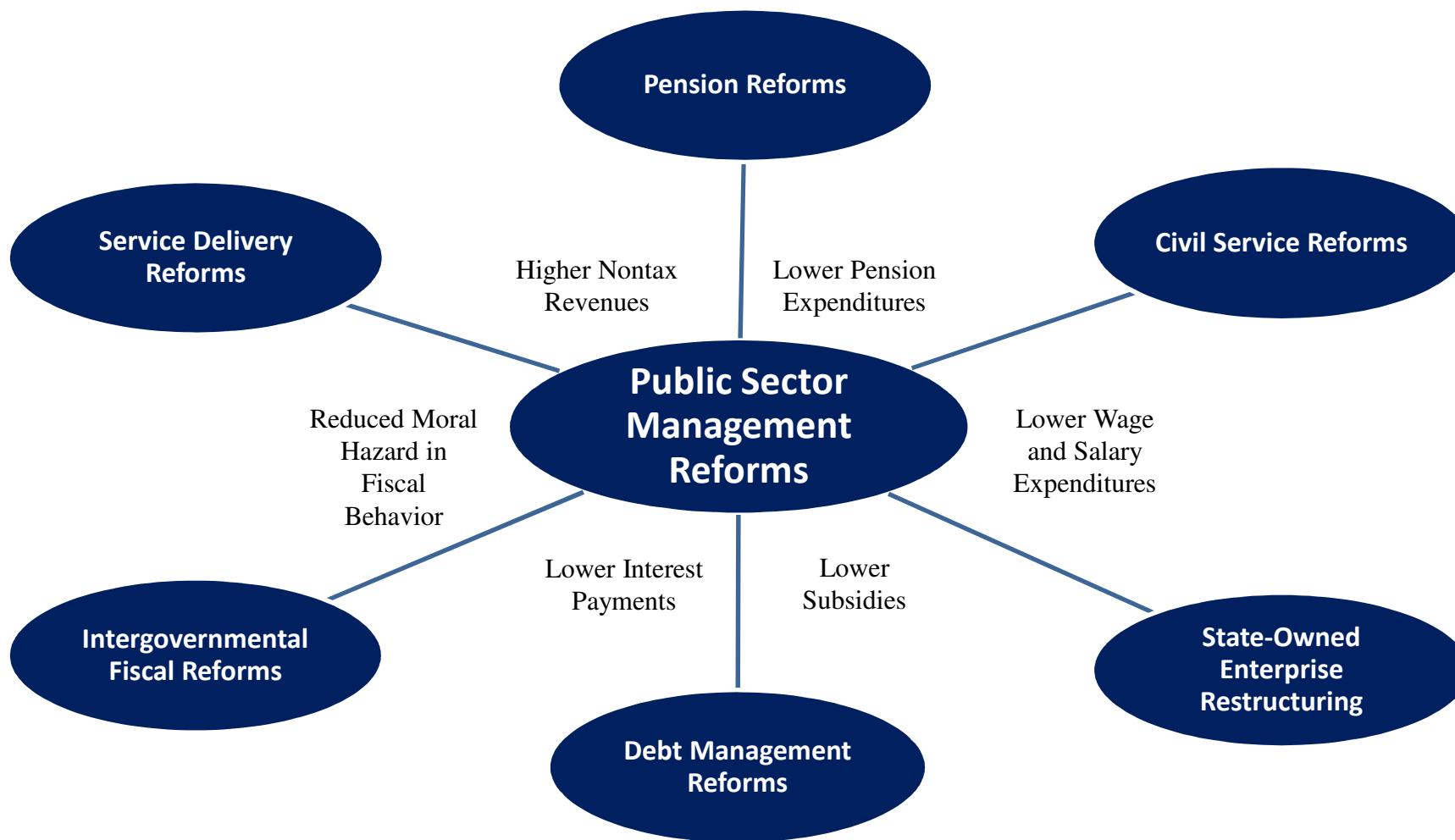
What constitutes governance work in ADB?



Fiscal Management Structures – Intervention Levels



Public Management Reform Programs – The Various Links

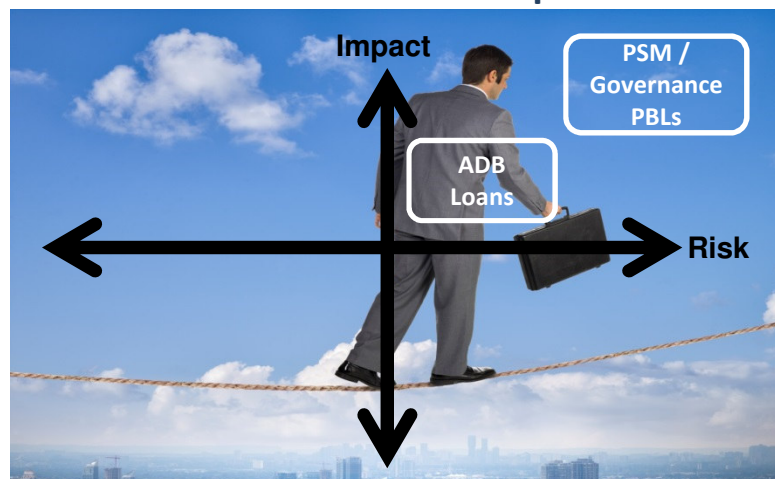


PBLs in Governance – Benefits and Challenges

“The greatest challenge Asia faces in its endeavors to realize the Asian Century: transforming governance and institutions.” - Asia 2050

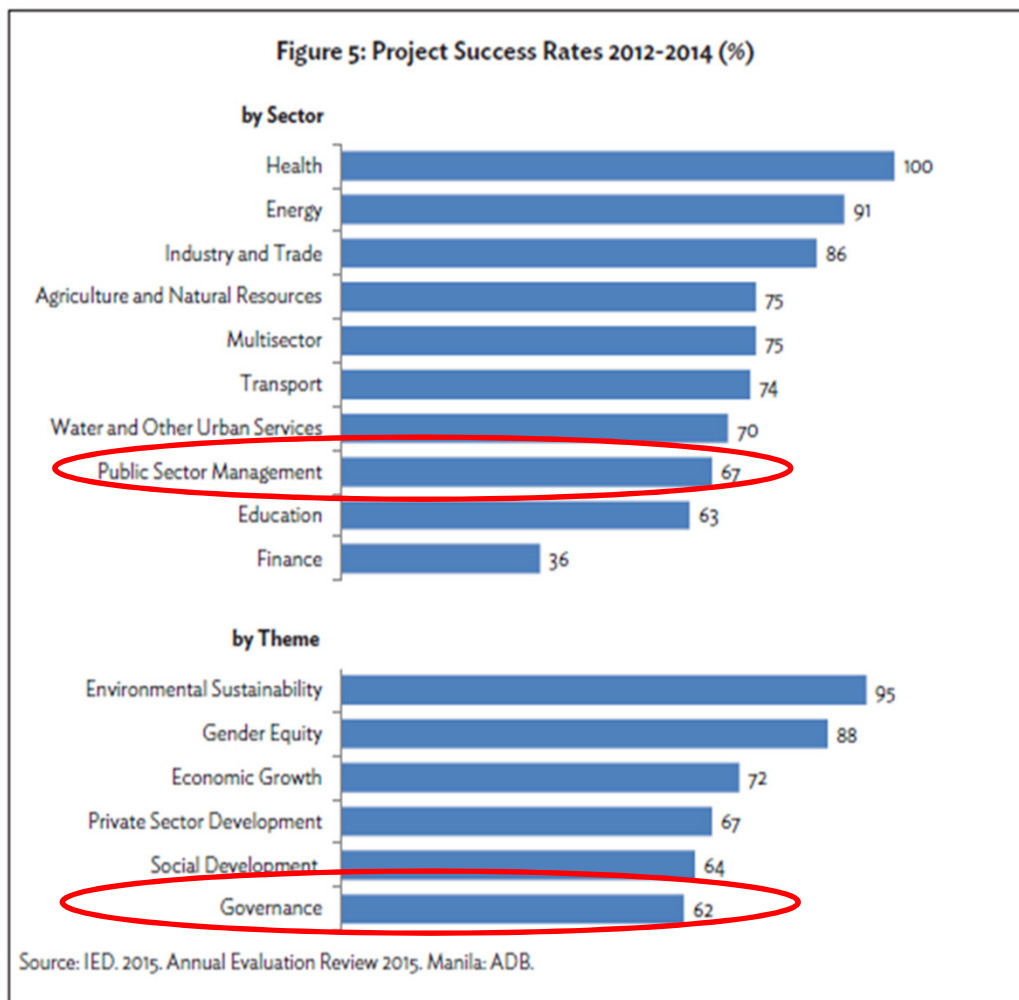
- IED’s Governance Thematic Evaluation Study recognizes that governance PBLs operate on the high impact-high risk space and can be transformative.

Risk-Reward Matrix in Operations

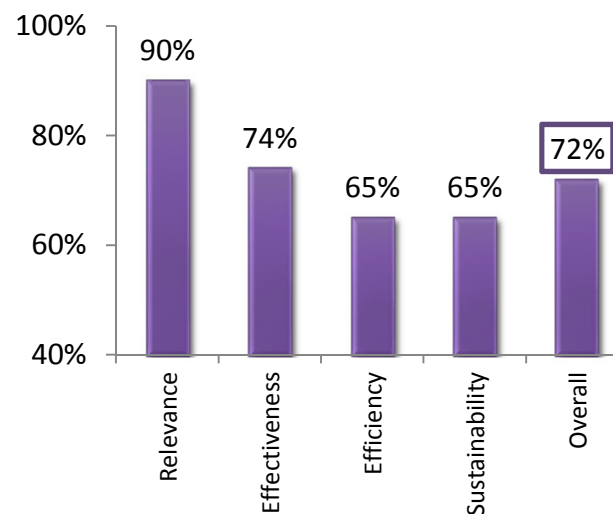


- Objective: Strengthen risk management practices so we can hit the “sweet spot” and improve success ratio.

Public Sector Management and Governance at ADB – Success Ratios



ADB: Performance by Evaluation Criteria 2012-14



Source: ADB IED

KEY FINDINGS

70-80% of policy operations are criticized for:

1. Excessively complex design
2. Weak implementation

Success Factors: Lessons from Past Experience

- Politically sensitive reforms requiring very strong government ownership with strong local leaders
- Investment in institutional development is critical
- Change management is key recognizing importance of behavioral change in policy reforms.
- Capacity development is a driver of change
- Communication strategy is essential to explain rationale and nature of reforms
- Strike a balance between top-down and bottom-up approaches
- Local governance work should be anchored on fiscal framework foundation and lead to improvements in service delivery.
- Ideally combine policy-based lending with TA



Case Study-Nepal: Strengthening Public Management Program

A. Objective:

Enhance efficiency, transparency and integrity of public finances at national and sub-national levels

B. Components:

- (i) Local government budget and fiscal management,
- (ii) Fiduciary risk management at the local government
- (iii) Public procurement reform
- (iv) Oversight and Accountability capacity building

C. Multi-donor involvement

Program loan - ADB: \$21 mil.; DFID: \$4 mil..

TA – EU: \$2.9 mil.; DFID: \$2.5 mil.; ADB \$0.5 mil.

Local Government budget and fiscal management

COMPLETED

1. Guidelines for
 - Fiscal transfers to local bodies
 - Allocation of small grants based on WSF recommendations
 - Comprehensive local government resource mobilization strategy and regulatory framework (GESI)
2. Resource mobilization strategy for DDCs and Municipalities
3. Integrated Property Tax

ONGOING

1. Medium Term Budgetary Framework (MTBF)
2. Minimum Conditions and Performance Measures (MCPMs)
3. Municipal Administration Revenue System (MARS)

Fiduciary Risk Management

COMPLETED

1. Fiduciary Risk Mitigation Action Plan (preparation)
2. PEFA Assessment
3. Roll out the uniform accounting software to at least 1,000 VDCs

ONGOING

1. Implement key components of the PFM and fiduciary risk mitigation action plan
2. Development of guidelines, criteria and tools for the conduct and risk-based internal audits for DDCs, VDCs, and municipalities
3. Apply risk-based internal auditing of VDCs

Public Procurement Reform

COMPLETED

1. Prepare and approve a road map for e-GP system
2. Technical review of public procurement (with WB)
3. Develop e-GP training
4. Complete e-GP training modules
5. Conduct procurement training in 8 Ministries and 35 districts
6. Establish e-GP project management unit and roll out e-GP to pilot ministries

ONGOING

1. e-GP software for procurement of Consultants to be developed
2. Goods and works – Scope to expanded for more procurement methods
3. “Go live”

Oversight and Accountability Capacity Enhancement

COMPLETED

1. Submit to cabinet proposal for upgrading NVC (Needs verification)
2. Conduct assessment of technical capacity requirements of NVC

ONGOING

1. Submit amendment to Corruption Act and related regulations for compliance with UNCAC to cabinet
2. Conduct basic and advance training on fraud audits and investigation

Some Preliminary Findings/Perceptions

- Most activities completed; outstanding activities high likelihood of completion.
- Process/systemic and policy related activities are more challenging to implement compared to diagnostic and capacity building activities (Appetite for reform)
- Program Design
 - Intervention in relevant and key areas
 - Strategic space (local level)
 - In line with national strategy (LGCDP)
 - Strategic partnering with MoFALD
 - Scope has to be less “horizontal” and more “vertical” (focused)
 - Tranche conditions formulated based on assumptions that may have changed (build dynamism into tranche conditions)





DECENTRALISATION &
LOCAL GOVERNANCE



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Thank you!

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