



**"FINANCING LOCAL SERVICE DELIVERY FOR THE MDGs:
CHALLENGES AND OPPORTUNITIES"**

Regional Workshop

New Delhi, 7th -9th December 2005

Workshop Report

INTRODUCTION

The Regional Workshop on "*Financing Local Service Delivery for the MDGs: Challenges and Opportunities*" was held from 7-9 December, 2005 in New Delhi, India. It was organized jointly by the UNDP Regional Centre in Bangkok (RCB) and United Nations Capital Development Fund (UNCDF), in partnership with the National Institute of Public Finance and Policy (NIPFP), New Delhi.

The workshop brought together 65 participants from governments and local governments in the region, research institutes, the World Bank, UNDP, UNCDF and other UN agencies. They represented Regional Centers and BDP New York, UNCDF, senior government officials (Ministries of Finance, Local Government, etc), local government officials, researchers, civil society representatives and UNDP Country Offices.¹

BACKGROUND

There is a salient need for major improvements in basic public infrastructure and service delivery (ISD) to the poor, especially to those in the rural areas where the great majority of the poor continue to reside. The need to move to more effective decentralization of much of the delivery of these goods and services rests on the premise that they are better provided by the local governments. In order to meet these goals, local governments must have sufficient fiscal discretion and clearly assigned roles and tasked responsibilities. This in turn requires a greater understanding of how to most effectively and efficiently decentralise delivery responsibilities in the key MDG-related sectors, while taking into account real world constraints and challenges. The workshop agenda² set out to explore these issues. It was divided over three days into three main thematic blocks: the first which explored the financing of local service delivery, focusing on specific issues of intergovernmental transfers and the relevant emerging policy issues across Asia. The second block addressed the specific role of local governments and their institutional functions in decentralized service delivery. The third block explored how to build capacities for decentralized service delivery by highlighting interesting innovative practices with the view to policy reform, research and advocacy needs in Asia.

The objective of the first two blocks of the workshop was to promote a greater regional exchange and understanding for the scope of promoting local service delivery for the MDGs, and specifically of the financing challenges and opportunities surrounding this. During the third block, the identified good practices were considered in the context of the agenda for policy reform in Asia, as well as to lay the basis for a regional framework for research and exchange.

The workshop was conducted in a participatory manner and the agenda consisted of presentations, case studies, plenary discussions and working groups. With this layout in mind, the overall objective of the workshop was to provide a network platform for the relevant stakeholders for exchanging existing knowledge on effective decentralization of service delivery. The workshop also aimed at identifying research needs, with the view to identify areas for future UNDP/UNCDF engagement.

¹ Participants list in Annex 2

² Agenda in Annex 1

WORKSHOP SUMMARY³

The opening ceremony, followed by the introduction session set the scene for the workshop by underlining the importance of the role of local governments in local service delivery and attaining the MDGs, especially in poorer rural areas. The opening presentations discussed the benefits of decentralization, while cautioning against some of the major flaws in the reforms in Asia: limited decentralization of tax powers, absence of accountability, and a lack of coordination in delegating tasks and responsibilities in service delivery. Further, the session asserted the importance of strengthening the institutional as well as the fiscal capacity of local governments, and highlighted the key issues: (a) intergovernmental transfers, (b) willingness of higher levels of government to share revenues even under fiscal constraints and (c) sub-national borrowing and the question of hard and soft budget constraints.

Financing Local Service Delivery

The overall aim of this thematic block was to discuss central-local fiscal transfers, local government revenue raising capacities and other pertinent fiscal and financial issues inherent to fiscal decentralization, and more generally to explore the structure and conditions under which a viable fiscal decentralization policy needs to be undertaken in Asia and the Pacific region.

An ideal decentralization system does not exist in any part of world. The structure and conditions of the system depend on the particular historical, social, political and economic experiences of each country. However, in order for decentralization to be effective, a certain degree of permanency and clarity in assignments must persist, necessitating that mechanisms be put in place to resolve the possible overlaps and conflicts in assignments, both vertical and horizontal. Fiscal decentralization must be a participatory process and not an *apolitical* process. The Thailand case study confirmed that both allocative and economic efficiency is higher when local governments have discretion over expenditure priorities.

Plenary discussions made a strong link between decentralization and governance, emphasizing the significance of democratization, electoral process and power structures at the local level. Accountability becomes an important factor in the decentralization framework when the local institutions are given opportunity and responsibility to generate their own resources. In this view, it is imperative to collect, analyze and disseminate information regarding the financial performance of the local institutions. This would enter as input into the planning process, improve the quality of implementation and ensure accountability.

The second session addressed the specific issues of local government tax revenue and community resource mobilization in Asia. In an overview of the key elements of the fiscal decentralization framework, structure, flow of funds, expenditure responsibilities and assignment of revenue mobilization, it was asserted that although mobilizing local revenues is a necessary step, it is not a sufficient factor *per se*, for effective fiscal decentralization and improved service delivery. As such, the major challenge in financing local service delivery is not in generating revenues, but in creating a pro-poor and sustainable revenue system. In meeting this challenge, one of the major obstacles is creating an effective and simple 'administration' system.

The China case study reviewed the tax sharing regime, and expenditure and duty assignments between central and local governments introduced in 1994 in that country, spelling out the

³ Detailed workshop proceedings in the attachment

basic features of its existing fiscal system. The experience of Bangladesh in mobilizing local tax revenues showed that increasing people's participation in revenue assessment and collection resulted in a significant increase in local revenues and increased transparency and accountability in expenditure.

The group discussion verified that open budget participation and participatory budget methods played a significant role in increasing local revenues in Bangladesh and that the tax incidence was not high on the poor. However, the group questioned whether local taxes can be linked to some performance indicators in both Bangladesh and China raising concerns over the non-official nature of the bulk of local revenues in China. In conclusion, two emerging issues were identified: (a) providing incentive for revenue collection along with provision of grants and (b) considering poverty while designing different aspects of revenue mobilization.

The following session addressed the specific issues of centre-local fiscal transfers and revenue-sharing in Asia including the key objectives of inter governmental transfers, criteria for transfers and alternative forms of intergovernmental transfers. In an analysis of the major issues in transfer design and implementation such as macroeconomic control, conflicting basic objectives, measuring key variables and fragmentation the session pointed out the need for a balance between conditional and unconditional transfers, so as to improve the autonomy of local governments and the incentives for revenue mobilization.

The Karnataka case study exemplified a rural local bodies' reform, pointing out the importance of higher representation of backward communities and women in rural local bodies for improving their effectiveness and transparency. Further, the experience showed that while the elected local bodies are responsible to the electorate, the NGOs and self help groups can often cater to the needs of the elite community alone. In this view, the case study showed that setting up of parallel local bodies like self-help groups and NGOs, outside the domain of rural local bodies can hinder their accountability and transparency.

The group discussions raised a number of issues related to the experience of Karnataka, including on lessons that can be drawn from its revenue sharing pattern and accountability and possibilities of collusion among the local governments. The Karnataka case study pointed out several important issues: the clarity of the local government's role, activity mapping, and simplification of transfer systems, streamlining the process of transfers, and accountability and equalization.

The final session provided space for facilitated discussions in three groups of participants on issues that emerged in thinking about the financing local service delivery.

Group I used the examples of Cambodia, Vietnam, China and Lao PDR to examine the various issues related to tax power, tax administration and transfer of resources. The group compared the frameworks for local revenue collection, identifying the presence of a system of sharing of taxes in all three countries with differing administrative responsibilities among the government tiers. There is a limited discretionary power vested in the local governments, and their reliance on shared revenues and transfers. Very limited revenues are generated from the delivery of services which have a large component of expenditure allocated for wages and salaries. The transfer formula does not compensate for equalization needs. In view of these challenges, the group made the following recommendations: (a) simplifying the sharing of taxes based on a formula that is transparent and equitable, (b) some taxes to be assigned to the local level and (c) non-tax sources of revenues should be encouraged.

Group II examined the level of basic minimum services and how these should be financed in Bangladesh, India, Bhutan and Nepal. The institutional structure to devolve funds and performance-linked sharing of revenues were observed as positive points in India's example. However, the existence of policy gaps, duplication of functions among competing agencies, lack of co-coordinating bodies as well as a comprehensive policy was seen as key obstacles. The group strategy recommended that appropriate user charges be determined and devised so as to be perceived as equitable, and a gradual devolution of responsibility commensurate to capacity and authority be carried out.

Group III examined six country examples (Indonesia, Malaysia, Maldives, Thailand, Philippines, and East Timor, two of which had only recently embarked upon the process of decentralization. Clear tax assignment, existence of a system of intergovernmental fiscal transfers and clear expenditure assignments were observed as the positive features in these countries. Heavy dependence of local governments on central transfers which respond poorly to the local fiscal gaps was seen as the main flaw. The group recommended that re-assignments within the transfer system move away from being largely ad-hoc. It was also questioned whether the system of transfers undermines the local revenue mobilization. As the central government tends to determine the tax base and tax rates, it can render the resources assigned to the local bodies unproductive, raising the issues of ownership versus productive assets.

Institutional Issues

The overall aim of the thematic block was to provide a framework for examining institutional functions in service delivery. Session one focused on the roles of local government in service delivery within the accepted context that most services entail several distinct functions, which shared between different levels of Government and with the private, NGO or community actors. The case study on Cambodia provided an overview of its de-centralization and de-concentration process highlighting the different challenges involved in efficiently providing the key services.

The second session focused on specific institutional issues in decentralizing MDG-related services, as exemplified by cases in Vietnam and Thailand and the UNICEF case study on decentralizing education in India.

The third session examined the concept of accountability of local government representatives and service delivery personnel, along five key elements– delegation, finance, information, enforceability and performance. Accountability is determined by information and enforceability that lead to a better performance in terms of service delivery. Information should follow the principle of the three R's – reliability, relevance and regularity. Only when information provided adhere to the three principles, would the five elements of accountability fall into place. Furthermore, the institutional relations in service delivery were examined, as per the interaction between a) the citizens/users and the public/private service providers, b) citizens/users and the line department or service managers, c) local government policy-makers and the service managers, d) service managers and service providers. A case study from Kerala exemplified the positive experience of decentralization reform marked by creation of large village councils, participatory planning, prioritizing of local development activities by the locally elected bodies, creation of demands, organization of marginalized groups, and increased transparency.

The final, working group session focused on the sectoral and institutional issues of decentralized service delivery. Split into three groups, the participants dealt with specific countries assigned to them, and answered following particular questions.

- **Question 1:** Over the last two days, we have heard that it said by several participants that decentralization needs transfer of Functionaries (F1), Functions (F2) and Funds (F3) to the level local governments. But often in real life, decentralization has not involved the transfer of one or other of the three Fs. In respect of basic services relevant to the achievement of the Millennium Development Goals in your country, have all three been devolved to the local governments. Which of the three have not been devolved? What has been the sequence of devolution – has function followed finance, or the other way around? Does the sequence matter for effectiveness of service delivery?
- **Question 2:** In your country, what are the challenges once three Fs are actually transferred? What the consequences of only one or two of the three are transferred to local government?
- **Question 3:** In your country is *accountability* of functionaries related to social services in decentralized local governments still mainly vertical, to higher level officials in the line ministries? Or are local officials to some extent horizontally accountable to (a) locally elected leaders; and/or (b) clients and users of the service and the community?

The following issues emerged:

Group 1 carried out a country-by-country (China, Vietnam, Cambodia and Lao PDR) analysis of the transfer of Functionaries, Functions and Funds and found that their decentralization has substantial impact on service delivery, which varies in different country contexts. Nevertheless the service delivery cannot be decentralized if all three are not devolved.

Group 2 found that in South Asian countries (Bhutan, Bangladesh, India and Nepal), the functions are transferred first, followed by finance and functionaries. The functions devolved, however, remain inadequately funded, and the functionaries are not accountable to the local governments. The group reiterated that the three have to be devolved for a significant improvement in local service delivery to be achieved. The challenge is to manage this transition process efficiently and to build capacity for implementation. Furthermore, local governments have to ensure minimum quality, and pass new administrative reflecting the new institutional arrangements. All countries in the region display strong vertical accountability, also in terms of reporting and auditing. A Right to Information Acts (as e.g. passed recently in India) could go strengthen horizontal accountability, along with citizen's participation and the presence of non-governmental organizations at the grassroots level.

Group 3 examined trends in Indonesia, Malaysia, Maldives, Thailand, Philippines and East Timor. The positive similar examples from the Philippines, Thailand and Indonesia where all 3Fs were devolved together, showed that the delivery mechanisms works well, despite a limited flow of funds. Accountability is seen as mostly horizontal and citizens have enough voice in local government decisions. Malaysia has devolved limited functions and roles for the local bodies. Functions and funds go hand in hand, and the social services are controlled by the Central government. In case of East Timor and Maldives, the decentralization process is in nascent form, and the process of deconcentration has only started in the health sector.

Raising Local Service Delivery Performance

The final thematic block of the workshop examined innovative practices for raising local service delivery performance, with the aim to feed those into the policy reform, research and advocacy agenda in Asia.

The first session focused on the documented best practices in Thailand, Nepal and Bangladesh. The Thailand case study presented an initiative in the area of participatory monitoring that documented nearly 500 cases of local innovations, concluding that most of these cases were successful because a participatory approach was applied. The Nepal case study presented a pilot project initiated in 20 districts as part of the decentralized service delivery strategy. The Bangladesh case focused on performance-based funding in a path-breaking project, for which the funding was channeled directly to the Union Parishads (UPs), avoiding sub-district levels and other bureaucratic controls. This has significantly reduced rent-seeking activities, curtailed corruption and reduced service delivery cost, by around 37 percent. The most significant outcome of the project is that the government plans to scale up the same model and for the first time set aside budget for a decentralized funding of UPs.

The discussion raised questions on the origin of the estimate of 37 percent reduction attributable to the Sirajganj project. In response, the baseline was the public perception of roughly 50 percent wastage in any project due to rent-seeking activities. The mechanism design of the Sirajganj project enabled the calculation of exactly how much was lost due to interference by bureaucrats and other such corrupt practices, thereby yielding the final figure. In the Thailand case, a query on performance indicators, found that specific questionnaires were applied, while a monitoring of participation is done in a fragmented manner. More queries on the institutional arrangements of the project in Nepal followed succeeded by a discussion on performance-based funding and demand-based capacity development support. The discussion analyzed the possible biases in reporting the quality of service provision, with particular reference to reduction in funding in case service providers were criticized by the public. The session concluded with the idea that decentralization of duties involves a greater demand for resources from the Centre and the financing of such decentralization along with added political economy dimensions might become a serious challenge for developing countries.

Building Local Service Delivery Capacities for the MDGs: Taking the Agenda Forward

The main objective of the concluding sessions was to explore the role of the Regional Centre in Bangkok in terms of the service delivery agenda, and the need for future engagement of UNDP and UNCDF in relevant policy advice, research and advocacy, in Asia and the Pacific.

The participants agreed on the usefulness of the workshop and agreed that it facilitated knowledge on the implementation of decentralization reform. The importance of linking justice and gender with decentralization was stressed and agreed that these issues should have also been included in the agenda. The unbundling of partnership and the role of privatization are also important, as is the need for increased country specific research and case studies on the issue.

It was agreed that in addition to the huge variation in the characteristics and the status of decentralization reform and local governments, the problem of policy design and implementation also differs from country to country. Various innovations or best practices are not shared among the countries. In order to arrive at some degree of substantive comparison,

a regional study was proposed. In view of this, the last session of the workshop was devoted to gathering participants' feedback and advice on the RCB proposed Research & Consultation activities proposed along a set of 4 modules. The modules include: a) mapping of the problems of various services, b) the institutional roles & the accountabilities, c) local public expenditure management and d) financing mechanisms.

MODULES	PURPOSE
A. ISD OUTCOMES: MAPPING THE PROBLEMS	This "sets the scene" in each country by documenting the sorts of problems for each service as felt by the (would-be) users. It might be a first step before embarking on the other modules.
B. INSTITUTIONAL ROLES & ACCOUNTABILITIES	This addresses one part of the "institutional capacity" problems outlined earlier: those due to inappropriate or unclear local institutional roles & relations, and to weak accountability mechanisms. (The latter part then complements ongoing RCB work in Representation & Accountability, and in Citizen Monitoring of Public Services.)
C. PUBLIC EXPENDITURE MANAGEMENT PROCEDURES	This addresses the other part of the "institutional capacity" problems: those inherent in inappropriate or weak local procedures for planning, budgeting, management and operation & maintenance, etc., of ISD.
D. FINANCING MECHANISMS	This addresses the "financing capacity" issues, and covers broader ground than that normally addressed in fiscal decentralization analysis: local revenue mobilization, the "mechanics" of fiscal transfers, donor funding, and treasury issues.

The following is a summary of the feedback:

General Comments & Recommendations

- The is a need for regional exchange, learning and networking opportunities – between neighbors at both sub-regional and also regional levels, and also with the rest of the world;
- The cross-country exchange of research through a regional network or reference group could be coordinated through the UNDP Regional Centre,
- As part of this, there is a need for a website;
- The is a need for clear, practical, operational lessons and guidance;
- The need to build on local knowledge and for lessons and guidance to take due account of country and local political, institutional and policy contexts;
- The need to design a data bank on decentralization systems of different countries based on studies that have already been carried out on the issue.

More Specific Comments & Recommendations

- Focus on the cross-country comparative perspective, as well as on the historical context which influences the decentralization reform, and whether it has evolved or reversed over time in different countries;

- Do not neglect sectors/services which were not mentioned: energy, HIV/AIDS-related activities, etc.;
- Examine issues of sequencing over time;
- Make distinctions between large countries and small countries and island states;
- Help to clarify common understanding of what services can be decentralized, how service functions allocated between different levels, and also what are best managed more centrally;
- Include issues of financial accounting, control, reporting and audit;
- Focus on gender implications;
- Ensure that the exercise is not just analytical but also is used to support informed advocacy;
- Ensure to involve local government associations and local governments themselves, and also to involve national parliamentarians and other leaders, and to target officials from Ministries of Finance, Planning and the sectors;
- Ensure that the link with the MDGs – and the urgency of the MDG 2015 timetable - is not lost;
- Ensure that the many other – related – activities on “localizing MDGs” ongoing in many countries are taken into account, and that linkages are established with the World Bank, UNICEF, etc.

In addition, participants from several organizations and countries expressed interest in collaboration.

ANNEX 1

Financing Local Service Delivery for the MDGs: Challenges and Opportunities

Dec 7th – 9th, 2005

National Institute of Public Finance and Policy, New Delhi, India

AGENDA

Wednesday Dec 7 th , 2005	
08:45 – 09:15	REGISTRATION
09:15 – 10:00	OPENING CEREMONY <ul style="list-style-type: none">• Welcome Remarks, Dr. Govinda Rao, Director, NIPFP• Opening Statement, Dr. Kadmiel Wekwete, Director of Local Development Unit, UNCDF New York• Opening statement by Mr. B. N. Yugandar, Member, Planning Commission of India• Opening Statement, Dr. C. Rangarajan, Prime Minister's Economic Advisory Council
10:00 – 10:30	INTRODUCTION The Aim of the Workshop & Overview of Proceedings <i>Mr. Henrik Larsen, Policy Advisor, UNDP Regional Centre Bangkok</i> Briefing on Logistical Arrangements <i>NIPFP/UNDP India</i>
10:30 – 10:45 Coffee/Tea Break	
10:45 – 11:45	WHY THE AGENDA IS IMPORTANT <i>Aim: To set the scene for the workshop by underlining the importance of local service delivery and the potential role for local governments in attaining MDGs (especially in poorer rural areas)</i> <i>Chair: Dr. Govinda Rao, Director, NIPFP</i> The Symptoms of Poor Rural Service Delivery & their Effects: Snapshots (15 mins) <i>Dr. Atiur Rahman, Chairman, Unnayan Chamunnay, Bangladesh</i> Local Government: A Key but Neglected Partner (15 mins) <i>Mr. Murari Upadhyaya, Executive Director, Association of District Development Committees/Nepal</i> Importance of Local Service Delivery for the MDGs: the Research & Advocacy Initiative (10 mins) <i>Mr. Roger Shotton, UNCDF Regional Advisor for Asia;</i> <i>Dr. Santosh Mehrotra, Regional Advisor, UNDP Regional Centre Bangkok</i> PLENARY DISCUSSION

Wednesday Dec 7th, 2005

11:45 – 13:00

FINANCING LOCAL SERVICE DELIVERY (1): THE BROAD POLICY CONTEXT

***Aim:** To provide a board framework for subsequent discussions of local financing issues and to highlight emerging policy issues across Asia*

Chair: Dr. Santosh Mehrotra, Regional Advisor, UNDP Regional Centre Bangkok

Fiscal Decentralization & Local Services: A Framework Emerging Fiscal Decentralization Policy Issues in Asia

Prof. Paul Smoke, Professor, New York University;

Dr. Charas Suwanmala, Professor, Chulalongkorn University, Thailand;

Dr. Govinda Rao, Director, NIPFP

PLENARY DISCUSSION

13:00 – 14:00 Lunch Break

14:00 – 15:15

FINANCING LOCAL SERVICE DELIVERY (2): LOCAL TAX REVENUE & COMMUNITY RESOURCE MOBILISATION

***Aim:** To address the specific issues of local government tax revenue & community resource mobilization in Asia*

Chair: Mr. Henrik Larsen, Policy Advisor, UNDP Regional Centre Bangkok

Overview of Issues (15 mins)

Prof. Roy Kelly, UNDP Cambodia

Patterns & Policy Issues Across Asia (Panel) (15mins)

Representatives from China and Bangladesh

PLENARY DISCUSSION

15:15 – 15:30 Coffee/Tea Break

15:30 – 17:00

FINANCING LOCAL SERVICE DELIVERY (3): CENTRE-LOCAL FISCAL RELATIONS (TRANSFERS & REVENUE-SHARING)

***Aim:** To address the specific issues of centre-local fiscal transfers & revenue-sharing in Asia*

Chair: Mr. Roger Shotton, UNCDF Regional Advisor for Asia

Overview of Issues (20 mins)

Prof. Paul Smoke, New York University

India – Karnataka Case Study (10 mins)

Mr. T.P. Ranghundan, J.S. Ministry Panchayati Raj, India

Patterns & Policy Issues Across Asia (Panel) (15mins)

Representatives from Laos and Philippines

PLENARY DISCUSSION

End of Day 1 Meeting

Thursday Dec 8 th , 2005	
09:00 – 09:10	INTRODUCTION TO DAY 2 MEETING Recap of Day 1 and Outline of Day 2 <i>Mr. Henrik Larsen, Policy Advisor, UNDP RCB</i>
09:10 – 10:30	FINANCING LOCAL SERVICE DELIVERY (4): WORKING GROUP SESSION <i>Aim: To allow facilitated group discussion & exchange on sets of fiscal & financing issues to be determined</i> <i>Chair: Dr. Rathin Roy, Public Finance Advisor, UNDP New York</i> WORKING GROUP SESSION <ul style="list-style-type: none"> • Guidance to Groups in Plenary • Breakout in Groups (Themes & members to be identified)
10:30 – 10:45 Coffee/Tea Break	
10:45 – 11:30	FINANCING LOCAL SERVICE DELIVERY (4): WORKING GROUP SESSION (continued) <i>Chair: Dr. Rathin Roy, Public Finance Advisor, UNDP New York</i> WORKING GROUP SESSION (continued) <ul style="list-style-type: none"> • Report Back in Plenary (30 mins) • Plenary Discussion (15 mins)
11:30 – 12:30	INSTITUTIONAL ISSUES (1): ROLES FOR LOCAL GOVERNMENT IN SERVICE DELIVERY <i>Aim: To provide a framework for examining institutional functions in service delivery and the specific roles for local governments</i> <i>Chair: Kadmiel Wekwete, Director of Local Development unit, UNCDF New York</i> Service Delivery Functions & the Role of Local Government: Overview of Issues (15 mins) <i>Mr. Roger Shotton, UNCDF Regional Advisor for Asia</i> Cambodia Case Study (15 mins) <i>Ms Netra Eng, CDRI, Cambodia</i> PLENARY DISCUSSION
12:30 – 14:00 Lunch Break	
14:00 – 15:30	INSTITUTIONAL ISSUES (2): SECTOR CHALLENGES IN DECENTRALISING SERVICE DELIVERY <i>Aim: To discuss the more specific institutional issues in decentralizing MDG-related services in the key sector</i> <i>Chair: TBD</i> Decentralization of Key Sector Services: Overview of issues <i>Mr Tejinder Sandhu, UNICEF, New Delhi;</i> <i>Mr. Deepak Sanan, Team leader – Water Sanitation Team, World Bank, New Delhi</i> Pattern & Policy Issues Across Asia (Panel) <i>Dr. Nguyen Kim Dung, Deputy Director, Dept. of Economic Institutions, Central Institute for Economic Management, Vietnam;</i> <i>Dr. Charas Suwanmala; Professor, Chulalongkorn University, Thailand</i>

	PLENARY/GROUP DISCUSSION
15:30 – 15:45 Coffee/Tea Break	
15:45 – 17:00	<p>INSTITUTIONAL ISSUES (3): ENSURING ACCOUNTABILITY FOR LOCAL SERVICE DELIVERY <i>Aim:</i> To address issues of downward and horizontal accountability of local government representatives and service delivery personnel <i>Chair:</i> TBD</p> <p>The Importance of Local Accountability Mechanisms: Overview of Issues <i>Mr. Lant Pritchette, World Bank, New Delhi;</i> <i>Dr. Mike Winter, UNCDF Affiliate Adviser for Asia</i></p> <p>Case Study <i>Mr Vijayanan, Secretary, Local Self Government Department, Kerala</i></p> <p>PLENARY DISCUSSION</p>
End of Day 2 Meeting	

Friday Dec 9th, 2005	
09:00 – 09:10	<p>INTRODUCTION TO DAY 3 Recap of Day 2 and Outline of Day 3 <i>Dr. Santosh Mehrotra, Programme Advisor, UNDP Regional Centre Bangkok</i></p>
09:10 – 10:45	<p>INSTITUTIONAL ISSUES (4): WORKING GROUP SESSION <i>Aim:</i> To allow facilitated group discussion & exchange on sectoral and institutional issues to be determined <i>Chair:</i> TBD</p> <p>WORKING GROUP SESSION</p> <ul style="list-style-type: none"> • Guidance to Groups in Plenary • Breakout in Groups (Themes & members to be identified) • Report Back in Plenary • Plenary Discussion
10:45 – 11:00 Coffee/Tea Break	
11:00 – 12:30	<p>RAISING LOCAL SERVICE DELIVERY PERFORMANCE: SNAPSHOTS OF PROMISING POLICY INNOVATIONS <i>Aim:</i> To highlight some interesting innovations in improved local service delivery in Asia <i>Chair:</i> TBD</p> <p>Participatory Monitoring in Thailand <i>Dr. Charas Suwanmala, Professor, Chulalongkorn University</i></p> <p>Demand-driven Local Capacity Development in Nepal <i>Mr. Murari Upadhyaya, Executive Director, ADDC/Nepal</i></p> <p>Performance-based Funding in Bangladesh <i>Mr. Azizur Rahman Siddique, Project Monitoring Advisor, UNDP Bangladesh</i></p>

	<p>Others</p> <p>PLENARY DISCUSSION</p>
<p>12:30 – 14:00 Lunch Break</p>	
<p>14:00 – 15:30</p>	<p>BUILDING LOCAL SERVICE DELIVERY CAPACITIES FOR THE MDGs: TAKING THE AGENDA FORWARD</p> <p><i>Aim: To feed into the future agenda for policy reform, research and advocacy in Asia</i></p> <p><i>Co-Chairs: Mr. Henrik Larsen; Mr. Roger Shotton; Mr. Santosh Mehrotra, UNDP Regional Centre Bangkok</i></p> <p>WORKING GROUP SESSION</p> <ul style="list-style-type: none"> • Guidance to Groups in Plenary • Breakout in Groups (Themes & members to be identified) • Report Back in Plenary • Plenary Discussion
<p>15:30 – 15:45 Coffee/Tea Break</p>	
<p>15:45 – 16:45</p>	<p>NEXT STEPS</p> <p><i>Chair: Mr. Valentim Ximenes, Vice Minister, Ministry of State Administration, Timor-Leste</i></p> <p>Next Steps in Participants' Countries</p> <p>Next Step in the Region</p>
<p>16:45 – 17.00</p>	<p>CONCLUDING REMARKS</p> <ul style="list-style-type: none"> • The Organizers • Selected participants • Dr. Govinda Rao, Director, NIPFP
<p>End of Meeting</p>	

ANNEX 2

List of Participants

Name		Position/Organization	Email
BANGLADESH			
1	Dr. Atiur Rahman	Chairman, Unnayan Shamunnay	atiur@sdnbd.org
2	Mr. Abdul Majid	Joint Secretary, Ministry of Finance	
3	Mr. Sharful Alam	Additional Secretary, Local Government Division, Ministry of Local Government, Rural Development & Cooperatives	Slgdp@gononet.com
4	Ms. Durafshan Chowdhury	Sr Programme Officer, UNCDF, Bangladesh	Durafshan.chowdhury@undp.org
5	Mr. Azizur Rahman Siddique	Project Monitoring Advisor, Local Government Division, Ministry of Local Government, Rural Development & Cooperatives	slgdp@gononet.com
6	Mr. T.N. Atiqur Rahman	UP Chairman, Kazipur Sadar, Sirajganj	
BHUTAN			
7	Mr. Rinzin Dorji	Budget Officer, Dept. of Budget and Accounts, Ministry of Finance	Rinzin@mof.gov.bt
8	Mr. Sonam Tobgyal	Planning Officer, Dept. of Planning, Ministry of Finance	Stobgyal@dop.gov.bt
9	Mr. Aki Hakanen	Programme Officer, UNDP, Bhutan	Aki.hakanen@undp.org
CAMBODIA			
10	Ms. Netra Eng	Principal Researcher, Cambodian Development Research Institute	Netra.eng@cdri.forum.org.kh
11	Mr. Bou Von Sokha	Deputy Director, Dept. of Local Finance, Ministry of Finance	bovongsokha@everyday.com.kh
12	Mr. Sor Vorin	Dept. of Local Administration, Ministry of Interior	Sorvovin@yahoo.com
13	Dr. Roy Kelly	UNDP Technical Adviser, Ministry of Finance (on secondment from Duke University, USA)	Roykelly@duke.edu
CHINA			

14	Mr. Zhang Qing	Division Chief, Comprehensive Department, Ministry of Finance	Zq1104@sina.com
15	Ms. Mu Yan	Fiscal Science Institute; National Project Coordinator of UNDP Programmes on Capacity Building to Support Pro-poor Fiscal Reform	Monica0923@yahoo.com.cn
16	Ms. Hou Xin-an	ARR/Team leader of Social Economic Development Team, UNDP China	Xinan.hou@undp.org
INDIA			
17	Dr. M Govinda Rao	Director, NIPFP	.mgr@nipfp.org.in
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**REGIONAL WORKSHOP ON
"FINANCING LOCAL SERVICE DELIVERY FOR THE MDGs: CHALLENGES AND
OPPORTUNITIES"**

New Delhi, 7th -9th December 2005

Rapporteur's Report

<p>09:30 – 10:00</p>	<p>OPENING CEREMONY</p> <ul style="list-style-type: none"> • Welcome Remarks, Dr. Govinda Rao, Director, NIPFP • Opening Statement, Dr. Kadmiel Wekwete, Director of Local Development Unit, UNCDF New York • Opening Statement, Dr. C. Rangarajan, Prime Minister’s Economic Advisory Council
<p>10:00 – 10:30</p>	<p>INTRODUCTION The Aim of the Workshop & Overview of Proceedings <i>Mr. Henrik Larsen, Policy Advisor, UNDP RCB</i> Briefing on Logistical Arrangements Dr Lekha Chakraborty, Senior Economist, NIPFP</p>
<p>Rapporteur’s Report prepared by Dr. Chakraborty and Dr. Mukesh Anand</p>	<p>Dr. Govinda Rao welcomed the delegates to the workshop. In his opening statement, Dr. Wekwete emphasized that the MDGs can be effectively and efficiently provided when the decks are cleared for local services from top to bottom. The objective of this workshop is to provide a clear focus by sharing a common platform to capture the dispersed knowledge on financing MDGs through decentralization. Dr. Rangarajan in his opening statement highlighted that the discussion on fiscal decentralization at the local level has come to a centre stage primarily due to two factors: (a) impact of globalization on governance and (b) local goods and services are better provided by the local governments. While highlighting the Indian experience of rural decentralization in light of the 73rd constitutional amendment, he emphasized the need for effective decentralization of functions, functionaries and finances, which is largely absent. In the context of financing MDGs through decentralization, he stressed the need for a clear assignment of tax powers of local bodies and that the assignment of such taxes is best suited at the local level. Adequacy of funds should be ensured so as to cover the gap in resources through proper mechanism of intergovernmental transfers from higher level of governments to the local bodies. He also emphasized that even if in a decentralized system most of the problems are local, the solutions may involve a wider coordination across jurisdictions. In conclusion, Dr. Rangarajan argued for the need to build and strengthen capacity at the local level, for assessment of proper expenditure needs, and efficiency of expenditure based on principles of outlay-output and outcomes. In the introduction session Henrik Larsen outlined the agenda of the workshop and emphasized that the workshop will contribute to developing a RCB-led regional framework for research and knowledge exchange on decentralized service delivery.</p>
<p>10:45 – 11:45</p>	<p>WHY THE AGENDA IS IMPORTANT <i>Aim:</i> <i>To set the scene for the workshop by underlining the importance of local service delivery and the potential role for local governments in attaining MDGs (especially in poorer rural areas)</i> <i>Chair: Dr. Govinda Rao, Director, NIPFP</i></p> <p>The Symptoms of Poor Rural Service Delivery & their Effects: Snapshots (15 mins) <i>Dr. Atiur Brahman, Chairman, Unnayan Chamunnay, Bangladesh</i></p> <p>Local Government: A Key but Neglected Partner (15 mins) <i>Mr. Murari Upadhyay, Executive Director, Association of District Development Committees/Nepal</i></p> <p>Importance of Local Service Delivery for the MDGs: the Research & Advocacy Initiative (10 mins) <i>Mr. Roger Shotton, UNCDF Regional Advisor for Asia;</i> <i>Dr. Santosh Mehrotra, Regional Advisor for Asia, UNDP Regional Centre for Asia</i></p>

	PLENARY DISCUSSION
Rapporteur's Report prepared by Dr Mukesh Anand and Dr Pinaki Chakraborty	<p>In the third session, Atiur Rahman highlighted the findings of a primary survey on peoples' perception of public service delivery, with particular attention to primary education, health services and water supply. Based on the survey results he concluded that poor service delivery adversely impacts target attainment of MDGs. Murari Upadhyay discussed the economic and political advantages of decentralization. He also cautioned that centralization of tax powers, absence of downward accountability of government functionaries and a lack of coordination across levels of governments in Asian region are the key reasons for ineffective decentralization. In his presentation, Roger Shotton highlighted that attainment of MDG requires an improvement in the basic service delivery whereby local governments need to be engaged as the key partner. He highlighted the importance of effective service delivery supported by a proper financing mechanism and an effective role of local government, and local accountability. He emphasized the need to tackle the demand-supply constraints in rural and urban areas with regard to service delivery, and noted that this is particularly challenging in rural areas. Santosh Mehrotra, the last speaker in this session, emphasized the need to strengthen the institutional and fiscal capacity of local governments. Referring to the explosion in the decentralization phenomenon in the 1990s across several countries, he highlighted the need to ensure a greater horizontal accountability. He also acknowledged that there is an inherent asymmetry in fiscal decentralization, whereby public expenditure was more decentralized than revenue mobilization. The issues reviewed by him in this context are (a) the need for transfers from the higher level of government, (b) the willingness of higher levels of government to share revenues when fiscally constrained (c) the issue of sub-national borrowing and the question of hard and soft budget constraints.</p> <p>A representative from the Central Government of Bangladesh expressed that the discussion mostly highlighted the shortcomings of government in public service delivery and recommended that some lessons could be drawn from the examples of successes in delivery of services by the Government in Bangladesh. Anuradha Rajivan observed that the higher tiers of government are reluctant to share finances and resources as compared to sharing responsibilities. One of the participants remarked that decentralization of government activity should not be presumed to be the same as decentralization of development. The chairperson, Dr. Govinda Rao also highlighted the limitations in the assumption of the existence of a benevolent state. The session was closed with his remark on the need for governments to set the rules of the game for providing public services.</p>
11:45 – 13:00	<p>FINANCING LOCAL SERVICE DELIVERY (1): THE BROAD POLICY CONTEXT Aim: <i>To provide a broad framework for subsequent discussions of local financing issues and to highlight emerging policy issues across Asia</i> <i>Chair: Dr Santosh Mehrotra, Programme Advisor, UNDP RCB</i> Fiscal Decentralization & Local Services: A Framework Emerging Fiscal Decentralization Policy Issues in Asia <i>Prof. Paul Smoke, Professor, New York University; Dr. Charas Suwanmala, Professor, Chulalongkorn University, Thailand; Dr. M Govinda Rao, Director, NIPFP</i> PLENARY DISCUSSION</p>
Rapporteur's Report prepared by Dr Lekha Chakraborty and Dr Anit Mukherjee	<p>This session centered on the structure and conditions under which a viable decentralization policy needs to be undertaken. In his presentation Prof. Paul Smoke highlighted that fiscal decentralization is not <i>apolitical</i> and without its links to people through a participatory process, decentralization cannot be effective. Referring to Asia, he pointed out that there was too much focus on 'strategy' and not on 'implementation.'</p>

	<p>The real challenge thus is to ensure that good <i>processes</i> culminate in better <i>outcomes</i> in terms of service delivery. Dr Govinda Rao reiterated that an ideal decentralization system does not exist in any part of world; there is no perfect blueprint and the framework will depend on historical, social, political and economic experiences. However, he emphasized that there has to be a certain degree of permanency (either <i>inextinguishable rights</i> through the constitution, or through policy consensus) and clarity in assignments, as well as through <i>activity mapping</i>. He also pointed that when fiscal federalism is more competitive than co-operative, co-ordination mechanisms have to be put in place to resolve possible overlaps and conflicts in assignments, both vertical and horizontal.</p> <p>The Thailand case study presented by Dr. Charas Suwanmala confirmed that both allocative and economic efficiency is higher when the local government can decide on expenditure priorities. Although tangible results were not obtained immediately, citizens' perception regarding the generation and use of funds was considerably following decentralization.</p> <p>The presentations and the plenary discussions brought out a strong link between decentralization and governance. The significance of democratic decentralization was pointed out in this context; emphasizing that democratization at the local level is critical even in less democratic states. Electoral process and power structures existing at local level are fundamental in ensuring an effective decentralization, through much more autonomy. The challenge is to identify the existing institutions at the local level and empower them suitably. The question of capacity – fiscal, managerial, institutional is crucial to the success of decentralization. Governance and political accountability are also important parts of the design. It was also pointed out that accountability is built into the decentralization framework when the local institutions are given opportunity and responsibility to generate their own resources. It is imperative to collect, analyze and disseminate information regarding the financial performance of the local institutions. Accounting and transfer systems should be kept simple. This would enter as input into the planning process, improve the quality of implementation and ensure accountability. Assignments of responsibility to local governments can also be asymmetric, depending on the capability of the local institutions and their adherence to governance norms. Finally, it is acknowledged that a <i>functioning asymmetry</i> exists in all Federations, but fiscal decentralization should be presented as a strategic choice in keeping with the wider economic and social processes at work in the country.</p>
<p>14:00 – 15:15</p>	<p>FINANCING LOCAL SERVICE DELIVERY (2): LOCAL TAX REVENUE & COMMUNITY RESOURCE MOBILIZATION</p> <p><i>Aim: To address the specific issues of local government tax revenue & community resource mobilization in Asia</i></p> <p><i>Chair: Mr. Henrik Larsen, Policy advisor, UNDP RCB</i></p> <p>Overview of Issues (15 mins) <i>Prof. Roy Kelly, UNDP Cambodia</i></p> <p>Patterns & Policy Issues Across Asia (Panel) (15mins) <i>Representatives from China and Bangladesh</i></p> <p>PLENARY DISCUSSION</p>
<p>Rapporteur's Report prepared by Dr H K Amarnath and Dr Mita Chowdhury</p>	<p>Prof. Roy Kelly overviewed the framework of fiscal decentralization: structure, flow of funds, expenditure responsibilities and assignment of revenue mobilization. He then discussed the various sources of revenues at the local level and highlighted the importance of mobilizing these revenues, concluding that while mobilizing local</p>

	<p>revenues is necessary, it is not sufficient for effective fiscal decentralization and improved service delivery. He further discussed the typical constraints of revenue mobilization at the local level and said that the major challenge in financing local service delivery for the MDGs was not in generating revenues, but in creating a pro-poor and sustainable revenue system. In meeting this challenge, he saw the lack of effective 'administration' as the major obstacle noting that the key to success was to keep the system simple.</p> <p>The next speaker Mr. Qing spoke about the fiscal reform and pro-poor fiscal policies in China. He reviewed the introduction of market-oriented reforms in China since 1978, and the transition of the fiscal system from a centralized to a decentralized one. He discussed the tax sharing regime and expenditure and duty assignments between central and local governments introduced in 1994, and spelt out the basic features of the existing fiscal system in China. The next speaker Mr. Siddique highlighted the experience of Bangladesh in mobilizing local tax revenues. The speaker began with a brief description of the structure of the revenue assignments to urban and rural bodies in the country. Increasing people's participation in revenue assessment and collection resulted in a significant increase in local revenues in Bangladesh, and increased transparency and accountability in expenditure.</p> <p>The following discussion revealed that open budget participation and participatory budgets played a significant role in increasing local revenues in Bangladesh. It was also pointed out that the incidence taxation was not high on the poor. Participants questioned whether local taxes can be linked to some performance indicators in Bangladesh and China. Concerns were also raised over the non-official nature of the bulk of local revenues in China.</p> <p>In his concluding remarks, the chairperson stressed two issues: (a) providing incentive for revenue collection along with provision of grants and (b) considering poverty while designing different aspects of revenue mobilization.</p>
<p>15:30 – 17:00</p>	<p>FINANCING LOCAL SERVICE DELIVERY (3): CENTRE-LOCAL FISCAL RELATIONS (TRANSFERS & REVENUE-SHARING) <i>Aim:</i> <i>To address the specific issues of centre-local fiscal transfers & revenue-sharing in Asia</i> <i>Chair:</i> <i>Mr. Roger Shotton, UNCDF Regional Advisor for Asia</i></p> <p>Overview of Issues (20 mins) <i>Prof. Paul Smoke, New York University</i></p> <p>India – Karnataka Case Study (10 mins) <i>Mr. T.R. Raghunandan, J.S. Ministry Panchayati Raj, India</i></p> <p>Patterns & Policy Issues Across Asia (Panel) (15mins) <i>Representatives from Lao PDR and Philippines</i></p> <p>PLENARY DISCUSSION</p>

<p>Rapporteur's Report prepared by Dr Mita Chowdhury and Dr H K Amarnath</p>	<p>Prof. Smoke provided an overview of issues concerning the central-local fiscal relations. He discussed the key objectives of intergovernmental transfers, including alternative forms and the criteria. He further addressed the major issues in transfer design and implementation such as macroeconomic control, conflicting basic objectives, measuring key variables, and fragmentation. While explaining the evaluation criteria for intergovernmental transfers, he stressed the need for revenue adequacy and growth, predictability and stability, transparency and simplicity, allocative efficiency, inter and intra- jurisdictional equity, local accountability and financial management, service quality and quantity. On the reform of intergovernmental transfers, the speaker discussed issues such as regularizing the intergovernmental transfer pool, increasing the government share where it is heavily funded by donors, simplifying and coordinating complex systems, increasing transparency and improving data used in the allocation process. He pointed out the need for a balance between conditional and unconditional transfers to improve the autonomy of local governments and improve incentives for revenue mobilization.</p> <p>Mr. Raghunandan shared his experiences of reforming rural local bodies in the Indian province, of Karnataka. He stressed the need for a higher representation of backward communities and women in rural local bodies, so as to improve efficiency and transparency. He felt that setting up of parallel local bodies like self-help groups and NGOs, outside the ambit of rural local bodies could hinder their accountability and transparency. While the elected local bodies are responsible to the electorate, the NGOs and self help groups can often cater to the needs of the elite community alone.</p> <p>The representative from Lao PDR briefly discussed the budgeting process, the 01 PM legislation on decentralization and the structure of the fiscal system in the country. The representative from Philippines also discussed the structure of fiscal transfers to local governments in the country. In the discussion that followed, most of the queries were directed to the experience of Karnataka (India). There were queries on what needed to be learnt from the Karnataka case, including the revenue sharing pattern and accountability, and possibilities of collusion among the local governments. On the lessons from Karnataka, the clarity of the local government's role, activity mapping, simplification of transfer systems, streamlining the process of transfers, accountability and equalization were pointed out.</p>
<p>09:00 – 09:10</p>	<p>Thursday, December 8th 2004 INTRODUCTION TO DAY 2 MEETING Recap of Day 1 and Outline of Day 2 <i>Mr. Henrik Larsen, Policy Advisor, UNDP RCB</i></p>
<p>09:10 – 11:30</p>	<p>FINANCING LOCAL SERVICE DELIVERY (4): WORKING GROUP SESSION <i>Aim:</i> <i>To allow facilitated group discussion & exchange on sets of fiscal & financing issues to be determined</i> <i>Chair: Dr. Rathin Roy, Public Finance Advisor, UNDP New York</i> WORKING GROUP SESSION</p> <ul style="list-style-type: none"> • Guidance to Groups in Plenary - Breakout in Groups • Report Back in Plenary (30 mins) <p>Plenary Discussion (15 mins)</p>
<p>Rapporteur's Report prepared by Dr Mukesh Anand and Dr Pinaki Chakraborty</p>	<p>Group I discussed various issues related to tax power, tax administration and transfer of resources and their link with the service delivery. It was highlighted that the main sources of revenue at the local level constitute of (a) Administrative Fee and (b) Voluntary Contributions in Cambodia. In Lao PDR the main sources are Administrative Fees and Business taxes. In Vietnam the principal sources are Administrative Fees and User</p>

Charges. There exists a system of sharing of taxes in all three countries. In Vietnam, the system of sharing has an element of incentive for tax collections at the local level. The administrative responsibility for the collection of revenue lies mainly with the Central Government in Cambodia, while in Lao PDR it lies with the Provincial Government. In Vietnam the responsibilities are shared between the Central and Provincial governments. The system of transfers in Cambodia is largely formula based with an element of gap filling, while in Laos PDR it is almost entirely of gap filling nature, and in Vietnam it is largely norm based with a gap filling component. Overall, there is a limited discretionary power vested in the local governments and they depend substantially on shared revenues and transfers. Very limited revenues are generated from the delivery of services which have a large component of expenditure allocated for wages and salaries. The formula for transfers does not compensate for equalization needs. The suggested strategies for reform constitute in (a) simplifying the sharing of taxes based on a formula that is transparent and equitable, (b) some taxes being assigned to the local level and (c) non-tax sources of revenues should be encouraged.

Group II emphasized the need for a 'role' and 'rule' clarity. For example, what is the level of basic minimum services? How are these to be financed? It was emphasized that the 'role' and 'rule' clarity is also important for donors. The observed positive features in the system are the existing institutional structure to devolve funds, and the element of performance linked to sharing of revenues. The negative points include the existence of policy gaps in expectations, duplication of functions among the competing agencies instead of coordination, and a lack of policy and service continuum. The strategy for future action consists in determining and devising the appropriate user charges that can be perceived to be equitable, and a gradual devolution of responsibility commensurate to capacity and authority.

Group III analyzed six countries, two of which had only recently embarked upon the process of decentralization. The positive features for this group of countries include clear tax assignment, existence of a system of intergovernmental fiscal transfers, and clear expenditure assignments. The negative features enlisted include limited space for local taxes, and a heavy dependence of local governments on central transfers, with the transfers responding poorly to the local fiscal gaps. The strategy for future should work along re-assignments, with the transfer system moving away from being largely ad-hoc. The Indonesian and Malaysian systems are relatively more centralized, while the Maldives with a widespread population (dispersed over nearly 1200 small islands) has no local government. In Maldives the principal sources of revenue constitute of export taxes and tourism revenues. The strategy for future lies in devising an unconventional system of taxation, with a clear focus to decipher tax and functional assignment.

In the discussion that followed, the participants observed that the formula for transfers in Indonesia is based on area, population and fiscal gaps, whereas in Philippines it is based on population and area. A question was raised whether the system of transfers undermines the local revenue mobilization. Noting that the central government most often determines the tax base and tax rates, quite often the resources assigned to the local bodies are unproductive which raises the issues of ownership versus productive assets. One of the participants mentioned that in Indonesia the fiscal gap is not measured in the true sense. Another participant raised a question on whether there are countries where local governments piggy-back their taxes from the central government bases. It was also noted that in Nepal, a surcharge of 1.25 percent is levied on customs duties at the borders. This surcharge levied by the central government is distributed to 58 municipalities.

	<p>A participant observed that in the 1979-1994 period in China, the marginal revenue retention rate was very high, whereby the local and township level governments could retain up to 90 percent of the revenues raised. He enquired if there was any study analyzing to what extent the changes in the system of decentralization introduced in the year 1994 impacted the marginal revenue retention rates.</p>
<p>11:30 – 12:30</p>	<p>INSTITUTIONAL ISSUES (1): ROLES FOR LOCAL GOVERNMENT IN SERVICE DELIVERY Aim: <i>To provide a framework for examining institutional functions in service delivery and the specific roles for local governments</i> <i>Chair: Kadmiel Wekwete, Director of Local Development unit, UNCDF New York</i></p> <p>Service Delivery Functions & the Role of Local Government: Overview of Issues (15 mins) <i>Mr. Roger Shotton, UNCDF Regional Advisor for Asia</i></p> <p>Cambodia Case Study (15 mins) <i>Ms Netra Eng, CDRI, Cambodia</i></p> <p>PLENARY DISCUSSION</p>
<p>Rapporteur’s Report prepared by Dr Manish Gupta and Dr OP Bohra</p>	<p>The aim of the session was to provide a framework for examining institutional functions in service delivery and the specific roles for local governments. The following paragraphs summarize the highlights of each of the presentations and the question-answer session that followed the presentation.</p> <p>The first presentation provided a framework for thinking about the roles of local governments in service delivery. It pointed out that there are many useless debates as to whether a particular service should be the function of the central or local government, or the civil society. In reality, most services entail several distinct functions, which may be shared between the levels of government and with the private, NGO or community actors. Giving an example of primary education service delivery functions, Mr. Shotton pointed out that these are complex issues, whereby the different actors have important roles to play in providing the services. He concluded by chalking out the specific roles for the local governments.</p> <p>The Cambodian case study analyzed the delivery of primary and rural health in that country, reviewing the current delivery arrangements and the roles of the communes (one of the 5 administrative units in Cambodia). Different issues involved in efficiently providing the services were highlighted, bringing into focus the inherent challenges. The presentation concluded with the discussion on various strategies to move ahead in a better and efficient manner so that the MDGs are met.</p> <p>The plenary revealed more experiences from different countries in local service delivery. In response to a question raised on the cost of procurement of drugs (in case of primary health services) and on quality assurance (in case of teachers in primary education), it was agreed that the first and foremost priority is to facilitate these services.</p>
<p>14:00 – 15:30</p>	<p>INSTITUTIONAL ISSUES (2): SECTOR CHALLENGES IN DECENTRALISING SERVICE DELIVERY Aim: <i>To discuss the more specific institutional issues in decentralizing MDG-related services in the key sector</i> <i>Chair: Dr Indira Rajaraman, Senior Fellow, NIPFP</i></p> <p>Decentralization of Key Sector Services: Overview of issues <i>Mr Tejinder Sandhu, UNICEF, New Delhi;</i> <i>Mr. Deepak Sanan, Team leader – Water Sanitation Team, World Bank, New Delhi</i></p>

	<p>Pattern & Policy Issues Across Asia (Panel) <i>Dr. Nguyen Kim Dung, Deputy Director, Dept. of Economic Institutions, Central Institute for Economic Management, Vietnam; Dr. Charas Suwanmala; Professor, Chulalongkorn University, Thailand</i></p> <p>PLENARY/GROUP DISCUSSION</p>
<p>Rapporteur's Report prepared by Dr Simanti Bandopadhyay and Dr Indrani Roy Chowdhury</p>	<p>The session focused on specific institutional issues in decentralizing MDG-related services resulting in two stimulating presentations, followed by a panel discussion service decentralization of Vietnam, and Thailand. A brief outline is as follows:</p> <p>UNICEF has been closely associated with the decentralization in the education sector in India, especially in Bihar. The formation of VEC is based on comprehensive micro planning. The Bihar education project covered seven districts with 7000-8000 committees. The main functions of VECs are the supervision of working of schools, enrolment, monitoring teachers' attendance, construction of school buildings and other infrastructure. They also generate land donations, cash and labor contributions. Bihar is the only state, which has legislated the power to these committees. This has created tension between VECs and <i>panchayats</i>. Presently VEC is a part of the 'convenience committee' of the PRIs, which is funded by the state education society, district education society, and village education society. It has been observed that the role of <i>panchayats</i> and VECs are complimentary. The main emphasis of rural water supply and sanitation programmes is on creating infrastructure, and not delivering services. As a result, the growth in access to government infrastructure has not been translated to access to services. However, recent initiatives favoring decentralization in water have proved to be cost effective and better maintained. The main impediment for decentralization is the low level of awareness for the utility of proper sanitation practices.</p> <p>The formal education sector in Vietnam consists of four levels of schooling, vocational and technical training, and college and university curriculum. The main targets in the education sector include quality enhancement of faculties at different levels, and improving the physical and financial infrastructure. Fiscal decentralization in Vietnam is supported by the new State Budget Law (SBL), which provides for considerable provincial discretion in the allocation and use of public financial resources. Decree No.10 pilots the block grant to institutions such as schools, hospitals, etc with the aim to enhance efficiency in allocation of the financial resources. The main challenges facing decentralization includes shortages of financial resources, poor implementation of the new SBL, deferent response to the Decree No.10 and conflicting objectives between poverty reduction strategies and Decree No.10.</p> <p>Fiscal decentralization is moving rather slow in Thailand. The current government initiates the 'CEO Governor' policy so as to deconcentrate the central administrative power to the provincial level. Though there have been measures for promoting better local governance, progress of decentralization in health and education sectors are not satisfactory. The Ministry of Education has devolved a number of schools to local authorities. They are also about to hold elections for school boards and school district boards, which would bring the public school administration closer to the citizens. Health decentralization has not progressed much in the past years. The Ministry of Public Health introduced the National Health Assurance, the so-called '30 baht' episode by centralizing health purchasing units. No significant health services have been devolved to local authorities.</p>

<p>15:45 – 17:00</p>	<p>INSTITUTIONAL ISSUES (3): ENSURING ACCOUNTABILITY FOR LOCAL SERVICE DELIVERY</p> <p><i>Aim: To address issues of downward and horizontal accountability of local government representatives and service delivery personnel</i></p> <p><i>Chair: Dr Amaresh Bagchi, Professor Emeritus, NIPFP</i></p> <p>The Importance of Local Accountability Mechanisms: Overview of Issues</p> <p>Dr. Lant Pritchett, Lead Socio-Economist, Social Development Unit, South Asia Region, World Bank</p> <p><i>Dr. Mike Winter, UNCDF Affiliate Adviser for Asia</i></p> <p>Case Study</p> <p><i>Mr. S M Vijayanand, Secretary, Local Self Government Department, Kerala</i></p> <p>PLENARY DISCUSSION</p>
<p>Rapporteur's Report (prepared by Dr Anit Mukherjee)</p>	<p>In his presentation, Lant Pritchett proposed that 'accountability' has five elements – delegation, finance, information, enforceability and performance. The same five elements of accountability apply also to local governments. However, a distinction needs to be made between 'accounting' and 'accountability'. Accounting practices for local governments deal with delegation and the financing aspects of decentralization, whereas accountability is determined by information and enforceability that lead to better performance in terms of service delivery. Information should then follow the principle of the three R's – reliability, relevance and regularity. The five elements of accountability fall into place when information provided adheres to the three principles.</p> <p>Using the World Development Report 2004 framework, Mike Winter explained the linkages between four sets of institutional relations in service delivery: 1) citizens/users and the public/private service providers, 2) citizens/users and the line department or service managers, 3) local government policy-makers and the service managers, and 4) service managers and service providers. In a decentralization framework, the last link is not talked about very often, probably due to the fact that they are perceived as the same entity. Moreover, emphasis has been given to the 'voice' that is provided to the citizens through fiscal, administrative and political decentralization, but there is a need to institutionalize mechanisms for 'listening' as well. Related questions are whether the local governments can sanction/incentivize service delivery units, and whether line managers have control over the frontline providers.</p> <p>The third presentation focused on the experience of Kerala, which opted for the big bang approach to decentralization about 10 years ago, with large village panchayats, participatory planning, mid-course corrections and devolution of the three F's over the last decade. The outcome was the creation of participatory process for development, prioritization of development activities by the locally elected bodies, creation of demand, organization of marginalized groups, and increased transparency. However, some of the challenges that remain are: deepening of participation, expanding the scope for implementing the right to information, strengthening the local government – NGO ties, and second generation issues in service delivery, i.e., how to ensure quality and social accountability. Finally, it was stressed that local governments should not be looked upon only as service delivery institutions – they are essentially political entities, and service delivery is one of the many functions under their jurisdiction.</p>

Friday Dec 9th, 2005

<p>09:00 – 09:10</p>	<p>INTRODUCTION TO DAY 3 Recap of Day 2 and Outline of Day 3 <i>Dr. Santosh Mehrotra, Programme Advisor, UNDP RCB</i></p>
<p>09:10 – 10:45</p>	<p>INSTITUTIONAL ISSUES (4): WORKING GROUP SESSION <i>Aim:</i> <i>To allow facilitated group discussion & exchange on sectoral and institutional issues to be determined</i></p> <p>WORKING GROUP SESSION</p> <ul style="list-style-type: none">• Guidance to Groups in Plenary• Breakout in Groups (Themes & members to be identified)• Report Back in Plenary• Plenary Discussion
<p>Rapporteur's Report prepared by Dr. Anit Mukherjee and Dr Gautam Naresh</p>	<p>Following the wrap up of previous days' proceedings, the participants were divided to three discussion groups, as follows:</p> <p>Group 1: China, Vietnam, Lao PDR and Cambodia.</p> <p>Group 2: Bangladesh, India, Bhutan, and Nepal.</p> <p>Group 3: Indonesia, Malaysia, Maldives, Thailand, Philippines and East Timor.</p> <p>The following questions were posed, -one per group:</p> <p>Question 1: Over the last two days, we heard from several participants that decentralization needs a transfer of Functionaries (F1), Functions (F2) and Funds (F3) to local governments. But often in real life, it has not involved the transfer of one or the other of the three Fs. In respect of the basic services relevant to the achievement of the MDGs in your country, have all three been devolved? Which of the three have not been devolved? What has been the sequence of devolution – has function followed finance, or the other way around? Does the sequence matter for effectiveness of service delivery?</p> <p>Question 2: In your country, what are the challenges once the three Fs are actually transferred? What are the consequences if only one or two of the three are transferred to local government?</p> <p>Question 3: In your country, is the <i>accountability</i> of functionaries related to social services in decentralized local governments still mainly vertical, to higher level officials in the line ministries? Or are local officials to some extent horizontally accountable to (a) locally elected leaders; and/or (b) clients and users of the service and the community?</p> <p>Following are the issues which emerged:</p> <p>Group 1: Discussion was based on a country-by-country analysis of the transfer of 3Fs. In China, transfer of functions is followed by transfers of finance. The central government assigns tasks to public servants to work at the local level. On the contrary in Vietnam, functionaries are first transferred followed by finance and functions. The commune-level workers are paid by the central government and assigned to the local level. In Lao PDR, functionaries and finance transfers follow function transfer, whereas in Cambodia, functions and finance follow functionaries transfer. There is a substantial impact on service delivery, which varies in different country context. In general, it was observed that service delivery could not be decentralized if all three Fs are not devolved. As a result, a problem of overlap of capacity and of resources emerges in the case of</p>

	<p>imperfect devolution. In Vietnam, horizontal accountability dominates the vertical accountability, which is similar to the case of China and Lao PDR. In Cambodia, however, the predominantly strong vertical accountability affects the service delivery adversely.</p> <p>Group 2: The experience in South Asian countries shows that functions are transferred first, followed by finance and functionaries. The functions devolved, however, remain inadequately funded, and the functionaries are not accountable to the local governments. In contrast to the case of Kerala, local government decisions cannot be overruled and the functionaries are accountable to the local governments. The group observed that the sequencing of devolution does not bear much importance. Unless all three Fs have been devolved, there will not be a significant improvement in service delivery by local governments. The challenge is to manage this transition process efficiently and to build capacity for implementation. Furthermore, local governments have to ensure a minimum quality, and new administrative rules have to be redefined reflecting the new institutional arrangements. Across the region with the exception of Kerala, vertical accountability is strong even in terms of reporting and auditing. There was a view that the Right to Information Acts can work to ensure horizontal accountability, along with citizens' participation and the presence of NGOs at the grassroots level.</p> <p>Group 3: In a country based analysis of this group, it was found that in the Philippines, all 3Fs were devolved together and thus have a high correlation. Despite the problem of funds, the delivery mechanism works well. Accountability is mostly horizontal and citizens have enough voice in local government decisions. The experiences of Indonesia and Thailand are similar. Functions, mainly education and health, are devolved and functionaries have the option to become part of the local government structure. There is no direct relation between funds and functions. Accountability is more vertical than horizontal, since the line ministries have control over activities. Malaysia has devolved limited functions and roles for the local bodies. Functions and funds go hand in hand, and the social services are controlled by the central government. In case of East Timor and Maldives, the decentralization process is in nascent form, and the process of deconcentration has started especially for health service programs.</p>
<p>11:00 – 12:30</p>	<p>RAISING LOCAL SERVICE DELIVERY PERFORMANCE: SNAPSHOTS OF PROMISING POLICY INNOVATIONS</p> <p>Aim: <i>To highlight some interesting innovations in improved local service delivery in Asia</i></p> <p><i>Chair:</i></p> <p>Participatory Monitoring in Thailand <i>Dr. Charas Suwanmala, Professor, Chulalongkorn University</i></p> <p>Demand-driven Local Capacity Development in Nepal <i>Mr. Murari Upadhyay, Executive Director, ADDC/Nepal</i></p> <p>Performance-based Funding in Bangladesh <i>Mr. Azizur Rahman Siddique, Project Monitoring Advisor, UNDP Bangladesh</i></p> <p>PLENARY DISCUSSION</p>
<p>Rapporteur's Report prepared by Dr Debdatta Majumdar and Dr Manish Gupta</p>	<p>The focus of this session was to highlight some recent policy innovations in three different countries in the area of participatory planning and execution of projects at the local government level for the purpose of meeting the MDGs.</p> <p>The first presentation cogently presented three significant developments in the last four years in Thailand in the area of participatory monitoring, namely research, awards and monitoring. Under a research initiative nearly 500 cases of local innovations were analyzed. The substantive conclusion of the analysis found that more than 80 percent of</p>

these cases were successful because the local government followed a participatory approach. A PLEDGE scheme was promoted in the last two years to study particular projects, such as one in a province in South Thailand with the help of university academics. At least four awards have been instituted to reward municipal best practices in public participation and transparency. For instance, the King Prajadhipok award was awarded recently for a waste recycling initiative, which reduced disposable waste by 15 percent through effective recycling. The new regulations initiated four years ago by the Ministry of Interior (responsible for the functioning of local level governments) in order to monitor and provide training to local governments in order to adopt participatory planning and budgeting were also reviewed. Although this has been enforced on local governments, the outcome has been positive.

The second case study presented a pilot project initiated in 20 districts in Nepal as part of the decentralized service delivery strategy. The requirement for such a project arose due to several flaws in the existing system of service delivery, among which are the demand-supply mismatch, spatial concentration of service providers and spatial spread of users of the service, and a poor ownership of programmes. Most projects in Nepal were 'supply-driven' driven by donors and/or through government financed projects without tailoring them to the specific needs of the local governments. Further, 75 District Development Committees (DDCs) in Nepal are spatially distributed over three distinct geographical locales, whereas most of the service providers are concentrated in Katmandu, which has a large market of private providers of service. All of this has resulted in a very poor community ownership of capacity development initiatives and therefore, a very low developmental impact. Mr. Upadhyay described capacity development (CD) holistically by referring to the joint creation of institutional capacity, human resources and material resources. The pilot project has been implemented with the clear demarcation of five separate controlling agencies: 1) ADDCN, to co-ordinate the supply and demand channels; 2) service suppliers; 3) DDCs, which demand service from the service providers; 4) Government/other donor agencies, which provide financial support; and 5) Ministry of Local Development (MLD), which is entrusted with quality assurance of the entire process. The implementation strategy involves a self-assessment by the DDCs, and the preparation of two-year CD plans. This process is facilitated by the ADDCN. The MLD is involved with monitoring and evaluation at the field and district levels. At present, the project is still at the field level and by end of December 2005 CD plans for the 20 districts are expected to be completed.

The focus of the third presentation was to illustrate performance-based funding as demonstrated by the five-year long Sirajganj project, initiated in 2000. This is a path-breaking project, as it is the first instance where funding is channeled through the Union Parishads (UPs), avoiding sub-district levels and other bureaucratic controls. This has significantly reduced rent-seeking activities. An Asian Development Bank study found that it has curtailed corruption by around 37 percent. The devolution under the project is largely formula-driven (50% for population, 30% for area and 20% for poverty). Timely disbursements of funds, earmarking 30 percent of the total funds for women empowerment, performance-based funding, and ownership of funds by UPs are some of the unique features of the project. The overall performance of the UPs has improved as a result of this project, and the ability of the UPs to deliver service in a participatory manner has been established. Quantitative project evaluation tools such as public score cards have been put in place. The most significant outcome of the project is the plan by government of Bangladesh to replicate the same model to other districts. Government funds were set aside in FY 2004-05 for a decentralized funding of UPs for the first time in the history of decentralized development in Bangladesh.

	<p>Mr. Atiur Rehman, Chairman, Unnayan Shamannay, Dhaka, presented a small piece entitled 'Civic Monitoring of MDGs with LGs (Local Government Institutions) as the Key Players'. The substantive issue addressed was the linkage between a participatory approach to development and poverty reduction. An inclusive approach, with the LGs as the central players, would be a very effective poverty reduction tool.</p> <p>During the discussion session Mr. Siddique explained the baseline and the methodology used by the ADB to arrive at the estimate of 37 percent corruption reduction attributable to the Sirajganj project. The baseline was the public perception of roughly 50 percent wastage in any project due to rent-seeking activities. The mechanism design of the Sirajganj project enabled the calculation of exactly how much was lost due to interference by bureaucrats and other corrupt practices, thereby yielding the final figure. Dr. Suwanmala was asked to elaborate on the indicators of performance used in Thailand, to which he referred to specific questionnaires, requesting information as to whether a local forum was formed, whether the citizens were consulted prior to the delivery of a sectoral service, and whether they were satisfied with the manner of service delivery. It was noted that this would be a too costly exercise to be implemented country-wide. Currently monitoring of participation is being done in a fragmented manner. Ms. Chowdhury questioned whether there was an institution comparable to the ADDCN prior to its formal establishment in Nepal and if so, what necessitated the shift to ADDCN. In response it was observed that the ADDCN has been formed as a legally mandated institution and is not an NGO. ADDCN was playing the role of a facilitator in the uptake of the pilot project in the 20 districts. The DDCs have devolved functions and can decide on how to discharge responsibilities themselves. As an addendum, it was pointed out that there were some loose minimum conditions for access to capital grants and in fact, 2 districts had failed to meet these criteria. As the overall facilitator, the approach of ADDCN is not to cut out funding of the DDCs, but rather to enable them to access these funds.</p> <p>Other questions followed regarding the possible biases in reporting the quality of service provision, with a particular reference to the reduction in funding in case service providers were criticized by the public. The possibility of biases in reporting the standard of service delivery was acknowledged, with the view that civil society is aware that untruthful reporting works against the greater good of society. As a result, the Sirajganj project has not seen instances of such biases.</p> <p>Mr. Valentin Ximenes, Ministry of State Administration, Timor Leste, had a general query about the political dimensions of poverty to which Mr. Rehman reiterated his belief that communal approach to development is very effective not only in reducing the absolute levels of poverty, but also because of its intrinsic value. The session ended with a suggestion that decentralization of duties involves a greater demand for resources from the centre, and financing of it along with the added political economy dimensions might become very challenging for developing countries.</p>
<p>14:00 – 17:00</p>	<p>BUILDING LOCAL SERVICE DELIVERY CAPACITIES FOR THE MDGs: TAKING THE AGENDA FORWARD Aim: <i>To feed into the future agenda for policy reform, research and advocacy in Asia</i> <i>Co-Chairs: Mr. Henrik Larsen; Mr. Roger Shotton; Mr. Santosh Mehrotra, UNDP RCB</i></p> <p>WORKING GROUP SESSION</p> <ul style="list-style-type: none"> • Guidance to Groups in Plenary • Breakout in Groups (Themes & members to be identified)

	<ul style="list-style-type: none"> • Report Back in Plenary <p>PLENARY DISCUSSION</p> <p>NEXT STEPS <i>Chair: Mr. Valentim Ximenes, Vice Minister, Ministry of State Administration, Timor-Leste</i></p> <p>Next Steps in Participants' Countries Next Step in the Region</p> <p>CONCLUDING REMARKS</p> <ul style="list-style-type: none"> • The Organizers • Selected participants <p>Dr. Govinda Rao, Director, NIPFP</p>
<p>Rapporteur's Report prepared by Dr Manish Gupta, Dr O P Bohra, Dr Amarnath and Dr Mita Chowdhury</p>	<p>The main objective of the session was to provide the map of future agenda for policy reform, research and advocacy in Asia with respect to the issue of "Building Service Delivery Capacities for the MDGs" The session was merged with the concluding session entitled "Next Steps", and the focus of the session was modified to: <i>The Regional Research and Exchange Agenda: How to move ahead?</i></p> <p>Mr. Shotton highlighted various issues related to cross-country problems indicating that there is substantial variation in the characteristics and the status of decentralization and the local governments across the region. Furthermore, policy design and implementation also differ from country to country and various innovations or best practices are not shared. In order to arrive at some degree of compatibility, a regional comparative study along a set of 4 modules was suggested. The modules relate to 1) mapping the problems, 2) local institutional roles and accountabilities, 3) local public expenditure management, and 4) financing policies and mechanisms. In conclusion Mr. Shotton proposed a two-track strategy, encompassing country studies, and cross-country exchange, either regional or bilateral.</p> <p>The discussion confirmed the need for increased country specific research and case studies. It was suggested that the existing research be brought together to identify areas for future research. It was recommended that future research should focus on countries (or states in large countries) at different levels of decentralization. This may be done after identifying a few countries with a common framework of development. Furthermore, the issues facing rural and urban areas are different, and need to be addressed separately as such. A regional network or reference group coordinated through the Regional Centre in Bangkok was seen as a good tool to facilitate cross-country exchange of research. A data bank on decentralization systems of different countries based on studies that were carried out would also be useful. The Regional Centre should identify specific research and non-profit institutions in different countries for conducting the research.</p> <p>In conclusion, discussions about the usefulness of the workshop followed. Participants expressed that such workshops are of great help for the implementation of decentralization in their countries. There was a view that such workshops should also be tied-up with the state institution. Issue of accountability, partnerships, privatization, justice and gender in decentralization were emphasized, and stressed that the latter should have been included in the workshop. Concluding remarks by Dr Rao, strongly recommended increased contribution from local level governments and their accountability to achieve success in decentralization.</p>