

ASIAN DEVELOPMENT BANK

TAR:OTH 37296-1

TECHNICAL ASSISTANCE

(Financed by the Poverty Reduction Cooperation Fund)

FOR

PILOT PROJECT

**ON INSTITUTIONALIZING CIVIL-SOCIETY PARTICIPATION
TO CREATE LOCAL PRO-POOR BUDGETS**

April 2004

CURRENCY EQUIVALENTS

(as of 16 March 2004)

Currency Unit	–	Pakistan rupees (PRs)
PRs1.00	=	\$0.01686
\$1.00	=	PRs59.32
Currency Unit	–	Sri Lanka rupees (SLRs)
SLRs1.00	=	\$0.01025
\$1.00	=	SLRs97.58
Currency Unit	–	Indonesian rupiah (Rp)
Rp1.00	=	\$0.0001160
\$1.00	=	Rp8,620.10

ABBREVIATIONS

ADB	–	Asian Development Bank
LBF	–	local budget forum
NGO	–	nongovernment organization
TA	–	technical assistance
RSGR	–	Regional and Sustainable Development Department, Governance and Regional Cooperation Division

NOTES

- (i) In this report, "\$" refers to US dollars.
- (ii) The fiscal year (FY) of the Government of Punjab and its agencies ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends. In Indonesia the fiscal year starts in January and ends in December. In Sri Lanka the fiscal year starts in January and ends in December.

This report was prepared by J. Brommelhorster.
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I. INTRODUCTION

1. The project concept paper was prepared by the Regional and Sustainable Development Department, Governance and Regional Cooperation Division (RSGR). In December 2002 the Strategy Meeting of the Poverty Reduction Cooperation Fund endorsed the Project for funding.
2. The regional technical assistance (TA) is designed to create the enabling environment for participatory budgeting in local government by building on global best practices of civil-society work.¹ Participatory budgeting provides citizens with the opportunity to influence and help make budget decisions. The Project will engage the poor and their representatives in preparing budgets that will provide efficient, effective, and responsive pro-poor service delivery. In designing the TA, RSGR considered the involvement of the Asian Development Bank (ADB) in participatory budgeting approaches and related work on pro-poor service delivery by local governments.²
3. The TA will be implemented in Pakistan, Sri Lanka, and Indonesia, which were selected because they are at various stages of decentralization—i.e., they have different levels of local responsibility. Pakistan and Indonesia initiated political devolution and decentralization in the early new millennium, while Sri Lanka embarked on devolution in the late 1980s. Properly implemented, devolution directly reduces poverty as local needs can be answered quickly and adequately, and opportunities for development identified early.
4. Fact-finding missions have visited the three countries, and government bodies have asked ADB to support pilot participatory budgeting in selected districts. The TA goals, purpose, and scope are summarized in the TA framework (Appendix 1).³

II. ISSUES

5. Access to public service delivery, and service quality are among the main problems cited in poverty assessments. The poor often have less access than other social strata to basic service delivery and, when they do, quality is not always sufficient. While most governments express commitment to improve service delivery, a gap exists between policy statements and the way local governments raise and spend their resources. Another gap is related to responsibilities of higher tiers of government in financially supporting local government, and to their public service delivery mandates.
6. Engaging civil society in decision making improves public service delivery.⁴ Involvement may be indirect or direct. Indirect engagement could range from monitoring of public services to expenditure tracking, while direct engagement could include budget review and analysis and even joint budget formulation with the local government. This TA focuses on direct engagement and builds on local governments willing to work with civil society. Willingness will be measured by data accessibility, accuracy, and timeliness.

¹ See, for instance, Budget Information Service by the Institute for Democracy in South Africa at <http://www.idasa.org.za/bis> or Budget Information and Analysis Services by Pathey, Ahmedabad, India, at <http://www.disha-india.org/>.

² ADB. 2003. *Technical Assistance on Civil Society Participation in Budget Formulation and Execution in the Pacific*. Manila; and ADB. 2002. *Technical Assistance on Good Practice on Pro-Poor Service Delivery By Local Governments*. Manila.

³ The TA first appeared in *ADB Business Opportunities* (Internet edition) on 27 November 2003.

⁴ For case studies and groups engaged in civil-society budget work see www.internationalbudget.org.

7. Due to decentralization and devolution all three systems allow for stronger civil-society participation in decision making. In all three countries systems will be strengthened and further developed to increase civic engagement in budget review and in formulation of devolved functions. So-called obligatory sectors for local governments in Indonesia include health, education, public works, environment, communications, agriculture, industry and trade, capital investment, land, cooperatives, and labor and infrastructure services. In Pakistan functions such as health and education are devolved to the districts, while water supply, parks, sewage, maintenance of internal roads and sanitation are devolved to the *tehsils*.⁵ In Sri Lanka most devolution arrangements have a concurrent list of functions with simultaneous jurisdiction of the central and lower-level governments. Often, the two levels of government work out arrangements to minimize overlap and unnecessary duplication.

8. Government budgets are central to planning and controlling a country's economic activities and are important policy tools with profound implications for poverty reduction and social equity. Civic engagement can contribute to government accountability and to integration of a pro-poor perspective into the budget. With ongoing decentralization in Pakistan, Sri Lanka, and Indonesia new responsibilities are devolved to local governments. By engaging in local budgeting processes civil society will improve its understanding of allocation possibilities and perception and implementation of expenditure and revenue options. Participatory budgeting encourages accountable and pro-poor governance.

9. Incentives for local governments to allow institutionalized participatory budgeting are outcome related. Such governments will be more accountable and, as the pilot cases show, perform better than those that do not engage in participatory budgeting. The cases also show what is not achievable under the local government finance system. The incentive for civil society to participate is that government will be responsive to community needs and enhance local service delivery.

10. The pilot local government will institutionalize budget education and participatory decision making. Lessons from all pilot regions will be exchanged in countrywide outreach seminars to enable other local governments to follow such approaches.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

11. The TA's purpose is to enhance civil society's awareness of resource allocation and the budgeting process and their actual involvement in the budget decision making process. Through civic, informed, and constructive engagement, public service delivery will be more responsive to the poor. Local pro-poor public service delivery will differ from one pilot to the other due to the different stages of development and due to locally made prioritization. The Project will promote that women, who are often underrepresented, and men will participate equally in decision making.

12. The TA will build upon work done to date and lessons learned and make use of the extensive literature on international best practice in civil-society budget work. The outputs of the TA will include the following:

⁵ In Pakistan local government comprises district, tehsil and union level.

- (i) An agreed participatory budgeting strategy.
- (ii) Training materials on budget literacy and practical budget work.
- (iii) Conduction of twelve regional capacity development workshops.
- (iv) Local budget forums (LBFs) operational to develop the principles and practices of budget work in local governments.
- (v) Action plan on how to replicate participatory budgeting approaches.

B. Methodology and Key Activities

13. The first major activity is local stocktaking to ensure concurrence with ongoing projects and external agency coordination. The Project aims to strengthen other poverty reduction projects by linking additional needs to the local budget. Second, stocktaking will include benchmarking to describe local government roles and functions and activities. Such benchmarking criteria will be developed to allow for measurement of the approaches.

14. Different local environments do not allow a one-serves-all approach. Therefore, best practices in global participatory budget work will be introduced and discussed to achieve general agreement on what participatory budgeting strategy will be pursued for this pilot study.

15. Training material will be developed to (i) show that civic engagement can make a difference in budget formulation by building on best practices of civic budget work, (ii) provide budget education, and (iii) show what kind and form of inputs are needed at what stages of the budget cycle. The general parts such as best practices and general budget education will be generic training material while the others will be designed based on the country or district-specific environment.

16. Capacity development workshops will be conducted to (i) develop budget literacy; (ii) help make budget categories user-friendly; (iii) introduce decision-making processes and tools, which allow for constructive civic engagement in budget planning and formulation; and (iv) stimulate debate among civil society and government officials. The target groups are government officials and civil-society representatives. The participation of women will be encouraged to allow for adequate representation.

17. LBFs will be established, staffed, and equipped to link civil society and local government. LBFs are intended to coordinate pre-budget information and propose allocation decisions. Decision-making processes and tools will be implemented at LBFs.

18. Outreach seminars in each country will advocate reducing poverty by having civil society participate in the budgeting process. All seminars will primarily target local government officials to introduce the approach and show that poverty can be reduced and governance improved through participation and transparency. The outreach seminars will be supported by an action plan on how to start participatory budgeting. The overall lessons will be made available through the ADB web site.

C. Cost and Financing

19. The total cost of the TA is estimated at \$400,000 equivalent and will be financed on a grant basis from the Poverty Reduction Cooperation Fund. Detailed cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

20. RSGR will be the Executing Agency. A letter of no-objection from each of the participating countries was obtained prior to the fact-finding missions for this TA. A memorandum of understanding with all local governments will be signed to serve as a benchmark of commitment (Appendix 3). An (international) nongovernment organization (NGO) with extensive practical experience in civil society budget work will be engaged as consultant to implement the TA. Associated domestic NGOs will be hired under the same contract of the international NGO. Eight person-months of international and 24 person-months of domestic consultancy will be required. The NGO will have links to domestic NGOs and strong interest in building long-term relations with them to ensure sustainability of the initiative. The project team leader will be a full-time staff of the NGO and coordinate training development, facilitation, and other project activities as well as input of the domestic NGOs. Domestic NGOs in each participating country will help implement the TA through workshops and other activities.

21. The NGO will be engaged by ADB in accordance with its *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for the engagement of domestic consultants. Quality- and cost-based selection and simplified technical proposal will be used to engage consultants. Outline terms of reference are in Appendix 4.

22. All procurement under the TA will be in accordance with ADB's *Guidelines for Procurement*. The international NGO will be responsible for the procurement of equipment.

23. The TA will last 8 months beginning July 2004.

IV. THE PRESIDENT'S DECISION

24. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$400,000 to be financed on a grant basis by the Poverty Reduction Cooperation Fund for Pilot Project on Institutionalizing Civil Society Participation to Create Local Pro-Poor Budgets, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Goal Improvement of quality of public service delivery	Improved local government service delivery to the poor Budgets responsive to the poor	<ul style="list-style-type: none"> - Local budgets 	
Purpose Enhance awareness and actual involvement of civil society in the budget decision making process	Active participation of 120 people of civil society in local budget works	<ul style="list-style-type: none"> - Reports by Local Budget Forums (LBFs) - 3 ADB review mission 	Purpose to Goal <ul style="list-style-type: none"> - Continued government commitment to devolution and decentralization - Complementary initiatives to replicate the Project's success
Outputs 1. An agreed participatory budgeting strategy 2. Training materials on budget literacy and practical budget work 3. Twelve local capacity development workshops conducted 4. LBFs operational	1.1. Institutionalization of participatory budgeting 1.2. In total 120 men and women engaged 1.3. In total 60 men and women representing pro-poor areas 2. Training material for all local governments developed (generic and district specific) 3. In total 120 men and women trained, by category (local government officials, nongovernmental organizations [NGOs], community leaders, other community residents) by the project's end 4.1. LBFs in 12 local governments established and	<ul style="list-style-type: none"> - International NGO's final report - ADB quarterly TA performance reports - 3 ADB mission reviews 	Output to Purpose <ul style="list-style-type: none"> - Demand for participatory budgeting is sustained by institutionalizing a participatory budgeting strategy. - Initial enthusiasm for participatory budgeting is sustained by a critical mass of target beneficiaries, NGOs, and local government officials

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
5. Action plan on how to replicate the approach	<p>operational by the project's end</p> <p>5.1. Three national outreach seminars completed</p> <p>5.2. In total 120 men and women trained and educated on the project</p>		
<p>Activities</p> <p>1. Stocktaking on the local level</p> <p>1.1. Consultation and coordination</p> <p>1.2. Benchmarking</p> <p>2. Awareness building and option development</p> <p>3. Training material development</p>	<p>1.1.1. External agency coordination and harmonization on the local level</p> <p>1.1.2. Assessment of current participatory approaches</p> <p>1.1.3. Assessment of current public engagement of the poor</p> <p>1.2.1. Description of functions and roles of local government</p> <p>1.2.2. Description of current level of transparency and access to information</p> <p>1.2.3. Stakeholder analysis and representation</p> <p>1.2.4. Service-delivery data</p> <p>2.1. Introduction of global best practices of participatory budgeting</p> <p>2.2. Development of local participatory budgeting strategy</p> <p>3.1. Best practices of civic budget work</p> <p>3.2. User-friendly budget education material (monitoring and evaluation)</p> <p>3.3. Budget cycle and civic inputs</p>	<ul style="list-style-type: none"> - List of related donor-funded projects - Meeting reports with donors - Assessment documents - Project management progress reports - Training workshop reports - International NGO's inception, project progress and final reports - ADB mission reviews 	<p>Activity to Output</p> <ul style="list-style-type: none"> - Broad participation in workshops - Continuing commitment by local government and civil society to support and manage participatory budget approaches - Active participation of LBFs and a critical mass of local residents in budget approaches - Beneficiaries are able and willing to contribute to operation and maintenance in cash, labor, and/or participation <p>Risks</p> <ul style="list-style-type: none"> - LBFs do not establish and maintain effective working relationships with local governments and other stakeholders - LBFs do not remain fully staffed, technically skilled, and operational.

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>4. Capacity development workshops (four in Pakistan, five in Indonesia, and three in Sri Lanka)</p> <p>5. Establishment of LBFs</p> <p>6. Three country outreach seminars</p>	<p>4.1. Development of budget literacy</p> <p>4.2. Development of user-friendly pro-poor budget criteria</p> <p>4.3. Use of decision-making processes and tools to plan and formulate budgets</p> <p>4.4. Develop budget advocacy strategy</p> <p>5.1. Organize, establish, staff, equip, and implement LBFs</p> <p>5.2. Establish roles, rules, and regulations for LBFs</p> <p>6.1. Lessons learned</p> <p>6.2. Action plan to replicate the Project</p> <p>6.3. Presentation of lessons learned on ADB web site</p>		
<p>Inputs</p> <p>1. Consulting services</p> <p>2. Funding for capacity development (training, workshops etc)</p> <p>3. Others</p> <p>4. Developing member country contribution</p>	<p>ADB Total: \$ 400,000</p> <p>1. \$188,000 for consultants remuneration (8 person-months international, 24 person-months domestic)</p> <p>2. \$120,000 for workshops and training</p> <p>3. \$92,000 for resource persons, travel, administration, and contingencies</p> <p>4. Active participation and enabling environment</p>	<ul style="list-style-type: none"> - ADB project disbursement documents - Project financial accounting reports 	<p>Input to Activity Level</p> <ul style="list-style-type: none"> - Local government commitment to enhance data accessibility, accuracy, and timeliness - Timely recruitment of the international NGO and domestic NGOs

COST ESTIMATES AND FINANCING PLAN
(\$)

Item	Total Cost
Poverty Reduction Cooperation Fund^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	116,000
ii. Domestic Consultants	72,000
b. International and Local Travel	25,000
2. Resource Persons ^b	15,000
3. Training, Seminars, and Conferences	
a. 12 Regional Workshops	60,000
b. 3 National Outreach Seminars	60,000
4. Miscellaneous Administration and Support Costs	12,000
8. Contingencies	40,000
Total	400,000

Note: The governments of Indonesia Pakistan, and Sri Lanka will not contribute financially.

^a Administered by the Asian Development Bank.

^b The position includes ADB staff acting as resource persons.

Source: ADB estimates.

TEMPLATE FOR
MEMORANDUM OF UNDERSTANDING
BETWEEN
[NAME OF PARTICIPATING LOCAL GOVERNMENT] AND
ASIAN DEVELOPMENT BANK

A. Introduction

1. The government of *[name of local government]* granted on *[date]* a letter of non-objection to the Asian Development Bank to implement a “pilot Project on institutionalizing civil-society participation to create local pro-poor budgets.” This Project will be implemented as a grant.

2. Globally, engaging civil society in decision making has improved public service delivery. Involvement is indirect or direct. Indirect involvement often ranges from monitoring of public services to expenditure tracking, and direct engagement from budget review and analysis to (joint) budget formulation. This approach focuses on direct engagement and builds on local governments willing to engage in constructive civil-society participation. Willingness will be measured as data accessibility, accuracy, and timeliness.

3. The Project’s main objectives are to establish accountable local governance and enhance civic engagement in budget work. Achieving these interrelated objectives will lead to better resource allocation decisions and service delivery mechanisms, which will reduce poverty. By engaging in local budgeting processes, civil society will improve its understanding of allocation possibilities, perception, and implementation of expenditure and revenue options, and local governments’ roles and functions under decentralization.

4. The Project will build upon work done to date and lessons learned, and make use of extensive international best practices in civil-society budget work. The Project will ensure that men and women will be equally represented in decision making. The project outputs include the following:

- (i) Implement a participatory budgeting strategy and institutionalize interaction between local government and civil society in budget decision making.
- (ii) Develop training material to establish budget literacy, demystify budgets, and foster pro-poor budgeting.
- (iii) Hold a workshop to develop budget literacy, help develop user-friendly budget criteria, enhance decision-making processes and tools for budget planning and formulation, and stimulate debate between civil society and government officials.
- (iv) Establish local budget forums (LBFs) to develop the principles and practices of budget work in local governments, serve as civic-governmental local budget knowledge centers, and develop solutions for local budget problems.
- (v) Develop transparent and user-friendly budget criteria to ensure civic engagement in budget work and easy translation of public service delivery needs into local budget outputs.

- (vi) Invite *[name of local government]* to a national outreach seminar to inform provincial and local government officials of achievements of the Project and to discuss its replicability in other local governments.

4. The Project objective is that the participating local governments will lead local governance activities in *[name of the country]* and become models for good governance and poverty reduction activities.

B. Agreement

5. We will help the Project by enabling the best possible environment for civil society's participation in local budget work.

6. We will help establish LBFs.

7. We will ensure that local budget data and information are accessible, accurate, and timely. We will discuss with LBFs how to improve deficient budget data and information.

8. We will actively assist the Pilot Project on Institutionalizing Civil-Society Participation to Create Local Pro-Poor Budgets, and if the initiative is constructive we suggest institutionalizing entry points for civic engagement in the local budget process.

Signature
*[Asian Development Bank,
Director/Governance and
Regional Cooperation Division]*

Signature
[Mayor, name of local government]

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. To implement the regional technical assistance (TA) an international nongovernment organization (NGO) with a proven record in international civil budget work will be hired. The international NGO will ensure TA implementation with assistance through domestic NGOs. The international NGO should have strong links to domestic NGOs and strong interests in building long-term relations with domestic NGOs to ensure sustainability of the initiative. Associated NGOs will be hired under the same contract of the international NGO. In total, up to 8 person-months of international consulting services and 24 person-months of domestic consulting services will be required.

2. The TA will be implemented in the following local governments:

(i) Indonesia

- (a) Kebumen, Central Java (kabupaten)¹
- (b) Makassar, South Sulawesi (kotamadya)²
- (c) Pontianak, West Kalimantan (kotamadya)
- (d) Sangau, West Kalimantan (kabupaten)
- (e) Watampone, South Sulawesi (kabupaten)

(ii) Pakistan (Punjab)

- (a) Bahawalpur (district), Bahawalpur (tehsil)³
- (b) Faisalabad (district)
- (c) Ferozewala (tehsil)
- (d) Jhelum (district), Jhelum (tehsil), Kala Gujran (union), Bokan (union)

(iii) Sri Lanka

- (a) Colombo
- (b) Kandy
- (c) Galle

A. Budget Specialist/Team Leader (international consultant)

3. The international consultant should have extensive experience in practical civil-society budget work, and a proven record of constructive engagement with governments. The consultant will have experience in developing training materials (appropriate for developing countries) on how to read a budget, apply rigorous methodology on pro-poor budget analysis, enhance civil-society organizations' ability to communicate and engage with government officials at various levels, and deal with and make use of the media.

4. The project team leader should be a full-time staff of the international NGO and will coordinate training development, facilitation, and other project activities, as well as the input of domestic NGOs.

¹ Kabupaten means district.

² Kotamadya means municipality.

³ In Pakistan local government comprises district, tehsil and union level.

5. During the inception phase (6 weeks), specific tasks for the international consultant will include the following:

- (i) **Work plan.** Prepare a detailed (content, milestones, timetable, responsibilities) work plan for the Project.
- (ii) **External agency coordination.** Ensure the best possible donor coordination and harmonization in all participating local governments and ensure that the Project adds value to existing local pro-poor activities.
- (iii) **Benchmarking.** Develop a benchmarking template to be used in all participating local governments and ensure that the required information can be obtained.
- (iv) **Best practices overview.** Prepare an overview on global best practices of participatory budgeting (budget review and analysis, budget planning and formulation) which can be used as handouts for the civil society and prepare a PowerPoint presentation that can be used for seminars.

6. During the implementation phase, specific tasks for the international consultant will include the following:

- (i) **Strategy building.** Help the domestic counterpart NGOs develop local participatory budgeting strategies.
- (ii) **Training material.** With the domestic NGOs prepare training material to foster budget education and integrate civic entry points into budget planning and formulation.
- (iii) **Workshops.** With the domestic NGOs prepare and implement capacity-development workshops on budget literacy, user-friendly budget criteria (reflecting the needs for the poor), budget advocacy, and decision-making processes and civic engagement in budget planning and formulation.
- (iv) **Institutionalization of participatory budgeting.** Help local governments institutionalize participatory budgeting. Ensure that local budget forums (LBFs) are properly installed. Help develop a reporting, monitoring, and evaluation system for LBFs.
- (v) **Outreach seminars.** Prepare and implement together with the domestic NGOs three national outreach seminars highlighting lessons learned, and present an action plan that local governments can use to implement participatory budgeting.

7. The international consultant will submit an inception report 6 weeks after commencement of the TA (i) outlining the detailed work plan for the Project and (ii) providing the basis for project monitoring. The inception report must include detailed performance indicators to measure the success of the TA. The Asian Development Bank will review the inception report within 7 days and might require improvements.

8. The international NGO will also submit 2 short progress reports (after 3 and 6 months) and a final report (not later than 8 months after starting the TA) summarizing the findings, progress and achievements during the TA. The final report will include an action plan, which shall be of use for other local governments to embark on participatory budgeting activities.

B. Budget Experts (domestic consultants)

8. Domestic consultants should have extensive experience in practical civil-society budget work and a proven record of constructive engagement with governments. Domestic consultants should have very good communication, mediating, and writing skills.

9. During implementation, specific tasks for the domestic consultants will include but not necessarily be limited to the following:

- (i) **Strategy building.** Develop the local participatory budgeting strategy (including awareness-building measures).
- (ii) **External agency coordination.** Help achieve the best possible donor coordination and harmonization on the local level and ensure that the Project adds value to existing pro-poor activities.
- (iii) **Benchmarking assistance.** Collect and present local service-delivery data and help collect information on functions, roles, and overall transparency issues on the local level.
- (iv) **Training material.** Assist in preparing training material to foster budget education and civic entry points into the budget planning and formulation.
- (v) **Workshops.** Implement capacity-development workshops in accordance with requirements detailed by the international NGO. Be responsible for active participation of civil society by taking equity and representatives of the poor into account. Ensure adequate participation of women.
- (vi) **Institutionalization of participatory budgeting.** Help local governments institutionalize participatory budgeting. Organize, establish, staff, equip, and implement local budget forums (LBFs). Help develop a reporting, monitoring, and evaluation system for LBFs.
- (vii) **Outreach seminars.** Prepare a local project completion report and provide input to the lessons learned and action plan on how to replicate the approach. Help prepare the three national outreach seminars.