

Aid Effectiveness Case Study

Decentralization Support Facility - Indonesia

August 2006

Executive Summary

The Decentralization Support Facility (DSF) is a multi-donor harmonization facility established in Jakarta in February 2005. Key DSF functions include;

- **Sharing knowledge related to decentralization amongst stakeholders in Indonesia**
- **Designing, reviewing and improving the quality of donor programmes to complement and support decentralization in Indonesia**
- **Developing common platforms for policy engagement with key stakeholders**

Decentralization in Indonesia has been implemented through a ‘big bang’ approach after decades of centralized autocracy. This rapid transition to a new form of government created turbulence within government policy and between different parts of the government with responsibility for implementing decentralization. The DSF was established to provide a common forum through which donors and government could start to address some of these coordination issues and to support improved poverty outcomes from Indonesia’s decentralization initiative.

After 12 months of operation, the DSF has contributed to a number of significant policy break-throughs - including work on restructuring fuel subsidies and the cash transfer schemes that have emerged to target the poor; using donor supported community based development initiatives as the basis for a new national on-budget programme; and using the Aceh Window to coordinate donor response to post-tsunami reintegration.

The DSF is work in progress. The first year of the programme was used to experiment with different approaches to donor assisted support, working with different members of the donor community in an effort to better understand organizational incentives and the changes in organizational behaviour that are necessary to facilitate a fully harmonized approach. Through a parallel and extensive review process, these lessons were learned, and modifications made to the operational structure and programmatic focus of the DSF for Phase 2.

The DSF has demonstrated adaptability, an energetic approach, and considerable willingness to embrace reform. It is early days. The DSF has started to operate in ways that should deliver the projected benefits. This is a bold experiment in a highly complex political environment – considerable work remains to be done.

Decentralization Support Facility - Indonesia

Supporting Decentralization in Indonesia

The DSF is a donor-funded facility, established in Jakarta in February 2005 to provide a multi-donor harmonization facility to support a specific and critical development theme – decentralization. The overarching objectives of the DSF are to reduce poverty and to strengthen service delivery for the poor through an aid effective approach to decentralization.

As Indonesia has moved from a centralized autocratic regime to a democracy the Government of Indonesia (GoI) has placed decentralization at the centre of its economic and political reforms. Through the “big bang” decentralization initiative of 2001 the GoI moved the majority of domestic responsibilities and resources to sub-national governments at provincial and district level. The decentralization policy continues to face major constraints, including:

- an under-developed policy framework for decentralization that requires new laws and regulations to better facilitate effective service delivery at district level
- an inadequate fiscal environment (both in terms of intergovernmental resource transfers and local authorities resource raising capacity)
- a weak political culture of participation and transparency in local decision making, and of holding local public officials to account
- a changing and unstable institutional environment where systems for effective checks and balances between the executive, legislative and judiciary are still being developed
- a lack of governance capacity at local government level
- inadequate research and data to inform policy and decision making

A number of GoI departments have been assigned responsibility for implementing elements of decentralization - principally the Ministry of Home Affairs (MOHA), the Ministry of Planning (BAPPENAS), and the Ministry of Finance. Nevertheless, it remains the case that there is a general lack of coordination and harmonization between GoI stakeholders that has hampered the development of a single, coherent policy framework for decentralization, making it more difficult for donors to align around a clear government lead on decentralization.

The Initiative

In the post ‘big bang’ environment, as several large donor-funded programs (e.g. Japan, World Bank, ADB) were implemented in support of GoI decentralization approaches, issues of duplication and overlap began to emerge. Coordination between donors and government was initially undertaken through a joint government-donor working group on

decentralization – part of the Consultative Group on Indonesia (CGI). This group focused on high level policy discussion. In the meantime an increasing number of donors were developing and implementing new programmes in support of decentralization with a growing appreciation that improved coordination of donor engagement would strengthen development outcomes. In the wake of the 2003 Rome High Level Forum on Harmonization, and in the lead up to the Paris Declaration of 2005 five donors (DFID, World Bank, ADB, Netherlands and UNDP) established the first phase of DSF in February 2005, under the supervision of a Steering Committee comprising the founding members.

DSF's mandate was to analyze, simplify and facilitate innovative interactions between donors, the government and appropriate civil society organizations. This was an approach that sought to shape and influence government policy as well as support it. There were three distinct policy platforms selected for Phase 1 of the DSF;

- National Policy
- District Level Service Delivery
- Community Driven Development

DSF was allocated \$8 million from DFID into a World Bank managed Trust Fund. Rather than introducing new programmes, the DSF deliberately looked to coordinate existing programmes. This approach brought several notable successes, including providing the government with advice on fuel subsidies and piloting the poverty focused cash transfer scheme. The DSF adopted a loose and flexible management style, as the different organizations participating in the DSF explored how best to engage. Each organization brought different human resources and organizational perspectives. New approaches to sharing knowledge, accepting each others financial procedures, and developing common methodological approaches were pioneered in the DSF. Through trial and error, negotiation and compromise, a clearer vision of how the DSF could and could not work began to emerge. Systems became more streamlined, areas of engagement crystallized, and arrangements for managing the human and financial resources were agreed. The lessons learned from Phase 1 were captured through an extensive multi-agency review and design process and have been incorporated into Phase 2. The greater clarity of purpose and management arrangements has encouraged other donors to commit to participation in the DSF.

Box 1**Lessons Learned from Phase 1 of the DSF**

- GoI stakeholders need to be encouraged to engage more fully in both the strategic management and operation of the DSF.
- Space needs to be created to facilitate the participation of a range of donors – some of whom may be unable to fully harmonize their programmes and approaches upon entry into the DSF.
- The broad-based and experimental approach of Phase 1 has developed into a sharpen focus around three key focal areas that will be developed into specific work plans and budgets.
- The smaller innovative and lesson-learning initiatives of Phase 1 will be replaced with larger programmes as DSF Phase 2 looks to take the experiences of Phase 1 to scale.
- Lesson on managing inter-agency harmonization and integration have been factored into the management arrangements for Phase 2.
- The steep learning curve experienced by donors in Phase 1 should lead to significantly reduced transactions costs in Phase 2.

Improving Decentralization Outcomes – the Transition to Phase 2 of the DSF

Phase 2 of the DSF confirms the original approach that positions the DSF as a facilitator working with donors and other stakeholders to complement their different initiatives. Through a mix of technical assistance and support programs, the DSF will provide analysis, pilot good practice, work with donors to simplify and standardized their engagement, and improve civil society participation in decision making.

The DSF will use existing knowledge held by individual organizations and will generate new knowledge to provide qualitative improvements to ongoing government and donor programmes - and design new ones. It will facilitate coherent and informed policy dialogue between donors and government. The DSF will work with all stakeholders to align their decentralization approaches around Government of Indonesia policy. A major output from the DSF will be the design of co-financed multi-donor programs in support of GoI policies.

DSF is now drawing upon inputs from a larger group of donors (currently nine - ADB, AusAID, CIDA, DFID, GTZ, Netherlands, UNDP, USAID and the World Bank). Increased financial resources of around \$US 45 million, (largely from DFID), have been committed to the DSF over a three year period (2006 to 2009) in support of its emerging role.

DSF Phase 2 will have dedicated full-time staff, with clarity of functions and reporting lines. Currently there is an operational team of 6 and a support team. Core positions are being filled either through secondments from participating agencies or thorough

contractual appointments. Staff will have both technical skills and competence in collaborative work. The DSF will emphasize building capacity of Indonesian institutions.

In addition to the Jakarta office, there are allied offices (currently operating in Sulawesi and Sumatra, with other provincially-based offices likely to be connected into the DSF network) that also play a significant role, supporting DSF activities and information exchanges of relevance to the decentralization agenda to provincial stakeholders.

Box 2**Sharpening the Focus of DSF Facilitation**

Phase 2 of the DSF will engage around three defined focal areas. This will provide a structured approach and target DSF outputs to complement existing stakeholder initiatives. Each focal area will set out its aims and objectives within a single comprehensive Focal Area Programme Document and will then be managed on the basis of a Management Committee approved six-month work plan. Each Programme Document will set a framework for up to 2-3 years of activity, but will retain sufficient flexibility to respond to changing circumstances and new demands. The primary modes of engagement for these focal areas will be;

- Providing evidence to improve the analysis of decentralization impact
- Facilitating harmonization and alignment around existing and new programs
- Supporting the design of major new harmonized multi-donor interventions

i) *Strengthening the Intergovernmental Framework*

The inter-governmental framework provides the basic institutional architecture for decentralization in Indonesia. Several multilateral and bilateral donors are already actively involved in the development and improvement by supporting the design of administrative and fiscal intergovernmental systems. The work will focus on functional assignments; establishing minimum service standards; service delivery; and facilitating government monitoring, evaluation, supervision, and control. The DSF clearly has a role and a mandate to support and expand upon the work already being done in this critical area. Focal area 1 is expected to contribute to four main outputs:

- assignment of service responsibilities across all levels of government, including the establishment of minimum standards of public service delivery;
- enhanced intergovernmental system for financing sub-national service delivery,;
- improved intergovernmental framework for sub-national government financial management; and
- Strengthened central government capacity to perform monitoring, evaluation, supervision, and control functions.

ii) *Support to Sub-national Entities*

Focal area 2 will work on improving the capacities and effectiveness of sub-national entities at provincial, city and district levels. Focal area 2 will focus on

- identifying ways to facilitate and develop the capacity of local governments;
- strengthening parliamentary capacity at district and provincial levels;
- service delivery in health and education;
- local and regional economic development; and
- mainstreaming public participation tools.

iii) *Promoting Accountability through Informed Public Participation in Decision Making*

Focal area 3 will support strategies to inform and enable greater civic participation and influence, to articulate how citizens can effectively and appropriately demand access to agreed services, and how to hold public officials more accountable for their actions. Outputs will include:

- design of a National Poverty reduction programme to institutionalize participatory approaches
- improved regulations and frameworks developed by GoI to empower village level institutions
- mechanisms developed to enhance local government accountability.

Costs, Benefits and Risks

The lessons from Phase One have guided the evolution of the DSF. Despite early successes, the DSF remains an innovative approach, operating in a complex policy environment, with limited international experience upon which to draw. This brings risks. Some of the risks include:

- Indonesia has a history of significant exogenous shocks (e.g. the Asian economic crisis, political upheavals, major natural disasters) that could well undermine or overwhelm any potential benefits from DSF;
- Government policy on decentralization needs to be strengthened. Continued policy uncertainty, coupled with the risk of re-centralization, could reduce the overall impact of the DSF.
- Decentralization and harmonization priorities decided in Jakarta may have less applicability outside Java. Attention needs to be paid to the priorities emerging from the regions and districts, focusing attention on the importance of the relatively autonomous satellite offices of the DSF;
- The confused policy environment means that some GoI stakeholders may benefit from access to different donors rather than a single donor facility. Continued attention is needed on GoI costs and incentives of engagement with the DSF, as well as donor costs and incentives issues;
- There is a need to collate baseline data on the relative costs of providing donor assistance through a multi-donor office such as the DSF as compared to other modalities for aid distribution. These baselines, assembled as part of the overall monitoring and evaluation framework for the DSF will provide evidence on the comparative advantage of organizing development assistance through the DSF – an important contribution to the aid effectiveness agenda.

All of the risks reinforce the fact that the aid effectiveness agenda requires donors and other stakeholders to work differently, and change their behavior – a difficult and long-term objective to realize. The risks inherent in an unproven approach, and the relatively high transaction costs associated with the early stages of harmonization, provide a real incentive for organizations (both donors and government) to revert to tried and tested ways of working. Courage will be needed from all involved (backed by carefully assembled evidence) to overcome the early disincentives to harmonization and to demonstrate real benefits for those involved – particularly for poor people.

Trading on its adaptability, energetic approach, and willingness to plan for and embrace reform, the DSF (as it makes its transition from a one-year pilot initiative to a three-year programme) has started to operate in the ways that may deliver tangible benefits. The DSF was envisaged as a bold experiment in donor harmonization and alignment approaches, and so it has turned out to be. Within the comparatively short period of time since its implementation, the facility has generated diverse activity, undergone critical

and evaluative review, and has responded well to the challenges presented so far. The challenge now is for the DSF to demonstrate the quantifiable benefits of donor harmonization by influencing service delivery and poverty reduction. Promising signs of progress will require careful nurturing and close evaluation if the benefits of harmonized working in a complex environment are to be realized.