



Technical Assistance Report

Project Number: 39063
November 2005

Proposed Technical Assistance Republic of Indonesia: Pro-Poor Planning and Budgeting (Cofinanced by the Government of the United Kingdom)

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 8 November 2005)

Currency Unit	–	rupiah (Rp)
Rp1.00	=	\$0.000099
\$1.00	=	Rp10,075

ABBREVIATIONS

ADB	–	Asian Development Bank
BAPPENAS	–	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
CCT	–	conditional cash transfer
DSF	–	Decentralization Support Facility
KPK	–	Komite Penanggulangan Kemiskinan (poverty reduction committee)
KPKD	–	Komite Penanggulangan Kemiskinan Daerah (local poverty reduction committee)
LGFR	–	Local Government Finance and Governance Reform Project
Menkokesra	–	Kementerian Koordinator Bidang Kesejahteraan Rakyat (Coordinating Ministry for People's Welfare)
MTDP	–	medium-term development plan
PRSP	–	poverty reduction strategy paper
SPKD	–	Strategi Penanggulangan Kemiskinan Daerah (local poverty reduction strategy)
TA	–	technical assistance
TOR	–	terms of reference

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	Targeted intervention
Sector	Law, economic Management, and public policy
Subsector	Subnational government administration
Themes	Sustainable economic growth, inclusive social development, capacity building
Subthemes	Human development, developing urban areas, organizational development

NOTES

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. Two key findings of the 2005 Country Poverty Assessment for Indonesia are that (i) improved quality social services and infrastructure access is central to poverty reduction and achievement of the Millennium Development Goals (MDGs), but that (ii) the population remains highly vulnerable to shocks.¹ Poverty reduction is a major concern of the Government of the Republic of Indonesia, which has incorporated the national poverty reduction strategy paper (PRSP) in its Medium-Term Development Plan (MTDP) 2005–2009. The Government has requested Asian Development Bank (ADB) support for developing local government-level poverty reduction strategies linked to pro-poor resource allocation, and for designing social assistance programs to mitigate the impact of shocks on the poor. Reconnaissance missions took place in February and April 2005 to identify broad issues. Staff undertook fact-finding in July 2005, with follow-up in August and October 2005, to reach broad understanding with the Government on the project's design and scope. The impact, outcomes, and outputs of the technical assistance (TA) are summarized in the design and monitoring framework (Appendix 1).²

II. ISSUES

2. **The National Poverty Reduction Strategy Paper.** The Government finalized and published the PRSP in September 2005, but a prior draft version was incorporated in the MTDP in January 2005. Poverty reduction is conceptualized in terms of fulfilling 10 basic rights: the right to food, health, education, employment, housing, clean water, land, natural resources and a clean environment, security, and participation. The 10 basic rights are reflected in 10 targets, and it is evident from the list that service delivery is key to achieving them. The Government's challenge now is how to operationalize the PRSP in the context of decentralization. This task forms the core of the work program of the National Development Planning Agency (BAPPENAS) Deputy Minister for Poverty Reduction, a position created in September 2005, underscoring the Government's commitment to addressing these issues.

3. **Decentralization and Poverty Reduction.** Indonesia embarked on an ambitious decentralization program in January 2001. Vast responsibilities were devolved to the local governments, now comprising 32 provinces and some 440 districts and cities. Decentralization was carried out with a “big bang,” often without adequate preparation or capacity development at either the local or central level and many gaps remain. The country governance assessment shows considerable variation across provinces and districts in their capacity to implement decentralized responsibilities, and a discrepancy between the standards for public services and the resources allocated to them.³ One of the objectives of decentralization is for local governments to become more responsive to the needs of their constituents. In Indonesia this goal is hampered by a number of constraints. At the local government level, the capacity to implement new responsibilities is often low. Furthermore, local responsibilities are not always clear.

4. The process of decentralization has the potential to greatly improve welfare through prompt service delivery to the people, especially the poor. In October 2002 the interministerial Poverty Reduction Committee (KPK) circulated an instruction to all subnational governments to establish local poverty reduction committees (KPKD).⁴ The instruction stipulated that each KPKD should develop a local poverty reduction strategy (SPKD), but it lacked clear guidance on what a poverty reduction strategy is, why it is important, and how to go about preparing one. As a result,

¹ ADB. 2005. From Poverty to Prosperity: A Country Poverty Assessment for Indonesia (draft). Manila.

² The TA first appeared in *ADB Business Opportunities* (internet edition) on 3 August 2005.

³ ADB. 2004. *Country Governance Assessment Report, Indonesia*. Manila.

⁴ Ministry of Home Affairs (MOHA) letter no. 412.6/2489/SJ. 30 October 2002.

the directive is being implemented in some districts but not in others, and the quality of the SPKDs varies dramatically. As of May 2005, 316 of some 440 districts had established a KPKD, but only 99 of those had prepared an SPKD. Only 14 of 32 provinces had prepared a provincial SPKD.

5. **Pro-Poor and Participatory Budgets.** While most local governments in Indonesia are committed to improving service delivery, there remains a gap between such statements and the way in which local governments plan, raise, and spend their resources. Budgets are the central tool for planning and managing resources. Integrating a pro-poor, participatory perspective can have profound implications for service delivery and poverty reduction outcomes. The requirement to produce an SPKD provides an opportunity for districts and provinces to ensure that budgets fund investments with poverty-reducing outcomes. It supports the MTDP 2004–2009 call "to mainstream poverty reduction efforts in the national economic agenda." Experiences in Brazil, South Africa, and elsewhere demonstrate that budgets based on increased participation, transparency, and accountability have real development results.⁵ Indonesia has begun to introduce participatory planning at various local levels through the *musrenbang*⁶ process, but the meetings focus more on local leaders' priorities than on enabling debate between community members and local governments. It is important to be realistic; when project affordability is not taken into account, the process results in little more than unrealistic, unfunded wish lists. SPKDs should be seen as action plans that are guided by national-level and provincial-level strategies, and budgets are a way to operationalize the plans.

6. Socialization of poverty and service delivery issues and broad participation in the SPKD and budget processes are key. Women's participation in budget planning and negotiating processes, often lacking, should be particularly encouraged.⁷ Local communities tend to lack information about development plans, budget allocations, and their entitlement to social services. A 2004 survey revealed that three quarters of poor respondents were unaware that there were channels for expressing concerns regarding service delivery.⁸ Local governments in turn should have access to examples of best practices in pro-poor service delivery, so as to learn from experiences elsewhere.⁹ Local governments also require citizen feedback mechanisms to assess their performance and to refine their targeting methods.

7. **Social Safety Nets.** While local planning and pro-poor budgeting are key steps for poverty reduction, national-level support for poverty reduction is also required. The Government recognizes that a large segment of the population remains vulnerable to shocks of all kinds, and particularly to price shocks. Anticipating that the October 2005 removal of fuel subsidies and subsequent price increases would have a major impact on lower income households, the Government rapidly designed and implemented a short-term unconditional cash transfer program for 15.5 million poor and near-poor households. It now seeks assistance in designing a medium-term conditional cash transfer (CCT) program. CCTs are an innovative form of social assistance that provides money to poor families contingent upon certain behavior, usually investments in human capital (such as sending children to school or regular visits to health centers). CCT

⁵ See papers and case study materials prepared for the ADB/IADB conference on Citizen Participation in the Context of Fiscal Decentralization: Best Practices in Municipal Management in Latin America and Asia. Kobe, Japan. September 2002.

⁶ Musyawarah Perencanaan Pembangunan (Development Planning Meeting).

⁷ The TA will incorporate lessons from ongoing TA 4479-INO (ADB. 2004. *Gender Responsive Public Policy and Administration*. Manila).

⁸ The governance and decentralization survey (undertaken in 32 districts of 8 provinces) is part of the Indonesian Decentralization Empirical Analysis (IDEA) Project, conducted by the World Bank together with the Centre for Public and Policy Studies at Gajah Mada University (see www.gdsonline.org).

⁹ The lessons from RETA 6072 (ADB. 2002. *Good Practice on Pro-Poor Service Delivery by Local Governments*. Manila) will be brought to bear here.

programs have dual objectives—immediate income support coupled with longer-term accumulation of human capital—and serve as a demand-side complement to the supply of health and education services. There is clear evidence of success from CCT programs in Latin America, where implementation has been centralized, bypassing local governments.¹⁰ How to design and implement an effective and efficient program in decentralized Indonesia will be a significant component of this TA.

III. THE PROPOSED TECHNICAL ASSISTANCE

A. Impact and Outcome

8. The TA impact will be improved access of the poor to quality social services and infrastructure in decentralized Indonesia. The outcomes are (i) local poverty reduction strategies that are operationalized, linked to a pro-poor and participatory budget process, and institutionalized in pilot districts; and (ii) a nationwide CCT program that provides income support to the poor while building human capital. The TA will build on lessons learned in work done to date, such as under the TA for Managing Regional Disparity in Economic and Poverty Reduction Programs under Decentralization,¹¹ and will closely coordinate with ongoing initiatives of ADB, including the planned Community and Local Government Services (CLGS) II. Other relevant activities include two regional TA projects: Institutionalizing Civil-Society Participation to Create Local Pro-Poor Budgets,¹² and Decentralization in Social Sectors.¹³ The TA will also liaise closely with other development partners, particularly through the Decentralization Support Facility (DSF).¹⁴

B. Methodology and Key Activities

9. The TA will have four outputs: (i) SPKD development; (ii) pro-poor budgeting; (iii) Institutional development for poverty reduction, and (iv) design and implementation of a national CCT program. The first two components are designed both to build on and to complement one another, and will be sequenced to allow lead time as well as overlap. They will be on a pilot basis in at least 12 district governments in two provinces. Lessons from the pilots will be disseminated widely. The district selection method will be developed at TA inception, considering (i) districts targeted for assistance under other ADB initiatives, (ii) a mix of districts that demonstrate strong commitment and some that have weaker capacity, (iii) clustering, and (iv) Government priorities. The guiding principle will be to maximize synergies and avoid duplication with ADB and other development partners' initiatives.

¹⁰ Morley and Coady. 2003. *From Social Assistance to Social Development*. Washington DC: Center for Global Development.

¹¹ ADB. 2002. *Technical Assistance for Managing Regional Disparity in Economic and Poverty Reduction Programs under Decentralization*. Manila. TA 4067.

¹² ADB. 2004. *Technical Assistance for Pilot Project on Institutionalizing Civil-Society Participation to Create Local Pro-Poor Projects*. Manila. RETA 6170.

¹³ ADB. 2004. *Technical Assistance for Decentralization in Social Sectors*. Manila. RETA 6218. Other past and ongoing projects of relevance include the Local Government Support Program, PERFORM, and Building Institutions for Good Governance (United States Agency for International Development); Support for Decentralization Measures (GTZ); the Kecamatan Development Program and the Initiative for Local Governance Reform (World Bank); and Support to Poverty Reduction through Good Governance (Canadian International Development Agency). This list is not exhaustive, and a stocktaking exercise will be part of the TA inception period.

¹⁴ DSF is a multidonor initiative of Department for International Development (United Kingdom), World Bank, ADB, and others to promote aid coordination and harmonization in activities related to decentralization.

10. **Component 1: SPKD Development.** Indonesia's local governments are instructed to produce local poverty reduction strategies. The TA will develop a capacity development program to assist at least 12 local governments to produce a useful SPKD that informs resource planning and allocation. Activities will be undertaken in accordance with the KPK instructions and will include (i) detailed poverty analysis and mapping of the extent of deprivation, service levels and shortfalls, incomes, access, employment, and so on; (ii) consultations with the poor to prioritize local needs by geographic area, by sector, by sex, by social group, and so on; and (iii) training of trainers and on-the-job capacity development to allow for the annual preparation of SPKD in the future. Based on the pilot activities, this component will develop detailed guidance manuals, checklists, and useful tools to support other local governments in the SPKD preparation process.¹⁵

11. **Component 2: Pro-Poor Budgeting.** This component will operationalize the SPKD prepared for each pilot district by developing mechanisms to link it to the budget. The TA team will first define the scope and process for pro-poor budgeting—the likely financial space for such activity in regional (provincial/district/city) governments, and any potential central government contributions. The work program will include (i) reviewing the legal and regulatory framework for planning and budgeting at the local government level, (ii) assessing the financial implications of the needs identified in the SPKD (taking into consideration minimum service standards and targeting mechanisms), (iii) deriving options for improved service delivery, (iv) designing and implementing training for consultative and participatory budget processes that involve men and women, (v) institutionalizing the participatory processes (e.g., developing local pro-poor regulations), and (vi) obtaining legislative endorsement of the results of the process. The emphasis in component 2 will be on enhancing the interface between district, provincial, and national governments. As in component 1, activities in the pilot districts will result in guidance manuals, tool kits, etc.

12. **Component 3: Institutional Development for Poverty Reduction.** To support the other TA components, the TA team will implement a program of institutional development and advisory work under two broad themes: (i) operationalizing the national poverty reduction strategy, and (ii) best practices in pro-poor service delivery. Theme (i) will support the work program of the BAPPENAS Deputy Minister for Poverty Reduction. Theme (ii) will examine best practices in pro-poor service delivery, with both international and Indonesian case studies and lessons learned. This component will also involve designing and piloting methods for citizen feedback and monitoring of service delivery (such as report cards) in the 12 districts of components 1 and 2. Findings in component 3 will be distilled in a series of seminars and workshops, and publications and tool kits for wide dissemination and replication.

13. **Component 4: Designing a CCT program.** The TA team will work with the BAPPENAS Deputy Minister for Poverty Reduction to design options for a comprehensive, efficient, and effective CCT program to cushion the impact of fuel price increases on the ultrapoor, the poor, and the near-poor. Component 4 will begin with an in-depth review and evaluation of (i) Indonesia's unconditional cash transfer program (launched in October 2005);¹⁶ (ii) CCT programs in other countries, with a focus on the Latin American experience and their built-in monitoring and evaluation mechanisms; and (iii) Indonesia's past social assistance programs. Targeting and delivery should be particularly emphasized. The review will inform new program design options for possible implementation on a pilot basis. The design options will consider the replicability of CCT

¹⁵ Coordination with United Nations Development Programme, World Bank, and the Government's initiatives is key.

¹⁶ Unconditional cash transfers are distributed to the poor with no attached conditionality: 15.5 million poor and near-poor households are now receiving quarterly payments of Rp300,000 through the post office.

program successes under different conditions—particularly in the Indonesian context of decentralization.

C. Cost and Financing

14. The total TA cost is estimated at \$2,625,000 equivalent, comprising \$1,285,000 in foreign exchange and \$1,340,000 in local currency. The TA will be financed on a grant basis by ADB's TA funding program (\$1,800,000) with cofinancing from the Government of the United Kingdom (DFID) in the amount of \$300,000, administered by ADB. The Government will contribute \$525,000 equivalent to fund counterpart staff salaries and travel, office facilities, and administrative services. Detailed cost estimates and the financing plan are in Appendix 2.

D. Implementation Arrangements

15. The Executing Agency for the TA will be the Deputy Minister for Poverty Reduction, BAPPENAS, working closely with the Deputy for the Coordination of Poverty Reduction of the Menkokesra. A project management unit will be established within BAPPENAS. The TA steering committee will comprise officials from BAPPENAS, Menkokesra, KPK, Ministry of Home Affairs, and Ministry of Finance. Inclusion of representatives from the Central Bureau of Statistics (BPS) and from associations of regional governments is also encouraged. The steering committee will meet regularly to guide TA implementation. The consultants will coordinate closely with the efforts of other development partners, particularly in CCT issues.

16. ADB will use the full technical proposal and quality-based selection to engage a firm (or consortium) of international and domestic consultants in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for engaging domestic consultants. A total of 48 person-months of international and 96 person-months of domestic consulting services are anticipated to be required to implement the TA. Draft outline terms of reference (TOR) for the consultants are in Appendix 3. The work is expected to start in March 2006 and continue for 18 months. The TORs will be fine-tuned during TA inception. The consultants will submit an inception report by the end of month 1, outlining a clear work program and schedule of the deliverables for the TA. The consultants will submit a midterm report by the end of month 9, a draft final report by the beginning of month 18, and a final report by the end of Month 18. All major reports will be produced and disseminated in both Bahasa Indonesia and English. The TA will implement comprehensive dissemination and outreach activities, including workshops and seminars, tool kits, manuals, and other publications. The TA will explore electronic means of dissemination, possibly through existing websites, and will contribute to sustainable capacity building through training of trainers who will serve as resource persons once the TA is completed.

IV. THE PRESIDENT'S RECOMMENDATION AND DECISION

17. The President recommends that the Board approve the provision of technical assistance (TA) not exceeding the equivalent of \$1,800,000 on a grant basis to the Government of Indonesia for Pro-Poor Planning and Budgeting. If the Board approves ADB providing the TA, the President, acting under the authority delegated by the Board, will approve ADB administering the balance of the TA not exceeding the equivalent of \$300,000 to be financed on a grant basis by the Government of the United Kingdom for Pro-Poor Planning and Budgeting, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Improved access of the poor to key social services and small-scale infrastructure in decentralized Indonesia</p>	<p>There are improved MDG indicators in health, education, and water and sanitation, and in women's empowerment.</p>	<p>Annual socioeconomic surveys, including the SUSENAS.</p> <p>Regular MDG reports prepared by the Government</p>	<p>Assumption</p> <p>Central and local governments remain fully committed to poverty reduction, and pro-poor budgeting methods are rolled out to all local governments.</p>
<p>Outcomes</p> <p>(i) Local poverty reduction strategies are operationalized, linked to a pro-poor, gender-sensitive and participatory budget process, and institutionalized in selected districts.</p> <p>(ii) A nationwide CCT program provides income support to the poor while building human capital.</p>	<p>(i) An Administrative Order issued, encouraging local governments to adopt a pro-poor and gender sensitive planning and budgeting process.</p> <p>Local government budgets contain provisions for the SPKD process in subsequent years.</p> <p>From 72% in May 2005, 90% of local governments have established a KPKD.</p> <p>From 31% in May 2005, 50% of KPKD have launched the SPKD process.</p> <p>(ii) The national government budget contains provisions for a CCT program for the poor.</p>	<p>National government budget documents</p> <p>Record of Government administrative orders</p> <p>Local government budget documents</p> <p>KPK reports.</p>	<p>Assumptions</p> <p>National Government commitment to a participatory resource allocation process continues.</p> <p>The LGFGR-SDP project supports and strengthens the Indonesian legal and regulatory framework for planning and budgeting.</p> <p>National Government continues to be committed to removal of inefficient fuel subsidies.</p>
<p>Outputs</p> <p>1. SPKD are developed and agreed upon for selected districts.</p> <p>2. Pro-poor, gender sensitive, and participatory budgets are developed and adopted for selected districts.</p>	<p>1. At least 10 SPKD are developed and approved by local governments.</p> <p>2. At least 10 approved budgets demonstrate a more pro-poor and gender sensitive resource allocation than in previous years.</p>	<p>PMU reports</p> <p>TA review missions</p> <p>Local government budget documents</p> <p>National government administrative orders</p>	<p>Assumption</p> <p>Local parliaments endorse the pro-poor and participatory planning and budgeting approach, and sign off on budgets prepared in this manner.</p> <p>Risk</p> <p>The outcomes of</p>

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>3. Institutional development in undertaken to operationalize poverty reduction strategies and to build capacity in pro-poor service delivery.</p> <p>4. A national CCT program (based on best practices) is designed, pilot-tested, and adopted.</p>	<p>3. Seminars and workshops are organized on poverty reduction strategies, best practices in pro-poor and gender sensitive service delivery, and methods for assessing consumer satisfaction</p> <p>4. Government adopts a plan for CCT program implementation.</p>	<p>TA publications and websites</p>	<p>participatory budget processes are not acceptable to local governments and/or parliaments (see Activity 2.4 for mitigation).</p>
<p>Activities with Milestones</p> <p>1.1 Assess SPKD requirements and review existing SPKD (month 2). 1.2 Work with BAPPENAS and KPK to develop SPKD guidelines and training program for KPKD (month 4). 1.3 Carry out a program of capacity building for SPKD development (month 8). 1.4 Develop SPKDs in selected districts and support their approval (month 10). 1.5 Using electronic methods, publish and disseminate best-practice SPKDs.</p> <p>2.1 Take stock of the legal and regulatory framework for planning and budgeting by local governments (e.g., the Musrenbang) (month 2). 2.2 Develop pro-poor and participatory budgeting guidelines and tool kits, especially linking budgeting to SPKD (month 7). 2.3 Implement a capacity-building program for pro-poor and participatory budgeting (month 9). 2.4 Support the development and approval of pro-poor and participatory local budgets with consensus-building mechanisms (month 14).</p> <p>3.1 Implement an institutional and capacity development program on operationalizing poverty reduction strategies (months 1-18). 3.2 Implement an institutional and capacity development program on improving service delivery, including best practice case studies and pilot-testing methods for end-of-cycle citizen feedback and monitoring (months 1-18). 3.3 Produce a series of publications, workshops, seminars, training programs, and other methods of knowledge exchange and disseminate information widely using electronic methods (websites, etc.) (months 1-18).</p> <p>4.1 Review experiences with unconditional cash transfers, CCT programs, and general social safety net programs and assess lessons learned (month 3). 4.2 Undertake a series of workshops and seminars with central Government agencies and other development partners to present and discuss options for a CCT program for Indonesia (month 6). 4.3 Design and pilot-test public education and socialization programs around the concept of CCTs (month 10). 4.4 Support the launch and implementation of the final agreed-upon CCT program (TBD, based on Government's schedule of implementation).</p>			<p>Inputs</p> <ul style="list-style-type: none"> • ADB TA grant of \$1,800,000 • Government of Indonesia counterpart support of \$525,000 • Government of the UK cofinancing of \$300,000 • 144 person-months of international and domestic consultants • Workshops, seminars, training programs

BAPPENAS = National Development Planning Agency, CCT = conditional cash transfer, LGFGR-SDP = Local Government Finance and Governance Reform Sector Development Program, KPK = Poverty Reduction Committee, KPKD = Subnational Poverty Reduction Committee, MDG = Millenium Development Goal, Musrenbang = Development Planning Meeting, SPKD = local poverty reduction strategy, TBD = to be determined.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing ^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	1,056.0	0.0	1,056.0
ii. Domestic Consultants	0.0	480.0	480.0
b. International and Local Travel	70.0	45.0	115.0
c. Reports and Communications	0.0	12.0	12.0
2. Equipment	30.0	0.0	30.0
3. Training, Seminars, and Conferences	0.0	100.0	100.0
4. Surveys, Studies, and Publications			
a. Poverty Reduction Strategies	0.0	40.0	40.0
b. Improving Service Delivery	0.0	42.0	42.0
c. Publications and Dissemination	0.0	50.0	50.0
5. Administration and Support Costs	0.0	46.0	46.0
6. Representative for Contract Negotiations	6.0	0.0	6.0
7. Contingencies	123.0	0.0	123.0
Subtotal (A)	1,285.0	815.0	2,100.0
B. Government Financing			
1. Office Accommodation ^b and Transport	0.0	180.0	180.0
2. Remuneration and Per Diem of Counterpart Staff	0.0	180.0	180.0
3. Miscellaneous Administration and Support Costs	0.0	165.0	165.0
Subtotal (B)	0.0	525.0	525.0
Total	1,285.0	1,340.0	2,625.0

^a Financed by the Asian Development Bank's (ADB) technical assistance funding program, with cofinancing from the Government of the United Kingdom in the amount of \$300,000 administered by ADB.

^b Includes office space, office furniture (e.g., sufficient number of standard desks, chairs, bookshelves, closets, and lights), electricity, air conditioning, and working telephone lines (recurring costs paid).

Source: ADB estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Scope

1. The technical assistance (TA) will have four components: (i) support for local poverty reduction strategies; (ii) support for pro-poor budgeting; (iii) institutional development and capacity building with two main themes (poverty reduction strategies, and improving service delivery); and (iv) development of a conditional cash transfer (CCT) program. Work will be undertaken at all levels of government (national, provincial, district) and special emphasis will be given to enhancing the interface between various levels of government. Work with local research institutes, think tanks, and civil society is strongly encouraged.

B. Staffing

2. A consulting firm will provide at least 48 person-months of international consulting services. All international consultants will have relevant regional experience (particularly in working with local governments in a decentralized context) and a working command of Bahasa Indonesia. The team (person-months are in parenthesis) will comprise a poverty reduction specialist/team leader (15), a pro-poor budgeting advisor (14), a social safety nets specialist (8), a local government capacity development expert (6), and an institutional development specialist (5).

3. The consulting firm will further provide at least 96 person-months of domestic expert inputs, with a local government budgeting expert/deputy team leader engaged for the duration of the TA (18). All experts will have broad practical experience, drawn from the fields of poverty reduction planning, social assistance/social protection, local/regional development planning, decentralization and governance, institutional development, local government finance, pro-poor and participatory budgeting, capacity development, poverty assessment and targeting, and monitoring and evaluation. The deputy team leader and other long-term domestic experts will have a fluent command of both written and spoken English.

4. The consultant team's tasks in each component are as follows:

1. Local Poverty Reduction Strategy (SPKD) Component (international, 14 person-months; and domestic, 26 person-months)

- (i) Assess existing SPKD requirements, guidelines, and the state of compliance by local governments.
- (ii) Review a sample of existing SPKDs (both provincial and district level) looking at issues such as their overall quality, the processes under which they were prepared, whether they are being used as planning or budgeting documents, and what recommendations may be made to improve the final product.
- (iii) Work at the central level with National Development Planning Agency (BAPPENAS), Coordinating Ministry for People's Welfare (Menkokesra), and national poverty reduction committee (KPK) to refine SPKD guidelines and develop a comprehensive hands-on training program for producing SPKD in the selected districts. Coordinate with other development partners' projects that may have an SPKD component (e.g., Canadian International Development Agency, United Nations Development Programme, World Bank).

- (iv) Select local governments for SPKD assistance using selection criteria acceptable to both the Government and the Asian Development Bank.
- (v) Conduct an institutional analysis of the groups involved in SPKD development at the local level, with recommendations for improvement.
- (vi) On the basis of the institutional analysis, carry out a program of capacity building for participatory SPKD development.
- (vii) Support the development of SPKDs in selected districts (including poverty analysis and poverty mapping, assessment of service levels and shortfalls, analysis of incomes, access, employment, etc.). Facilitate participatory consultations with the poor and with civil society groups to prioritize local needs by geographic area, by sector, by social group.
- (viii) Support the approval of SPKDs by local parliaments.
- (ix) Publish and disseminate best practice SPKDs in hard copy and using electronic methods (e.g., websites).

2. Local Pro-Poor Budgeting Component (international, 14 person-months; and domestic, 26 person-months)

- (i) Review the legal and regulatory framework for planning and budgeting by local governments, and prepare a policy brief. Define the scope and process for pro-poor and participatory budgeting: the likely financial space for such activity in regional governments, any potential central contributions, and the process for endorsing such a document.
- (ii) Assess the financial implications of satisfying needs identified in SPKD (taking into consideration minimum service standards and targeting mechanisms).
- (iii) Conduct an institutional analysis of the groups involved in budget development at the local levels.
- (iv) Develop pro-poor and participatory budgeting guidelines and tool kits, especially linking budgeting to SPKD. Coordinate with other ADB activities that may be working on related issues.
- (v) On the basis of the institutional analysis, implement capacity-building development for pro-poor and participatory budgeting in the selected districts.
- (vi) Support the development and approval of pro-poor and participatory local budgets with consensus-building mechanisms.

3. Institutional Development Component (international, 10 person-months; and domestic, 24 person-months)

- (i) Develop and implement an institutional and capacity development program on poverty reduction strategies for Indonesia. This program should support the work program of the BAPPENAS Deputy Minister for Poverty Reduction, who is tasked with devising short-term and medium-term poverty reduction plans. Begin with a review of the national Poverty Reduction Strategy Paper (finalized September 2005) and past poverty reduction programs in Indonesia.
- (ii) Develop and implement an institutional and capacity development program on improving pro-poor service delivery, with two streams: (a) best practices, and (b) citizen feedback/monitoring mechanisms. Under (a) the emphasis should be replicable best practices, and the work should

be coordinated with other ADB projects and similar efforts by other development partners (e.g., World Bank) so as to avoid overlap. This research program will begin with a literature review and identification of issues in service delivery for the poor. Best practices should be drawn from Indonesia wherever possible. International best practices will come from similarly decentralized or decentralizing countries. Under (b) methods for assessing client satisfaction (especially poor clients) will be designed and tested in the target districts.

- (iii) Carry out institutional and capacity development through a series of workshops, seminars, training programs, consultations, publications, and use of electronic methods (e.g., websites).

4. Conditional Cash Transfer (CCT) Component (international, 10 person-months; and domestic, 20 person-months)

- (i) Evaluate Indonesia's unconditional cash transfer program (launched in October 2005), review CCT programs in other countries, and assess Indonesia's past social assistance programs [in the case of the latter, make use of analysis undertaken by other ADB TAs, and recent Asian Development Bank Institute (ADBI) reports]. Identify best practices to underpin the design of a new CCT program for Indonesia, paying particular attention to targeting methods.
- (ii) Design options for CCT programs in Indonesia, with detailed costing.
- (iii) Initiate a series of workshops and seminars with broad basis of stakeholders to present and discuss options for the new program design.
- (iv) Support the launch and pilot implementation of the agreed-upon program.
- (v) Develop a program for socialization and public education regarding CCT programs.
- (vi) Coordinate closely with other development partners, particularly the World Bank.

C. Reporting

5. The consultants will submit the following reports, in hard and electronic copies: (i) inception report (end of month 1), (ii) midterm report (end of month 8), (iii) draft final report (beginning of month 18), and (iv) final report (2 weeks after receiving comments on the draft final report). Other required reports include various institutional and capacity development materials prepared under the institutional development component (on poverty reduction strategies, and improving pro-poor service delivery); guidelines and manuals for preparing SPKDs; local poverty reduction strategies for at least 10 district governments; and other reports as may be reasonably requested (for example, a series of policy briefs on pro-poor budgeting, CCTs, and so on). The schedule for these reports will be determined at inception.