

## MANAGEMENT RESPONSE TO THE TECHNICAL ASSISTANCE PERFORMANCE EVALUATION REPORT FOR THE CAPACITY BUILDING TO SUPPORT DECENTRALIZATION IN INDONESIA

On 22 February 2006, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

### A. Overall Assessment and Key Issues

1. Management notes that the report describes the context and results of the TAs reasonably well, but has an overall impression that some weaknesses identified could have drawn operationally-oriented conclusions. While supporting the key lessons of the report, we find that some of the conclusions could have been taken one step further and some key lessons learned could have been explored in more detail.

2. The report notes that all four TAs dealt with issues that did not come under the exclusive responsibility of their respective executing agencies (EA). Given the general theme of the TAs—support for decentralization—and the conditions of rapid institutional change that prevailed in Indonesia at the time (and remain important today), this would have been impossible. TAs designed today will still require close cooperation with many other government agencies, and identifying the most appropriate EA is still quite challenging. The relevant conclusion is that when addressing decentralization, mechanisms of multi-stakeholder consultation and coordination need to be designed into the TAs and that, because of this, the resident mission is the natural lead. Current projects such as TA-4022: INO<sup>1</sup> on Sustainable Capacity Building for Decentralization spanning the Ministry of Home Affairs, and provincial and local governments, and TA-4762: INO<sup>2</sup> for Pro-Poor Planning and Budgeting spanning BAPPENAS, the Coordinating Ministry of Social Welfare, and provincial and local governments, recognize this multi-stakeholder environment and incorporate mechanisms for coordination. Thus, a more in-depth analysis of the issues involved in such coordination would have been useful. The issue is not one of finding a sole Government agency, but of setting the coordination right.

3. The fact that the two TAs attached to the investment loan ‘worked’, and the others for assistance to policy reform did not, indicates that, in times of rapid institutional change, it may be best to attach assistance to very concrete activities and, if policy assistance is required, it should be leveraged off concrete experience. It is likely that the Government will take more notice of advice emanating from those who are actually implementing activities and have a close relationship with stakeholders.

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<sup>1</sup> ADB. 2002. *Technical Assistance to Indonesia for Sustainable Capacity Building for Decentralization*. Manila.

<sup>2</sup> ADB. 2006. *Technical Assistance to Indonesia for Pro-Poor Planning and Budgeting*. Manila.

4. The report points out that the TAs were hastily prepared, for good reasons, and that they were implemented in a rapidly changing policy and regulatory environment. The conclusion that the traditional TA-instrument is not well suited to support reform in such a rapidly changing environment, as a TA normally is designed in detail up-front and leaves little flexibility to adjust to changed policies or regulations, is supported. The fact that adjustments to project design were made during implementation indicates some flexibility in the existing project administration systems. However, more elaboration could have been given to the need to look at different assistance modalities including “a phased series of interventions and interacting more effectively with development partners”.

5. The report concludes that ADB was not really competent in capacity building or decentralization at the time of the TA implementation. Capacity building requires long-term, continuous support which also allows for investment. Under Loan 1964-INO,<sup>3</sup> ADB provides long-term investment support for capacity building to 37 district governments and 10 provinces based on Capacity Building Action Plans. It targets to achieve among other things reformed civil service systems, upgraded training institutions, and improved training curricula and professional certification. We note that there is no reference to this lending operation in the report. The evaluation could have been designed to assess the broader issue of capacity building for decentralization rather than just TAs.

6. The question of decentralization and corruption is highlighted. With a different design than the traditional TA design and with a different kind of output than traditional consultant reports, TAs can contribute to sustainable capacity building in spite of their short life-span. One example is TA3842-INO,<sup>4</sup> which produced a new Auditing Manual for the Inspectorate General of the Ministry of Public Works that is now being used for the Ministry’s internal auditing. Another example is TA4341-INO<sup>5</sup>, which produced Standard Operating Procedures for the newly established Commission for the Eradication of Corruption (KPK). The procedures are in line with international good practices and provide more efficient methods for investigation than those used by the Police and prosecutors. The procedures became a key factor behind the success of KPK. We note that there is no reference to these TAs in the report.

## **B. Lessons Learned**

7. ADB’s Southeast Asia Department (SERD) is addressing many of the key concerns on fiscal decentralization, inconsistencies between laws and regulations and assignment of functions through recently approved and planned operations. Loan 2192/2193-INO<sup>6</sup> on Local Government Finance and

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<sup>3</sup> ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Republic of Indonesia for Sustainable Capacity Building for Decentralization*. Manila.

<sup>4</sup> ADB. 2002. *Technical Assistance to Indonesia for Strengthening the Capacity of the Ministry of Settlements and Regional Infrastructure to Combat Fraud and Corruption*. Manila.

<sup>5</sup> ADB. 2004. *Technical Assistance to Indonesia for Strengthening the Capacity of the Commission for Eradication of Corruption*. Manila.

<sup>6</sup> ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Republic of Indonesia for the Local Government Finance and Governance Reform Sector Development Program*. Manila.

Governance Reform (LGFGR) is an example. The forward looking roadmap under the LGFGR includes actions on local government level civil service reforms. The second phase of Loan 1678-INO<sup>7</sup> on Community and Local Government Support is also under preparation.

8. On the finding that ADB had limited experience in decentralization interventions and on the lesson that there should have been greater coordination with other development partners, we note these points relevant in general. However, in 1998-1999, given the big bang nature of the decentralization reforms, other external agencies also had limited experience in Indonesia. ADB was the lead institution supporting the adoption of Law 22/1999 on Regional Autonomy and Law 25/1999 on Regional Fiscal Balance. Attempts at development partner coordination have been strengthened over the years, and SERD will ensure timely consultations, dissemination of information, and feedback from other partners in the future.

### **C. Conclusion**

9. In conclusion, Management agrees with the ratings for the TAs. However, a more detailed analysis of the institutional context and systems, and a broader scope of the evaluation design would have been useful as a basis for more concrete lessons learned.

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<sup>7</sup> ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Republic of Indonesia for the Community and Local Government Support Sector Development Program*. Manila.