



FOR REVIEW PURPOSES ONLY

**DOCUMENTATION OF THE
INDONESIA CONSULTATION WORKSHOP**

DRAFT

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Though we have attempted to provide an accurate account, the attached document is preliminary and may contain errors or omissions. Please contact us with any corrections. Thank you.

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Appendix 1: ADB's Performance: Participants' Report Card

Appendix 2: Recommended Actions for Governance and Anticorruption

Appendix 3: Indonesia Consultation Workshop Agenda

NOTE: This document is primarily intended for participants of the workshop. Though others are welcome to consider the contents, the information will be less clear to people who did not attend the live event.

I. INTRODUCTION

1. On 27 October 2004, the Asian Development Bank, in collaboration with the Ministry of Finance, organized a country consultation workshop with a group of government and civil society participants in Indonesia to review the implementation of ADB's governance and anticorruption policies. The workshop was designed to gain responses from these stakeholders, not on the policies per se but on the implementation of those policies. The participants specifically identified major issues in governance and anticorruption, assessed ADB's progress, and recommended action to strengthen ADB's work in these areas.

2. The workshop provided six opportunities for participants to provide inputs:

- (a) **Changes in Governance.** As an ice-breaker, participants brainstormed important changes they have seen in governance and corruption in recent past.
- (b) **General Questions.** After presentations on ADB's country initiatives in good governance and anti-corruption and on the policies, the participants were invited to ask questions.
- (c) **Assessment of ADB's Contribution.** The first breakout session was a structured assessment of ADB's contribution in the form of a Report Card to Indonesia's achievements in good governance and anti-corruption.
- (d) **Recommended Actions.** The second breakout session was directed to providing recommendations on what ADB's priority actions and continue to do to implement its good governance and anti-corruption policies, by responding to a series of questions.
- (e) **Workshop Assessment.** At the end of the workshop, each participant was asked to fill out a simple response to the workshop itself.
- (f) **Additional Comments.** Also at end of workshop participants were invited to submit further personal responses. Some of these were presented orally, others in writing at the end of the meeting, a small number through email communications with the ADB team, and a select few who have contacted the resource person directly.

3. A normal indicator of the significance of a workshop is the timely arrival of participants. The program arranged for registration time of 1000, with a start at 1045. By shortly after 1000, most invitees were already seated and waiting to start. David Green, head of ADB's resident mission in Indonesia country took advantage of this by conducting a "soft opening" before 1030, to encourage the participants to read up materials provided.

II. QUESTIONS ASKED ON POLICY AND IMPLEMENTATION

4. The opening statement was given by David Green, Country Director of ADB Indonesia Resident Mission followed by an overview of the workshop, and the ice-breaker¹.

¹ For an ice-breaker the participants were asked to brainstorm the question: "*What significant changes have you seen in governance & corruption over the past 3-5 years that will be important into the future?*". In less

5. The participants were asked to brainstorm the question: “*What significant changes have you seen in governance and corruption over the past 3-5 years that will be important into the future?*”. In less than five minutes, the participants produced a list of thirteen items:

- Anticorruption
- Empower agriculture sector
- Empower quality of human resources
- Change culture
- Foreign investment
- Increase subsidies
- Even distribution of income
- Partnership
- Empower low level society
- Reconstruction of loan
- Change natural resource policy
- Transparency of loan
- Simplify license process

6. This was followed by presentations by Staffan Synnerström (ADB’s initiatives in Indonesia) and Asha Newsum (Background and Issues on ADB’s Governance and Anti-corruption policy). A brief question and answer followed.

7. The questions asked can be grouped into three issue areas:

- (a) **The Process of the Review.** Half of the questions addressed aspects of ADB’s review. The first question requested a summary of the outcome of ADB’s internal review. There was perhaps an element of sarcasm, as the ADB presentation had stressed the need for transparency in good governance, but ADB’s own internal assessment was not made available. The last question expressed concern that serious respondents to ADB’s request for feed back should be provided with better information.
- (b) **Dilemma of Ownership.** One of the NGO representative pointed out that ADB is only an outside donor, and both good governance and anti-corruption are entirely dependent on support from the highest level in government. When there is not the commitment of the leadership of government, is not ADB’s effectiveness measured not by reduction in less corruption or improvement in governance of ADB’s programs, but the influence that ADB can bring to bear on the President and cabinet to lead the good governance and anti-corruption effort?
- (c) **Specific Programs.** Two questioners came from opposite sides of one of ADB’s highest profile programs, STAR (promoting audit reform). The representative from BPKP (the President’s internal audit authority) asked for ADB to explain its motives for the STAR program, and the representative from BPK (the SAI) asked to which degree ADB was supporting the establishment of an INTOSAI-standard

than five minutes they produced a list of thirteen items: anticorruption, empower agriculture sector, empower quality of human resources, change culture, foreign investment, increase subsidize, even distribution of income, partnership, empower low level society, reconstruction of loan, change natural resource policy, transparency of loan, simplify license process.

SAI. The juxtaposition of the two questions illustrated the difficulty of an outside agency such as ADB in promoting good governance, when it needs both to work within the existing establishments, and promote best international practice.

III. FIRST BREAKOUT SESSION: ASSESSMENT OF ADB'S CONTRIBUTION TO INDONESIA'S ACHIEVEMENTS AND PERFORMANCE

A. Summary and Commentary on the Presentations

8. After the prayer break, participants sat at tables so that government officials were at two tables, NGO representatives sitting at one table, and business, academics and press representatives seated at a fourth table. The first breakout session started with a short briefing. Each group was asked to nominate three people, one as chairperson, one as group rapporteur, and one as secretary. Copies of ADB's 12 commitments on good governance and anti-corruption were provided to each participants. Each group was assigned three of these as its priority for discussion, with the option of using additional time on remaining commitments. On each commitment, they would make a brief qualitative assessment, and then described "lessons learnt". They would present conclusions back to the plenum after slightly less than an hour of deliberation.

9. The following paragraphs summarize the discussions. The Report Card follows in Appendix 1.

1. Ensure Country Leadership (LTSF)

10. The first commitment of ADB to be assessed is *to ensure country leadership and ownership of the governance and anticorruption development agenda*, and the question participants were asked:

Has ADB been a flexible and effective partner in supporting DMC's own governance and anticorruption programs through policy dialogue and lending and non lending services?

11. The respondents were assertive that ADB has not been effective, but laid the blame on the Indonesian government for not owning their espoused agenda for good government and anti-corruption. The NGO group considered that ADB was compromised in its anticorruption efforts, going forward on programs where corrupt practices were indicative. was illustrated by the lack of cases taken to courts concerning corruption in ADB programs.

12. ADB's dilemma was recognized. Flexibility means acceptance of a level of improper practice in order to assure programs go ahead. ADB is, after all, an external financing institution, and while it should be concerned for the proper use of its own funds, good governance and anti-corruption measures succeed with national leadership, not ADB conditions. The commitment of ADB is not one that it can really fulfill in each case.

2. Long-Term Approach (LTSF)

13. The second commitment of ADB to be assessed is *to take a long-term approach to achieving improvements in governance and anticorruption*, and the questions participants were asked:

Does the DMC have a long-term program (10 years +) for improving governance and combating corruption with ADB? Has ADB taken a long-term approach to capacity building in one or more sectors? – give examples

14. One of the government groups responded to this question. The questions demand yes/no answers, and the representatives of government answered yes to the first and no to the second question. The government has programs, its national development program (Propenas) and a growing number of laws on anti-corruption.

15. Later discussions indicated no long-term strategy for good governance and anti-corruption. There are plans here and there, for making new laws and implementing them, and targets for police arrests. But they are not integrated, and there is model of what a clean and effective government should look like. Assignment of responsibilities for making government more effective, especially to reduce corruption and to punish corruptors is generally not clear.

16. ADB has taken a relatively long-term approach to capacity building in several sectors, including audit and regional management. However, these are dependent on loan covenants for policy changes in areas where there is not yet real commitment by the government to comply. ADB has gone ahead with programs in the belief that negotiated loan conditions represented political commitment to policy change.

3. Systematic Focused Manner (MTAAP)

17. The commitment of ADB to be assessed is to *optimize impact of ADB's operations on poverty reduction by addressing key governance issues in DMCs in a systematic and focused manner*, and the questions participants were to be asked:

Has ADB's country governance assessment optimized impact of ADB's operations by enabling key governance, institutional development and corruption issues to be addressed in a systematic and focused manner?

Does ADB address key governance, institutional and anticorruption issues in the sectors in systematic and focused manner?

18. None of the groups addressed this question. The CGA for Indonesia has not yet been officially released, and members were given advanced copies in the papers handed out upon registration. The question could not be properly answered.²

4. Measure Development Impact (LTSF)

19. The commitment of ADB to be assessed is to *measure development impact of governance and anticorruption support*, and the question participants were asked:

Has ADB assisted the DMC develop indicators for measuring improvements in governance and in reducing corruption?

² ADB assigned most of the preparation of the CGA in September 2001, and with the exception of the chapter on justice and the courts, the first draft was completed in February 2002. Further funding (4 days) was found in June for adding the additional chapter, but late funding for workshops meant that the findings could not be discussed until October-November 2002. At the time, the draft was very well received, and many government officials urged ADB to make the report public as soon as possible to help them with their reform initiatives. It took ADB until October 2004 to produce the report. It does not require a workshop to conclude that ADB's CGA has done nothing to optimize anything in ADB, though the CGA in draft form has already been recognized as addressing good government and anti-corruption measures in a systematic and focused manner.

20. The input from the business-academia-press group respected that ADB has assisted Indonesia to develop some indicators. But no information on indicators was presented to them in materials for the workshop. Their experience (including some as consultants for ADB projects) could not bring them to conclude on any simple indicators that could be used.

5. Demonstrate Zero Tolerance for Corruption (MTAAP)

21. The commitment of ADB to be assessed is to *demonstrate to borrowing DMCs the cost of corruption and the value of eliminating it by setting an example of zero tolerance for it in ADB's own activities; promote spread of good internal financial and other control systems to DMCs by encouraging their use in all agencies involved in ADB related activities*, and the questions participants were asked:

Does ADB set an example of zero tolerance for corruption?

Has it promoted spread of good internal financial and other control systems in agencies involved in ADB activities?

22. The NGO group stated that ADB still condones corruption by continuing programs known to have corrupt practices. They recognize the improvement in financial controls, but that is not the core of the problem. They recognize the social dimensions of the problem—changing the minds of people involved in projects so they do not want to be corrupt.

23. The business representatives expressed a very strong interest in helping ADB establish its zero-tolerance policies, but would require ADB to engage them actively in the monitoring processes.

24. Neither of the government tables presented a direct response to this question, but responses to other questions indicated appreciation of ADB's intention of promoting zero tolerance to corruption in projects and programs, but questioned the level of resources that ADB allocated locally to support a zero-tolerance policy.

6. Enhance Strategic Alliances (LTSF)

25. The commitment of ADB to be assessed is to *enhance strategic alliances and partnerships with the international development community in governance and anticorruption*, and the questions participants were asked:

Has ADB and other donors (*sic*) assisted the DMC develop a coordinated governance and anticorruption strategy and supporting programs.

Has ADB conducted joint assessments and harmonized systems and processes with other donors?

26. One of the government groups recognized several efforts at improved inter-donor coordination and harmonizing systems, mentioning CPPR as one case. The recorded answer to the first question was a simple NO. While donor coordination was desirable, and joint efforts appreciated, some members said, it was improper for donors to develop joint strategies on anti-corruption strategies.

7. Empower the Poor (PRS)

27. The seventh commitment of ADB to be assessed is to *empower the poor people and civil society organizations through processes used to identify and design projects*, and the question participants were asked:

Are ADB processes effective for empowering poor people and civil society organizations to identify and design projects?

8. Ensure Stakeholder Participation (PRS)

28. The eighth commitment of ADB is related to it, to ensure stakeholder participation to establish priorities and poverty reduction targets, and help direct project identification and design, and the question participants asked:

Does ADB's processes (*sic*) help the DMC identify and involve stakeholders (government, civil society and poor people) establish priorities and poverty reduction targets, and help direct project identification and design.

29. The subtle differences between these two commitments were not specifically communicated to the forum. No group decided to respond to empowerment issue, and the response to the effectiveness question was answered in two short sentences—there is participation, but not at the loan agreement level. On other subjects, a number of participants commented on empowerment of the poor and effectiveness of ADB's processes. NGOs were very supportive of ADB's concerns for participation, but ADB's concept of how poor people and civil society organizations can contribute was still elementary and hard to implement. Involvement of stakeholders is needed throughout the whole cycle of the project: needs assessment, planning, signing of the loan, implementation, monitoring, evaluation.

30. The loan preparation process has not changed to cater for participation. Involvement of the poor and NGOs is merely added at various points along the way. ADB preparation process still dominates, instead of the political processes in regions involving governments and politicians with their stakeholders (the sovereign people) for identifying needs, developing strategies, assessing fiscal capacities and alternative means of financing (including ADB borrowing) before local decisions are presented to higher level governments before loans are agreed as may be required by law. This domination contributes to the lack of commitment of governments while the people remain committed to loan repayments through taxes.

31. Speakers mentioned the lack of involvement of society (including the press and business community) in monitoring and assessment. Involvement of the community is most desirable in detailed design. (Here it is worth noting that ADB has supported the piloting of school boards that assure community input into grassroots level education policy, implementation and review, but that this simple and effective model has yet to be enhanced for other sectors such as infrastructure.)

9. Introduce Transparent Procedures (PRS)

32. The commitment of ADB to be assessed is to *introduce transparent procedures that ensure full disclosure of information for all dealings with public sector entities*, and the question participants were asked:

Are there transparent procedures in the DMC and in ADB for full disclosure of information on dealings with public sector entities?

33. The forum did not explore all aspects of this issue, but made a number of insightful comments. The first was that ADB procedures assure a high level of openness within the project environment, that is, between the government, consultants and ADB. But “civil society does not have an idea whether these procedures are being implemented proper”. There is a serious lack of overall transparency.

34. The second was the assertive offer of the business community to assist in monitoring.

35. The vice regent of Solok in West Sumatera indicated that his award-winning government, with assistance from Transparency International and others, had made significant progress in its anti-corruption drive by improving transparency and working with the community. He did not mention the role of ADB.

10. Improve Public Expenditure Management (PRS)

36. The commitment of ADB to be assessed is to *improve public expenditure management at central and local levels*, and the question participants were asked:

Has ADB maximized opportunities for improving public expenditure management at central and local levels in the DMC?

37. The government group responding to this question acknowledged the ADB programs mentioned in Staffan Synnerström’s earlier presentation.

11. Support Decentralization and Local Empowerment

38. The commitment of ADB to be assessed is to *increase government accountability through support for fiscal decentralization and local empowerment*, and the question participants were asked:

Has ADB prioritized support for fiscal decentralization and local empowerment?

39. It is indicative of the extent to which Indonesia’s bold decentralization program is accepted, despite all its difficulties and unresolved issues, the participants did not address ADB’s considerable support for decentralization through a succession of technical assistance programs dating from 1999. There was only passing reference to the Sustainable Capacity Building for Decentralisation program, not to illustrate ADB’s support for decentralization, but as one of several programs where ADB could improve its good governance and anti-corruption initiatives.

40. One of the government groups proposed that ADB should establish a complaints desk in RMI, and means of handling complaints in each region where ADB has projects, and could even assist in creating a whistle-blower protection program for whistle-blowers in regions.

12. Strengthen ADB’s Capacity (MTAAP)

41. The commitment of ADB to be assessed is to *strengthen ADB’s capacity to effectively address governance issues*, and the questions participants were asked:

Does ADB have adequate capacity in the Resident Mission and in ADB Head Office in Manila to address governance and anticorruption issues?

Do the governance and anticorruption consultants contracted by ADB have adequate capacity to assist the DMC?

42. The answer of the business-academia-press group was a polite but clear no to the first question. To have a good governance office in Manila with only eight people, and to have one albeit it senior and expert person in RMI, would not seem adequate.

43. In answer to the second question the participant stated they had no direct knowledge of consultants, knew nothing of their background, and nothing about their recruitment processes. Such a question should be directed to people with more direct knowledge.

B. Concluding Comments on Performance Assessment

44. All groups at one point or another expressed concerns on two accounts. Firstly was the lack of information available to make genuine assessment as requested, and secondly that ADB may use the results of this workshop to legitimize what it is doing.

45. Few of the participants indicated appreciation of how dramatic are the changes in public sector management that Indonesia is introducing through Law 17/2003 on financial management. Comments indicated that participants understood public expenditure management was covered by the Presidential decree on budget implementation, such as procurement procedures, rather than performance budgeting, medium term expenditure frameworks, institutionalized performance reviews, modernization of treasury, and rigorous audit and accountability systems.

IV. SECOND BREAKOUT SESSION: RECOMMENDED PRIORITY ACTIONS AND RESULTS FOR THE MEDIUM TERM ACTION PLAN FOR GOVERNANCE AND ANTICORRUPTION (2005-2009)

A. Summary and Commentary on the Presentations

46. Directly after the conclusion of the plenary reports from the first breakout session, the participants were introduced to their second discussion topics. A set of questions was provided covering four topics for participants to make recommendations. Each of the four groups was asked to comment on the fourth topic—programs and projects—and at least one of the other three. They would present conclusions back to the plenum after slightly more than an hour of deliberation.

47. The recommended priority actions follow in Appendix 2.

1. ADB's Priorities

48. The participants addressed three questions about ADB priorities, with the third question divided into five specific topics.

a. ADB's Comparative Advantage

49. The first question on ADB's priorities was:

What is ADB's comparative advantage in improving governance and combating corruption in Indonesia?

50. The participants found no comparative advantage. Contrarily, they saw disadvantages, measuring them in the number of ADB projects that have proven to be unsustainable. The translation of one of the comments, from a government official, was a "clearly strong protest to ADB from society being cheated from ADB program..." and called for ADB action to improve its own situation. The business community compared ADB's approach to Japanese assistance that was culturally more sensitive. ADB was not seen culturally as Asian.

b. Long-Term Partnership

51. The second question on ADB's priorities was:

Should ADB to have a long-term partnership with Indonesia for improving governance and combating corruption in Indonesia? And what could ADB's role be?

52. Two contrasting responses came from the government and business. The government looked to ADB as a big brother, and called for a plan for better cooperation, where ADB became an integral part of the process of improving government systems of solving problems. ADB's role would be not just financier, but also as promoter of best practices as well. Business did not agree with this outlook. Indonesia as a sovereign state must introduce good governance and anti-corruption itself, without partners. Assistance of ADB should have a clearly defined role as creditor, counselor and observer.

53. Each has its own definition of the term partnership. The business community, from whence the term has come to us, refers to arrangements that combine responsibilities and authorities. ADB, the government and the NGOs used the term partnership to refer to any arrangement of working together.

c. Areas of ADB's Priorities

54. The third question on ADB's priorities was:

What should ADB's priorities be across the following work areas: a) governance and anticorruption policy dialogue; b) loans to improve governance and combat corruption; c) technical assistance to improve governance and combat corruption; d) addressing governance, institutional development and corruption in sector loans and technical assistance; or e) other areas (please provide supporting details)

55. Only one group (representing government agencies) responded on each item, with individuals from each group adding additional comment.

- (a) **Governance and Anticorruption Policy Dialogue.** Wider dialogue was clearly seen as a priority for promoting zero tolerance for corruption, to set clear and commonly accepted targets for performance of ADB programs. ADB should engage in wider dialogue on blacklisting policies and practices and loan closures, where currently there is lack of transparency, and dialogue confined to the ministry affected.

- (b) **Loans to Improve Governance and Combat Corruption.** While participants generally supported ADB's efforts to direct loans to support improved public sector management, accountability systems and improved law enforcement, they placed a lower priority on this than on the other four matters (dialogue, technical assistance, sector-specific governance issues, and others). One of the commentators complained that loans are often not well prepared, and then the project is directed by its matrix rather than flexible agreements and strategic planning used to reach agreed benefits of the program. This has been the fault of both parties, ADB and the government. Loans on good governance are at such risk, and would need very careful design.
- (c) **Technical Assistance to Improve Governance and Combat Corruption.** The group agreed with the need for both local and international technical assistance, but this comment should be contrasted with commentary from the other government group reported below under programs and projects. The priorities for such TA would be dependent on the government's priorities, not ADB's priorities.
- (d) **Addressing Governance, Institutional Development and Corruption in Sector Loans and Technical Assistance.** Participants agreed ADB should prioritize sector-specific governance considerations without elaborating.
- (e) **Other Areas** (please provide supporting details). The participants again took the opportunity to stress the need for improved community participation, especially in assuring that good governance policies are introduced.

56. The first tone of disapproval for loans was expressed at this point. The lead group stated that good governance and anti-corruption measures are best supported through grants rather than loans.

57. The following additional comments are added by the resource person:

- (a) ADB has supported excellent dialogue on good governance and anti-corruption on several occasions—CGA, the corporate plan for MoF, anti-corruption in procurement—but these have been project or TA oriented without any sustainability. Both the CGA and the anti-corruption initiative in procurement provided the opportunity for ADB to promote annual dialogues on subjects that are dynamic by nature, and could give ADB a high-profile exposure as a proponent of good governance and anti-corruption.
- (b) Capacity building loans have traditionally been high risk endeavors, both in terms of corruption within their management, and in terms of sustainability. The current SCBD program should also be considered at risk because the government has passed new policies that indicate lack of commitment to its loan covenants.
- (c) TAs have traditionally been offered by donors rather than requested by government, indicating they may not be related directly to the government's strategies for implementing policy (if indeed the government has developed any strategy).
- (d) The issue of governance of sectoral programs is a major area for study, and there was neither the time in the workshop nor the appropriate instruments for participants to respond to this matter. Further deliberation in each sector is recommended.

2. Governance Analysis, Indicators and Harmonizing Processes with Other Donors

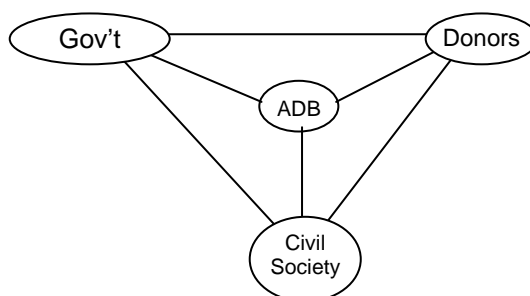
58. Groups were asked two questions under this item, both of which generated more discussion than any other topic of the day, though the discussion did not stick strictly with the scope of the questions. The NGO group in particular had generated the direction of its discussions that it used the questions placed before them to begin to develop a major theme of the feed-back—moving from lending to granting.

a. Harmonize with Other Donors

59. The first question on Analysis, Indicators and Harmonizing was:

What are the priority areas for ADB to harmonize systems and processes for governance and anticorruption with other donors?

60. Rather than emphasizing priorities of harmonization between donors, they emphasized priorities of the harmonization of the systems and processes, where other donors represented only one of the major stakeholders, as illustrated in the accompanying figure. The NGO group were generous in the role they propose that ADB could play, that of a catalyst between government, civil society and donors, represented in the accompanying diagram. ADB, if it wants to, can assist bring the players together. What is important is not simply the harmonization of donor systems, but making government systems work for the people.



61. The systems to be prioritized were corruption prevention and corruption watch systems, human resource systems and reporting systems, with emphasis on performance monitoring and transparency. Wherever possible, international standards should be used, as the basis for both Indonesia and the different donors to agree on harmonized systems.

62. The NGO group complained that ADB continued to give loans to people who had proven in the past to be irresponsible with loan funds, without insisting that the culprits be caught and dealt with, or even producing supporting evidence to help their prosecution.

63. Following on their earlier assessment that ADB has no comparative advantage, participants suggested that ADB may succeed more if they granted instead of lent, especially on supporting the poor. As Indonesia's debt is so high, and so much of it for corrupted projects where the people have not gained the proper benefit, perhaps it is time, they said, for ADB to agree to waive loan repayments where loans had been corrupted and ADB had not supported prosecution of those guilty.

b. Analysis and Indicators

64. The second question on Analysis, Indicators and Harmonizing was:

Should ADB provide support for: (a) DMCs to be able to conduct analysis and research on the governance, institutional and corruption constraints to poverty reduction and pro-poor growth. (b) DMCs to have a few simple and effective indicators, such as corruption,

public expenditure management, quality of services, and business climate and to deliver performance information to citizens through monitoring and evaluation systems.

65. This question is structured so that it is hard not to just say yes. But the NGO group found a way, and stated that what is needed more than research and indicators is advocacy. Already available information is not being used effectively to promote change.

66. In a discussion after the workshop and before breaking of the fast, some participants expressed concern that donor assisted research could actual divert government attention away from performance. While research and indicators are important, Indonesia's own priority must be on public sector management reforms that focus on performance. There already are many indicators of corruption, but this does not seem to increase the number of prosecutions or reduce corruption. Assistance to NGOs to conduct research to improve the quality of their inputs to government and to increase public awareness is one option, but this would require grant rather than loan.

3. Country Strategy

67. The multi-part question on Country Strategy was:

What are the key improvements in governance and anticorruption that can be made to the country strategy and program for a DMC. For example, is it important for the country strategy and program (CSP) to include:

- (a) Sector specific governance, institutional and corruption analysis?
- (b) Should ADB continue with country governance assessments?
- (c) Governance and corruption risk mitigating measures to protect the investments proposed in the portfolio, and ensuring these are monitored and reported on during the annual portfolio reviews.

68. This question did not receive as much coverage as one may have anticipated. The brevity of response, perhaps, is because the country strategy means far less to any of the participants than to ADB. The government group leading response to this question had started its participation in the workshop positively, but as the day went on, became more and more critical.

a. Sector Specific Governance, Institutional and Corruption Analysis

69. The group agreed strongly to more coverage of sector-specific governance issues in the country strategy. Governance issues can have different fundamental principles in each sector, and analysis is needed on how they are applied. Business development programs and audit support were cases cited.

b. Country Governance Assessments

70. The group stated that the Country Governance Assessment (CGA) was not necessary, nor was there need for ADB to strengthen the audit institutions.³ Supervision by DPR and civil society was improving, and this, rather than CGA, was important.

³ A major contributor to this lead group was from BPKP. The CGA, which was handed out at the beginning of the meeting, states "the primary issue concerning BPKP is whether or not its staff, facilities, and other resources are appropriate for its mandate.... There is duplication of effort between BPKP and inspectorates general of ministries (and internal auditors of regions). After decentralization BPKP clearly has a significant excess staff...." It also

71. It was added that the role of BPK also was essential, and as a high institution of state also had the role of auditing the DPR itself. The role of the BPK is not defined by ADB, but by the Indonesian constitution.

c. Risk Mitigating Measures

72. The group's response to this question was to recognize that ADB needs to consider its lending risks.

4. Programs and Projects

73. The question on Programs and Projects was:

In the areas of governance and corruption, what are the improvements that ADB should make in the preparation, implementation and monitoring of projects and programs?

a. Incorporate Sector-Specific Governance Issues

74. The participants were asked to consider what improvements ADB should make to:

Incorporate sector-specific governance, institutional and corruption analysis to inform the specific governance, institutional and anticorruption measures, the risks and mitigation measures and the feasibility of reforms proposed.

75. The group answered yes, because good governance and corruption are related to each other. ADB did not present the workshop its own findings on corruption of ADB projects in Indonesia, and analysis of this is important before proceeding with a new program. The group indicated that many PPTA failed to make a correct analysis of problems, and the government could often make better analysis without consultants. Good theory alone does not produce a well-designed project.

76. A handful of individuals presented reflections on specific sector governance issues such as in environmental programs and micro-credit where there is already an oversupply of funds available, and where the government, regional governments and ADB could improve governance without having to add unnecessary funds.

b. Increase Technical Assistance for Project Preparation

77. The participants were asked to consider what improvements ADB should make to:

Strengthen and increase technical assistance for project preparation that will enable the DMC to address governance, corruption, and institutional issues effectively.

78. The government group was emphatic that no technical assistance was needed, meaning that Indonesia itself had the resources and did not need international help. This view contrasted with earlier contributions by the other government group, and was complemented by the business-academia-press group that called upon ADB to make greater use of them in all aspects of programs.

recommends consideration of transferring some BPKP professional staff to the police, to increase its capacity to investigate cases of corruption. This is likely to be the reason for associating CGA and the audit program in one sentence. Some officials in BPKP see the CGA and this program as contrary to their interests.

c. Enable Stakeholder Participation

79. The participants were asked to consider what improvements ADB should make to:

Create the enabling environment for DMCs to involve stakeholders in project/program design, implementation, monitoring, and review; and, ADB to monitor and report on quality of stakeholder participation in all program/project monitoring and review missions.

80. The lead group was emphatic that the public-participation institutions Indonesia is developing were credible. In particular civil society and democratic institutions were increasingly involved in all aspects of government, not just ADB programs considered in isolation from the rest of government. The question implies that ADB programs should have special treatment that is not warranted.

81. The business-academia-press group did not agree. They saw that it is still necessary to introduce specific measures for stakeholder participation in ADB programs, and that ADB has a right to know the extent of that participation in its programs.

d. Indicators, Monitoring and Reporting

82. The participants were asked to consider what improvements ADB should make to:

Assist major executing and implementing agencies in the DMC introduce appropriate indicators and monitoring and reporting systems that demonstrate levels of transparency and accountability.

83. The government group again said there was no need. The argument was that ADB should not require the creation of special indicators and monitoring systems for its programs, rather should depend on common national policies on indicators and monitoring. A member of the group spoke specifically about the quality of national regulations, and the need for revisions in order to enhance government's capacity to fight corruption.

84. The business-academia-press group again expressed the view that it is necessary to introduce specific measures for monitoring of ADB programs, in order to design program-specific transparency and accountability measures.

e. Reviews and Supervision

85. The participants were asked to consider what improvements ADB should make to:

Strengthen project monitoring and reviews; adopt a reporting system, which demonstrates the quality of supervision and effectiveness of governance and corruption risk management during program/project implementation.

86. The government group again responded negatively. They saw no obligation for ADB to improve its programs in terms of its review processes. One speaker mentioned that this opinion was based on specific experience. But rather than call for strengthening of the processes to overcome the problems, they indicated that less review was required.

f. Making Public Expenditure Reviews Compulsory

87. The participants were asked to consider what improvements ADB should make to:

Make public expenditure reviews compulsory for: a) programs/projects involved in public financial management reform; and b) ADB's primary sectors of operation.

88. Other than a statement that ADB involvement was not necessary in public expenditure reviews, this point was not specifically responded to by any participants.

g. General Comment Recommendations for Projects and Programs

89. The government group leading the response to this question were clearly negative on all points except the first (calling for better project design regarding good governance and anti-corruption). Their presentation indicated exasperation over the style of supervision and specific decisions made by ADB during supervision, and expression of lack of faith in ADB to resolve those problems, but the exact diagnosis was not made clear. They considered that many ADB decisions, instead of solving the problems, added to public burden. They indicate an opinion that ADB's primary concern is to sign up a loan, and thereafter take inadequate responsibility for its success. Lack of transparency on ADB's part was mentioned several times. There is a clear need for further examination of this whole issue.

B. General Comments on Recommendations

90. The discussion on the country program in general and CGA in particular was colored somewhat by the competition between the government's internal audit institution (BPKP) and the supreme audit authority (BPK). The CGA reports the improving role of DPR and civil society's role in supervision of government, as well as supporting the need to bring both internal and external audit functions into line with best international practice, as increasingly the global economic world demand it. As the CGA has not been released formally or widely circulated, it is premature to conclude from the group's response that the CGA will not be welcomed by government and by the community in general. This assessment should wait till after the CGA has been released and the responses assessed.

91. This is not to write off the response of the participants' input on the role of the CGA. Members of the group still gave strong approval for national reforms and ADB's role in supporting them. Perhaps the important issue is how ADB places the CGA and its other initiatives in the overall context of reforms, to assure that it is not ADB's assessment that sets the agenda for reform, but that ADB supports the national reform agenda, and is seen to do so.

92. Some comment is warranted on a number of the other positions taken by this government group.

- (a) **Technical Assistance.** Donors' requirement for international consultants is based on an assessment that local consultants do not have the capacity to provide an international standard of technical assistance. The government group's position at the workshop was that ADB's international consultants were not providing an Indonesian expectation for technical assistance. There are two clear issues that need further investigation, firstly, how can the quality of Indonesia's consulting profession be improved (noting also that Indonesia now espouses international competition in consultancy and its consulting industry has expressed its concerns for how it can compete). Secondly, how can Indonesia assure that good international consultants are appointed and used wisely to support the development of the national consulting professions? Here the Singaporean experience may be valuable, where consultancy is open to

international competition, and the government has had a forty year policy of requiring that approximately half its academics are international, appointed on strict international standards, with international assessments of their performance.

- (b) **Participation.** All donors are recommending greater community involvement, considering that programs in Indonesia lack community inputs. This matter was confirmed by the inputs to the workshop particularly from the NGO and business-academia-press groups. Unfortunately many donor initiatives promote means that do not work even in advanced countries, and each is using unique methodologies that create confusion on the ground, with complaints being fed back to the national government. Participation is being advanced as a process input with inadequate attention to the management requirement of assuring outputs that satisfy customers and the community at large. The purpose of participation is to assure the quality of service delivery, and there are many other tools in every sector for improving service through inputs from the community. Few businesses conduct participation programs, but all depend on a good knowledge of their markets to succeed. The emphasis on participation, without adequate emphasis on overall means of improving understanding of community needs, or on performance,⁴ may not be in the overall interests of good governance.
- (c) **Monitoring performance.** The meeting paid a great deal of attention to the need for better monitoring and greater transparency. The government group that claimed no need for ADB to improve its monitoring had earlier provided very positive inputs on the need for Indonesia to improve its governance systems. The negative responses of the government group on program monitoring need closer examination. It is clear that the group was being provocative in its responses, and ADB should return to members of this group and seek further dialogue. It is likely that there are particular disputes between the government and ADB that have not yet been adequately resolved. It is also likely that government officials feel that ADB itself has good governance issues to be addressed, and that these also need to be placed on the agenda.

93. The final comment on the recommendation session refers to the lack of reference to the radically-changed national government stance on corruption and good governance. Every day for the week before the workshop there were headlines on the government's commitment to fight corruption, to introduce performance measures of government agencies, and to prepare strategic plans within 100 days. Yet there was not one indication that ADB may be called upon to respond quickly and effectively to requests to support the new agenda.

V. OTHER ISSUES

A. Basic Governance Questions

94. Very briefly, the following paragraphs try to probe beyond the articulated responses of the workshop to some more basic issues.

⁴ Performance is not clear included as the central component of good governance in ADB's policy statement.

1. Does ADB Itself have Good Governance?

95. Participants mentioned a number of issues which directly or indirectly implied that ADB has a number of its own governance issue to review. The policy on blacklisting was mentioned by every group at some time during the day. The business-academia-press group several times implied that other aspects of contracting could be improved. The resource person's own experience touched upon briefly below also indicates governance problems with ADB contracting policies. Government tables repeatedly referred to situations where ADB pursued policy directions without real commitment from the Indonesian government. It may be instructive in further workshops to allow more discussion on ADB's own governance issues, so that ADB does not appear to be one-eyed about good governance policies.

2. Should ADB use Loan Covenants for Promoting Reform?

96. At least two cases were referred to where loan covenants had been agreed to, but there had not been adequate flexibility by ADB when the government had either changed its policy-position or had not kept to its original schedule of compliance. The whole program-lending agenda and much of the project lending agenda is based on including loan covenants as a motivation for policy reforms. Rarely is the agency responsible for the loan also the agency responsible for policy preparation. Often those involved in drafting the loan agreement have little contact with them, and often the policy drafters are unaware of the existence of loan commitments, nor feel any compulsion to conform with them.

97. But the core issues are sovereignty over policy-making, appropriate incentive to drafters, and quality assurance. For laws, the president and the legislature share responsibility, and there is not basis without the DPR/DPD approval for the government to make commitments. For government regulations, there are presidential and cabinet prerogatives. For drafters of both laws and regulations, the appropriate instrument for directing policy development is a cabinet decision. An ADB loan covenant would only be appropriate if such a decision already existed.

98. When a loan covenant or any other instrument ties the government to producing policy without a fully developed strategic plan with appropriate contingences, efforts to speed up the process invariably lead to less public debate and lower quality product. Good policy takes time to develop, and tranche-like requirements for compliance can often be counterproductive.

3. Does the Loan Format Support Efficient and Local Forms of Accountability?

99. When loans were mainly for large often single-contract programs, overhead costs were significantly lower than they are now where small packages form one loan, contracted in thirty or more different locations. The government in each location requires its own budgeting, monitoring, reporting and accountability systems, but a loan requires additional budgeting, monitoring, reporting and accountability systems. The greater the concern for good governance under the current arrangements, the greater the demand for program-specific systems, and hence the less attention in the program to developing the government's own systems. In terms of sustainability and good governance, this is counterproductive. They also add to ADB's own staffing burden, and capacity to control programs.

100. The creation of special project management units, intended to create greater control, are likely to have actually increased the incidence of corruption of ADB programs.

101. The government groups clearly were not satisfied with current arrangements, and perhaps it is time to explore significantly different arrangements.

4. Program-Lending International Fiscal Balance Reform-Supporting Institution

102. The NGOs asked the big question—should ADB be in the banking business or in the international fiscal balance business, assisting a redirection of government resources from the wealthy to the poorer—whether by country or by economic groups within countries. If ADB and its member-countries are serious about ADB commitment to poverty alleviation, then perhaps it is time to reevaluate ADB's core business.

<p>GROUP 4</p> <p>4. Measure Development Impact (LTSF)</p>	<p>There are some, but the problem is the indicators are difficult to measure. The target is difficult to quantify. So the impact is unclear—the benefits are not clearly seen.</p>	<p>For example, the legal framework for private sector development. What is the measure, even we from the private sector do not know. Or cooperative work with NGOs, in what form? What is the mechanism? Or do we just come and join in this discussion by ADB's invitation?—that is not clear. Furthermore, we have not talked about public sector reform at the indicator level—how far is ADB in supporting this? What kind of support has been given? We do not get any benefit from this program yet.</p>
<p>8. Ensure Stakeholder Participation (PRS)</p>	<p>There is participation, with several stakeholders, but limited. Only Bappenas, are involved at the loan agreement level, although there is private sector but that is restricted to Bappenas request. Should it be better to invite NGOs, private sector, Kadin at this level, so these institutions understand the loan agreement? I feel participants are strongly ADB-oriented, they have not reached out to civil society oriented NGOs. ADB covers civil society, government and private sector components so all of those should come together. There should be a partnership. In other words, ADB domination is still very strong here. An equal partnership is needed.</p>	<p>For example; participation in designing programs and projects--but the whole cycle of the project; assessment, planning, implementation, monitoring, evaluation, should be done in a participatory approach--this should be revised, so when the whole project cycle in the form of participation, all stakeholders will be involved. This includes decision making on project loans and signing government loans. Because citizens will pay the debts, in this case citizens should be involved in decision making, citizens pay tax and other funds are provided by them. The government only signs the agreement; there is no obligation at all from Gusdur to the next president. But citizens will pay the debts, the consequence, partnership is needed.</p>
<p>12. Strengthen ADB's Capacity</p>	<p>We think a capacity of 8 (eight) personnel is very small, means not only personnel but also the institution is small.</p>	<p>We do not know their CVs. We do not know the recruitment process—there is no information at this level.</p>

Appendix 2

Recommended Actions for Governance and Anticorruption

Participants were asked, what ADB needs to do to achieve its commitments under the policies. In particular, what should be ADB's role and priority actions?

Group	Priority Areas	Visible Action	Results/Outcomes
VI. 1	Good Governance & Anticorruption	<ol style="list-style-type: none"> 1) It is still in the form of discourse, not yet operational and not optimal. 2) There is still no real action against collusion, corruption and nepotism on ADB funds—not brought to the courts 3) Civil society role in implementing ADB's Good Governance agenda is very little/marginal 	<ol style="list-style-type: none"> 1) Need a list of ADB funds being corrupted. 2) Need to have non-loan funds for an Anticorruption campaign carried out by multiple stakeholders.
2	Good Governance & Anticorruption Policy	<p>Good Governance Policy has preventive and punitive aspects. Anticorruption policy is more punitive. These two policies do not focus on corruption prevention and the punitive parts are difficult to implement because of barriers in the Act regulations, institutions, procedures and human resources.</p> <p>Act regulation, on material possessions, regulates the relation between wealth and civil servant's income is related to the corruption act.</p>	<p>The main and first obstacle is there is no definite Act which determines the inspection of a state wealth list on Good Governance (without any pre-assumption / prediction / indication to someone / civil servants who commit crimes.</p> <p>Someone, who has or gains wealth, will be checked against their income, which if they get by violating law or not appropriate, is a corruption act.</p> <p>Government employees are obliged to list wealth correctly and may be inspected by authorized staff at any time without any confession or presumption of crime.</p>
3	<p>Technical Assistant Level (TA)</p> <p>Anticorruption Policy</p>	<p>Usually in the form of consultants, whether domestic or international, it is better not have consultant funded by the government.</p> <p>a) When ADB examines the proposal making level of a project directly, it is better if there is no approval if there is corruption at any level.</p>	<p>If needed these consulting funds should not more than 20% of given TA total amount.</p>

Appendix 3



INDONESIA CONSULTATION WORKSHOPS

**27 October 2004
PURPOSE & AGENDA**

Purpose:

The purpose of the workshop is to gather diverse stakeholders to collectively:

- Discuss issues arising from the findings of the desk review on governance and anticorruption;
- Describe regional trends in governance and anticorruption that influence poverty reduction and will affect future work; and,
- Identify action points for ADB's Medium Term Action Plan (2005-09) on Governance and Anticorruption to reduce poverty.

Agenda:

10:55 AM	Brainstorm question by Resource Person
11:15 AM	Highlights of ADB's G&A Initiatives in Indonesia by Staffan Synnerstrom
11:45 AM	Governance & Anticorruption : Background and Issues by Asha Newsum
12:15 PM	Break
12:45 PM	Q & A : Questions to clarify presentations
1:00 PM	Feedback on ADB's Governance & Anticorruption Work in Indonesia
2:00 PM	Report Back
3:00 PM	Appropriate Roles, Priority Actions, and Results for ADB in Governance and Anticorruption in Indonesia
3:10 pm	Break
3:40 PM	Begin Small Group Work
4:35 PM	Report Back
5:35 PM	Implications & Next Steps by Asha Newsum
5:40 PM	Evaluation
6:00 PM	End