

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: IRM

Division: RRM

TA No. and Name: 4067-INO: Managing Regional Disparity in Economic and Poverty Reduction Programs Under Decentralization (Phase I)			Amount Approved: \$484,000	
			Revised Amount: \$484,000	
Executing Agency: National Development Planning Agency (BAPPENAS)	Source of Funding: DFID		TA Amount Undisbursed \$24,135.71	TA Amount Utilized \$459,864.29
Date Approval 19-12-2002 Signing 22-10-2003 Fielding of Consultants 22-10-2003			Completion Date Original 31-10-2003 Actual 30-09-2004	
			Closing Date Original 30-09-2004 Actual 18 -09-2005	
Description Indonesia's decentralization program under Laws 22 and 25 of 1999 devolved vast responsibilities on regional governments. Primary responsibilities include the provision of basic public services and support for the national effort to reduce poverty. However, the fiscal capacities of regional governments vary considerably, hindering the national effort to reduce poverty. Moreover, many governments in the regions with large number of poor have inadequate resources to accelerate overall development, particularly in rural areas, and to reduce poverty and continue the previous central government-assisted efforts initiated before decentralization.				
Objectives and Scope The TA's objective was to improve pro-poor planning and develop recommendations for a national program of action to reduce regional disparities and poverty in the context of decentralization. The TA was to (i) identify pragmatic approaches to ensure that poor regions have adequate resources and support to deliver basic services and to pursue development programs, particularly in reducing poverty, to catch up with the better-off regions of the country; (ii) help the Central Government pilot-test policies and systems in one province, one city and 3 districts The terms of reference (TOR) identified the planning and budgeting process as the key entry point for reducing regional disparities. The TOR called for piloting a draft system of coordinating development planning to replace the old Development Coordination Meeting (Rapat Kordinasi Pembangunan; RAKORBANG) process. ¹ However after the TA paper was approved and TA consultant contract finalized, Law 17/2003 on State Finance was passed. It established a Medium Term Expenditure Framework (MTEF) giving greater managerial autonomy to line managers through a unified budget envelop combining both "routine" and "development" expenditures. Each government unit prepares a strategic plan with annual performance based agreements to replace the earlier Rakorbang planning and budgeting process. As a result, some adjustment in methodology was needed. In addition, when the Terms of Reference (TOR) was prepared, Government of Indonesia was "developing draft regulations for regional planning and budgeting..." (TOR, Para 10) and provided for pilot testing of the draft regulations. But during TA implementation the draft process was still in an early stage, too early for significant pilot testing.				
Evaluation of Inputs The TA provided 10 months of international consultants and 24 months of local consultants. This was sufficient. The follow-on activities identified to implement Law 17 would require more extensive inputs. During implementation, the TA (i) refocused on development of strategic planning and performance budgeting in line with Law 17/2003 as most relevant to the planning and budgeting process from 2004 onward. At the request of the EA, the number of regional governments that participated in capacity building to undertake "sound pro-poor planning and budgeting practices" was increased to 2 provinces, 2 cities and 12 districts. The increase was made possible by coordinating with local governments participating in GTZ, USAID, and ADB projects on local government capacity building and providing inputs on strategic planning and performance based budgeting in accordance with Law 17/2003. The TA emphasized financial policy supporting reduction of disparities and effective management of all arrangements and formulation of province's role in targeting of finance. The EA was satisfied with this approach. The EA and ADB provide adequate support to TA implementation and can be rated as satisfactory. The consultants were productive and their performance, as rated in their PER, was satisfactory.				

¹ The RAKORBANG process was an annual sequence of planning meetings to coordinate development plans from lower levels of government with national and regional development priorities. This process only applied to the development budget as distinct from routine or recurring expenditures for personnel and goods.

Evaluation of Outputs

The TA outputs exceeded the TOR including supplementary reports: (i) a review of the 1945 Constitution's on the responsibility of government to reduce poverty and regional disparity and (ii) an exhaustive review of laws and regulations on decentralization, fiscal management and governance. The main and supplementary reports of the TA were drafted in a manner to be easily understood at different levels by stakeholders and have been translated into Bahasa Indonesia. In addition, the TA has provided inputs into the proposed Local Governance Finance program on the changing role and responsibilities of the office of financial management under Law 17, recommendations on meeting new financial management capacity needs, and mechanisms for increasing professionalism.

The TA was too early in the implementation of Law 17/2003 and the TA was too short for in-depth institution building. However, the TA developed approaches for institution building that were validated through training, workshops, and personal interviews. The training packages developed are useful for improving local government capacity to formulate strategic plans as mandated under Law 17/2003.

The quality of analysis was high. Recommendations were well researched. The TA involved key strategic players from all relevant stakeholders in the central government (i.e. BAPPENAS, Coordinating Ministries for Social Affairs and for the Economy, Ministries of Home Affairs, Finance, and Health, and the State Ministry of Administrative Reform) and regions (Central Java and North Sumatra provincial officials, and district government officials in both provinces) and development partners (i.e. ADB, DFID and Governance Partnership).

The workshops were well prepared. Appropriate participants were selected. High quality exchanges of ideas took place. Turnout tended to be larger than anticipated, indicating high interest in the topic. Proceedings were well documented.

While the output produced was not as concrete as envisioned in the (TOR) because of the change in the planning and budgeting systems between TA design and TA implementation and TA timing did not allow for pilot testing and capacity building of the successor systems. The TA produced concrete recommendations discussed by government on the importance of implementing Law 17/2003 and well-tested training materials for strategic planning by local government. This material was adapted by the State Ministry of Administrative Reform for training on accountability reporting by local government. TA work and recommendations on the role of the province helped Central Java province consolidate its approach to the role of the province in economic development. The EA was satisfied.

Overall Assessment and Rating

The TA is relevant. The ADB and Government of Indonesia Poverty Reduction Partnership Agreement (PRPA) signed 2 July 2001 recognized the importance of inclusive growth and regional equity. This TA was a first initiative towards developing a system to manage regional disparity under decentralization.

The TA is Less Efficacious. The purpose and physical, financial and institutional objectives assumed at project approval were partly achieved. Implementation started during the transition to the new financial management system; hence during a period of institutional uncertainty and considering the modest 8 month TA input, the ability to achieve the objective may have been overestimated.

The TA is Efficient. Some inputs for the TA decreased in significance with policy changes. However, the TA still produced results exceeding the requirements of the TOR.

Sustainability is Likely. Policy makers have taken up ideas from the TA and ADB is supporting the implementation of Law 17/2003, in accordance with TA's recommendation. At the same time, recommendations are not results.

Institutional Development and Other Impacts is Moderate. The timing of the project implementation did not allow application for institutional development as proposed by the TA.

Overall, the TA can be rated as successful.

Major Lessons Learned

In a changing policy environment, flexibility in TA implementation is required and advisory technical assistance would provide an opportunity for policy debate. The TA demonstrated the importance of thorough discussions and deliberations through a combination of workshops and one-on-one discussions with key stakeholders. At the same time, the policy environment dynamics must be well understood and partners for consultation chosen to create an environment where ideas can flow freely and nurture the trust level necessary to create the common platform

Recommendations and Follow-Up Actions

This is one of several ADB activities related to local government capacity and highlights the importance of Provincial governments have in reducing regional disparities and in the implementation of Law 17/2003. ADB's proposed initiatives in this direction were well supported by this TA.

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