

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: IRM

TA No. and Name TA 3967-INO: Local Government Provision of Minimum Basic Services for the Poor			Amount Approved: \$750,000		
			Revised Amount: \$750,000		
Executing Agency: Ministry of Home Affairs		Source of Funding: Government of the United Kingdom		TA Amount Undisbursed¹ \$750,000	TA Amount Utilized² \$750,000
Date			Completion Date		
Approval 4 Nov 2002	Signing 22 Apr 2003	Fielding of Consultants Mid-May 2003	Original 30 Sep 2004	Actual 28 Feb 2005	
			Original 28 Feb 2005	Closing Date Actual	
Description With the passage of Decentralization Law 22/1999, broad responsibilities were transferred in Indonesia from the central government to local governments. These included the responsibility for providing essential basic services in agriculture, education, environment, health, and infrastructure. Some parts of such service provision were further classified as “obligatory functions (OF)”, with levels of responsibility and accountability assigned to the appropriate level. To ensure that the poor are provided with minimum basic services, the Law also required the adoption of “Minimum Services Standards (MSS)”. The MSS set the minimum levels of service necessary for the local governments to fulfill their OF and serve as monitoring indicators of local government performance. The central government is responsible for ensuring that local governments are sufficiently well equipped to carry out their OF and meet the MSS. At the time of the TA processing, the Ministry of Home Affairs (MOHA) had initiated the formulation of: (i) the legal and regulatory framework including determining clear criteria for the OF, (ii) a clear conceptual framework for the MSS, and (iii) a policy on delineating financial responsibilities of the central and local governments. However, no assessments had been done on the potential impact of the MSS on local government planning and budgeting process, institutional structure, human resources, and monitoring and reporting systems. Objectives and Scope The overall goal of the TA was to enable local governments to carry out their responsibility to provide basic services to the poor. The specific purpose of the TA was to clarify for the central government the impact of the OF and MSS on district government planning and budgeting, institutional structure, human resources, monitoring, and reporting through learning-by-doing and field validation. The key activities included: (i) provision of direct support to local governments incorporating OF and MSS into the planning and budgeting cycle; (ii) estimation of the per capita cost of financing the OF and MSS, including the cost of alternative delivery mechanisms to support implementation of OF and MSS, for benchmarking and calculation of specific grants; and (iii) based on experiences gained from interaction with local governments, development and testing of guidelines for incorporating the OF and MSS in planning and budgeting, organizational and human resources development, and monitoring and evaluation. These activities were to help establish central government guidelines on capacity building in planning and budgeting, costing, and institutional development to support implementation of the OF and MSS. Evaluation of Inputs The TA was implemented under the Directorate of Policy Facilitation and Reporting of Regional Autonomy of MOHA, in coordination with the decentralization units of the Ministry of Health and Ministry of Education. The TA undertook trials in eight districts and five provinces. The TA inputs included: (i) 16 person months of international experts for local governance and decentralization Policy; (ii) 24 person months of domestic budget and planning, monitoring and evaluation and participation, and institutional development experts; (iii) 40 person months of local government field experts; and (iv) budget for workshops. Six TA experts were based at the national office and provided technical support and training to local governments at regular intervals while from field-based local government experts were stationed in the participating districts to work directly with their counterparts in local governments. The TA consultants were well qualified and worked well with government counterparts at central and local levels. The TA letter of agreement was signed 6 months after TA approval. However, procurement of consulting services and TA start-up was unaffected. The TA team analyzed the planning and budgeting systems and processes. Field work was carried out during 2003-2004, spanning over 2 planning years. The TA adopted participatory approaches, with government and nongovernment partners at central and local levels involved throughout its execution. The combination of central government and field based experts worked well to ensure that lessons from the field were being recorded and fed back to the central government to influence policy and program development. About 30 local workshops and					

¹ Committed.

² To be confirmed.

meetings were organized introducing to government counterparts and stakeholders: (i) the concept of the OF and MSS, (ii) the approaches and instruments developed by the TA for planning and costing the OF and MSS, and (iii) methods for assessment of institutional capability to implement the OF and MSS. These issues were discussed in three national level workshops to provide an opportunity for a broader range of central government stakeholders to hear directly from the districts.

The consultants were asked by The National Development Planning Agency (BAPPENAS) to provide technical inputs for the Poverty Reduction and Strategy Paper (PRSP). In addition, MOHA requested the TA team to provide assistance to the Ministry of Environment to define the OF and MSS for environmental services. The performance of the ADB and the EA was satisfactory. Both adequately supported, gave direction to, and benefited from TA activities.

Evaluation of Outputs

At the time the TA was formulated, the Government had planned to introduce the OF and MSS in three key sectors prior to TA implementation, namely education, health and general government services. However, as the framework for the OF and MSS was not fully clarified as anticipated, including on matters such as responsibility by level of government, the consultants could not prepare detailed guidelines. However, the TA was able to provide inputs to the preparation of draft government laws and regulations pertaining to decentralization, OF and MSS based on field experience, and international examples and best practices.

The TA team developed a tool "Planning and Budgeting with MSS" to help quantify the resources required to close the gap between the current service levels and the MSS for selected public services in basic health, basic education, and general government services. The field work identified key issues in integrating the OF and MSS in the budget cycle. These remain relevant despite the issuance of the new state finance law in 2003 and amended laws on regional autonomy and regional fiscal balance in 2004, and the adoption of a new planning and budgeting system. Lack of clarity on what would be included in the final OF and MSS meant the team was not able to estimate the total per capita cost of financing the OF and MSS for benchmarking. However, the work done revealed key information gaps and raised awareness in the central Government of the danger of creating unfunded liabilities.

The TA team identified the institutional issues and constraints to the introduction of the OF and MSS at the local levels and identified the roles and capacity building needs of other key stakeholders such as the local parliament, civil society, and the local communities.

The TA team contributed to the development of the OF and MSS in the Ministry of Education, supported a Ministerial team drafting the OF and MSS guidelines for the Ministry of Environment, and produced an additional report on the links between the OF and MSS, Millennium Development Goals and PRSP.

Overall Assessment and Rating: Successful

The TA was highly relevant. The central government needed to understand the issues and constraints surrounding implementation of the OF and MSS policy before issuing detailed implementing guidelines. The TA raised concerns on the speed and phasing of implementation, and on affordability of the OF and MSS.

The TA was efficacious. The TA outputs, both written recommendations and workshops, familiarized the central government for the key issues to be addressed to support implementation. The workshops provided a forum for dialogue between local and central governments on the OF and MSS. The TA had an impact at the highest policy dialogue level, providing inputs to the laws on regional autonomy and regional fiscal balance, ensuring attention on regional and national affordability, and generally clarifying the principle of the OFs and their link to the MSS. The specific purpose of the TA is to clarify for the central government the impact of the OF and MSS on district government planning and budgeting, institutional structure, human resources, monitoring, and reporting through learning-by-doing and field validation was achieved.

The TA was efficient: the inputs provided were sufficient to achieve its purpose. The delay in TA closing was primarily due to an expansion of scope to provide assistance to the Ministry of Environment.

The TA is sustainable in the sense that it had contributed to the formulation of a basic framework for the OF and MSS. Besides, it stemmed the rush to issue detailed implementing guidelines prior to a proper estimation of the costs. The central government appears to have become aware of the problems that would be faced by local governments if the OF and MSS were introduced in an un-phased manner. The TA had a moderate institutional impact on the participating districts with regard to enhancing their planning and budgeting processes to achieve the MSS.

Major Lessons Learned, Recommendations and Follow-Up Actions

Key recommendations include the need to differentiate levels of responsibility and to clearly divide regional government obligations between those that are obligatory and those that are optional. MOHA needs to be strengthened to coordinate effectively the design and monitoring of the OF and MSS responsibilities. In particular, as costing and budgeting were only partly taken into account in defining the OF and MSS, financing is a critical area that needs to be addressed. One mechanism of financing could be through the general purpose transfers. However, adequate capacity building is needed for central and local government agencies to be able to properly cost the OF and MSS.