

## TECHNICAL ASSISTANCE COMPLETION REPORT

Division: SEGF

TA No., Country and Name		Amount Approved: \$ 600,000	
TA 4282-INO: Local Government Financing Project		Revised Amount: \$ 600,000	
Executing Agency: Directorate General for Central and Local Financial Balance, Ministry of Finance	Source of Funding JSF	Amount Undisbursed: \$37,472	Amount Utilized: \$562,528
TA Approval Date: 18 December 2003	TA Signing Date: 19 March 2004	Fielding of First Consultants: 7 July 2004	
		TA Completion Date Original: 31 October 2005 Actual: 31 May 2007	
		Account Closing Date Original: 31 October 2005 Actual: 11 October 2007	

**Description:** TA 4282 was initially approved to: (a) strengthen central and local public sector financial management; (b) to implement new on-lending mechanisms; and (c) to establish an improved local government financial information system. The initial focus of TA work was on improving policies, procedures and capacities for regional government borrowing, including strengthened regional financial management. Following slow start up and management difficulties, from mid 2005 the focus of objectives was substantially revised to emphasize preparation of new program and project loans under the Local Government Finance and Governance Reform Program (LGFR).

### **Expected Impact, Outcome and Outputs:**

The initial goal of the TA was to strengthen decentralization and good governance through enhanced access by regional governments to financing for development projects. The initial purpose of the TA was to prepare a framework for regional government financing from both domestic and international sources and to recommend restructuring of supporting institutions. Specifically the TA was to facilitate development of a regional credit market by: (i) clarifying the legal framework; (ii) strengthening local and central financial management; (iii) defining options for resolving loan arrears; and (iv) improving quality and timeliness of regional government financial information.

The initial outputs of the TA were to be: (i) review and analysis of legal framework with suggested amendments; (ii) implementation plan to strengthen and harmonize financial management at central and local levels; (iii) strengthened organizational development and human resource management for local financial management; (iv) strategies and toolkit for implementing accounting and financial reporting in line with the new State Finance Law of 2003; (v) developing training and capacity building options for enhanced financial management; (vi) mechanisms for implementing an improved system for on-lending; (vii) strategy for implementing the regional financial information system; and (viii) capacity building for DG Treasury staff.

Objectives and outputs for TA were significantly revised in mid 2005 following which TA 4282 and related ADB TA 4543 Sustaining Decentralization and Local Governance Reforms were managed jointly. The revised core objectives and (closely related outputs) for the joint TAs were agreed by Government and the ADB to be: (i) to support the meeting of all policy matrix conditions under the proposed program loan; (ii) to support preparation of the proposed project loan; and (iii) eventually to support early phases of implementation of the project loan.

### **Delivery of Inputs and Conduct of Activities**

Adequacy of Formulation: While initial formulation was sound, major changes to formulation occurred, in part due to difficulties in recruiting and managing consultants but more particularly related to changing priorities of Government and ADB, particularly the urgent need to process program and project loans for LGFR 1. The revised formulation agreed in mid 2005 proved adequate as a basis for managing the revised scope of the TA. The initial Terms of Reference were substantially changed in mid 2005. The revised TOR and related work plans were closely followed for the remainder of the TA.

Performance of Consultants: Initial recruitment of consultants was very slow and by mid 2005 most positions remained either unfilled, or where recruitment had occurred substantial work had not commenced. Significant restructuring occurred from mid 2005 with two international and three domestic consultants replaced. All consultants were employed on an individual basis without a Team Leader prior to restructuring in mid 2005. The performance of the individual consultants was mixed. Those who were replaced in mid 2005 had found difficulty gaining traction with the Government in addressing the initial TOR tasks. For those individuals who survived the mid 2005 restructuring and also for subsequent appointments, performance is rated as being satisfactory for most individuals. Other inputs were provided for

field assessments, workshops, and training courses. Although initial usage was slow other inputs were used substantially and effectively in 2005 and 2006.

**Review Missions:** ADB staff satisfactorily monitored the TA closely from mid 2005 and through 2006, as part of missions to prepare the Program Loan and to prepare and commence implementing the Project Loan. ADB staff participated in the final tripartite TA closing meeting in December 2006. Inputs of the EA in MOF were mainly in kind in the form of office space, furniture, office equipment and communications lines. The EA also hosted and met the costs of regular coordination and technical meetings between the Government and the TA consulting team. Changes Made During Implementation: As set out above significant changes to objectives, outputs, structure and consultant appointments were made during the course of the TA after which EA performance was satisfactory.

#### **Evaluation of Outputs and Achievement of Outcome**

The TA Final Report compared actual deliverables to TOR required deliverables, in terms of effectiveness and quality of outputs and government satisfaction, as follows:

- The original TOR provided some fifteen substantive deliverables to be pursued. Because of the change in focus of the TA initially desired results were not fully achieved. In terms of overall Government achievements five of the required deliverables were rated as low; three were rated as good; and seven were rated as excellent. In terms of the TA's specific contribution to assisting the Government to achieve the desired results the ratings were: six of the deliverables were rated as low; five were rated as good and seven were rated as excellent;
- Following restructuring in mid 2005, phase one targeted 36 substantive deliverables to be pursued. In terms of overall Government achievement three of the required deliverables were rated as low; eight were rated as good; and twenty five were rated as excellent. In terms of the TA's specific contribution to assisting Government to achieve the desired results the ratings were: ten of the deliverables were rated as low; thirteen were rated as good and thirteen were rated excellent; and
- Phase two following restructuring provided for 23 substantive deliverables to be pursued. In terms of overall Government achievement two of the required deliverables were rated as low; sixteen were rated as good; and five were rated as excellent. In terms of the TA's specific contribution to assisting Government to achieve the desired results the ratings were: two of the deliverables were rated as low; sixteen were rated as good and five were rated as excellent.

The initial higher level goal of the TA was to strengthen decentralization and good governance through enhanced access by regional governments to financing for development projects. Given the change in focus of the TA limited short term benefits have occurred in the form of enhanced access to development financing. Overall strengthening of decentralization and governance need to be viewed in a long term context in Indonesia with many factors influencing results beyond the TA currently evaluated.

#### **Overall Assessment and Rating**

Because of major restructuring that occurred to the TA in mid 2005 the overall assessment needs to be developed bearing in mind performance in both parts. The initial phase of implementation prior to restructuring is assessed as unsuccessful. The second phase of implementation following restructuring is assessed as successful. Taking both phases into account the overall assessment of the TA is that it was partly successful.

#### **Major Lessons**

Major lessons identified are: (i) internal management problems in the early stages of the TA needed to be addressed by stronger management structures and a team leader; (ii) significant startup delays were experienced due largely to lack of government ownership; (iii) consultant recruitment efforts to identify good candidates are critical to TA performance and need greater attention; (iv) greater coordination with regional representatives is warranted to properly gauge demand and ownership; (v) individual consultant performance was mixed and warrants improved recruitment, management and monitoring; (vi) ADB / Government administrative processes were often slow and need to be addressed; and (vii) there is need for continuation of efforts under the on going TAs with regard to future development of phase two of the LGFGR Program.

#### **Recommendations and Follow-Up Actions**

Experiences and lessons from TA 4282 have been closely considered in the design of subsequent related TAs including the PPTA to support the design of LGFGR 2.