Australia Indonesia Partnership for Decentralisation (AIPD)

Delivery Strategy

2010 - 2015

Contents

Acronyms and glossary

ADB	Asian Development Bank
ACCESS	Australian Community Development and Civil Society Strengthening Scheme
ADS	Australian Development Scholarships
AG	Advisory Group
AIBEP	Australia Indonesia Basic Education Program
AIPEG	Australia Indonesia Partnership for Economic Governance
AIPD	Australia Indonesia Partnership for Decentralisation
AIPMNH	Australia Indonesia Partnership for Maternal and Neonatal Health
AJI	Association of Indonesian Journalists – *Asosiasi Jurnalis Indonesia*
ALA	Australian Leadership Awards
ANTARA	Australia Nusa Tenggara Assistance for Regional Autonomy
APBN	GOI National Budget – *Anggaran Pendapatan dan Belanja Negara*
Askeskin	Insurance scheme for the poor – *Asuransi Kesehatan Miskin*
BaKTI	Eastern Indonesia Knowledge Exchange – *Bursa Pengetahuan Kawasan Indonesia Timur*
Bappeda	Provincial Development and Planning Agency – *Badan Perencanaan Pembangunan Daerah*
Bappenas	National Development Planning Agency – *Badan Perencanaan Pembangunan Nasional*
BPK	State Audit Agency – *Badan Pemeriksa Keuangan*
BPS	National Statistics Bureau –*Biro Pusat Statistik*
Bupati	Head of District
CDD	Community Driven Development
CIDA	Canadian International Development Agency
CRC	Citizen Report Cards
CSO	Civil Society Organisation
DAK	Special Allocation Funds – *Dana Alokasi Khusus*
DAU	General Allocation Funds – *Dana Alokasi Umum*
DfID	Department for International Development
DGFB	Directorate General for Fiscal Balance – *Direktorat Jendral Perimbangan Keuangan*
DIALOG	Delivery Improvement and Local Governance project
DPRD	Provincial / District Parliament – *Dewan Perwakilan Rakyat Daerah*
DSF	Decentralisation Support Facility
EA	Evaluability Assessment
GOA	Government of Australia
GOI	Government of Indonesia
GR	Government Regulation
IDR	Indonesian Rupiah
KKD	Financial Training Courses – *Kursus Keuangan Daerah*
KEQ	Key Evaluation Questions
LG	Local Government
LKD	Regional Financial Training – *Latihan Keuangan Daerah*
LOGICA	Local Government and Community Infrastructure in Aceh
M&E	Monitoring and Evaluation
MEF	Monitoring and Evaluation Framework
MKPP	Consolidated Planning and Budgeting Matrix – *Matriks Konsolidasi Perencanaan dan Penganggaran*

MNCH	Maternal, Neonatal and Child Health
MOF	Ministry of Finance
MOHA	Ministry of Home Affairs
MST	Management Support Team
MTR	Mid-Term Review
NGO	Non-Government Organisation
NTB	*Nusa Tenggara Barat* – West Nusa Tenggara
NTT	*Nusa Tenggara Timur* – East Nusa Tenggara
ODE	Office of Development Effectiveness
PEA	Public Expenditure Analysis
PFM	Public Financial Management
PG	Provincial Government
P/LG	Provincial and Local Government
PNPM	National Community Empowerment Program – *Program Nasional Pemberdayaan Masyarakat Mandiri*
PKK	Family Welfare Program – *Pemberdayaan dan Kesejahteraan Keluarga*
PCC	Program Coordination Committee
Papua Barat	West Papua
Renstra	Strategic Plan – *Rencana Strategis*
RESPEK	Strategic Plan for Village Development Program – *Rencana Strategis Pembangunan Kampung*
RIA	Regulatory Impact Assessment
RPJMD	Medium term plan – *Rencana Pembangunan Jangka Menengah Daerah*
SA	Subsidiary Arrangement
SADI	Smallholder Agribusiness Development Initiative
Sekber	Joint secretariat – *Sekretariat Bersama*
Sekda	The most senior civil servant at provincial/district level – *Sekretaris Daerah*
SKPD	Regional/Local Government Work Unit – *Satuan Kerja Pemerintah Daerah*
TA	Technical Assistance
TAF	The Asia Foundation
TOR	Terms of Reference
TP	Co-management fund – *Tugas Perbantuan*
UBS	User based surveys
UNDP	United Nation Development Bank
Walikota	Municipal head

Map of Eastern Indonesia and basic data

	Population			Number of Kota and Kabupaten*
	Total	**Female**	**Male**	
Year	2005	2005	2005	August 2009
NTB	4,169,695	2,154,951	2,014,744	10
NTT	4,243,182	2,117,223	2,125,959	21
Papua	1,844,519	865,907	978,612	29
Papua Barat	622,275	295,862	326,413	11
Total	**10,881,676**	**5,435,948**	**5,447,733**	**71**

	Regional Gross Domestic Product (Current Prices, Rp. millions)	**Regional Gross Domestic Product Per Capita** (Current Prices, Rp. millions)	**Population Below Poverty Line** (%)	**Human Development Index** (Max 100)
Year	2007	2007	2009	2005
NTB	33,518,591	7.8	22.8	62.4
NTT	19,136,982	4.3	23.3	63.6
Papua	55,365,778	27.5	37.5	62.1
Papua Barat	10,369,836	14.5	35.7	64.8
Indonesia	**3,526,336,644**	**15.6**	**14.2**	**69.6**

Executive summary

Introduction

This delivery strategy for the Australia Indonesia Partnership for Decentralisation (AIPD) builds on work initiated through the current AusAID funded Australia Nusa Tenggara Assistance for Regional Autonomy (ANTARA) program. It also builds on two key AusAID documents, namely an AIPD Concept Note and a document entitled 'Sub-National Level Engagement In Indonesia – A Framework for AusAID 2010 – 2015'.

The AIPD design team spent three weeks working together in Indonesia. Following a preliminary workshop with AusAID staff in Jakarta, the team made field visits to NTT, Papua and NTB provinces. Discussions were held with a wide range of government and civil society stakeholders at both provincial and district levels. On return to Jakarta, meetings were also held with Bappenas, Ministry of Finance (MOF), the World Bank and CIDA.

An Aide Memoire was prepared and presented to AusAID officials at a wrap-up meeting in Jakarta on 31 July 2009.

This document now represents the third full draft of the AIPD Delivery Strategy document, subsequent to taking on board comments from: (i) a panel of internal reviewers; (ii) informal comments from a selection of AusAID staff; and (iii) a formal Peer Review meeting held in Canberra on 9 October 2009.
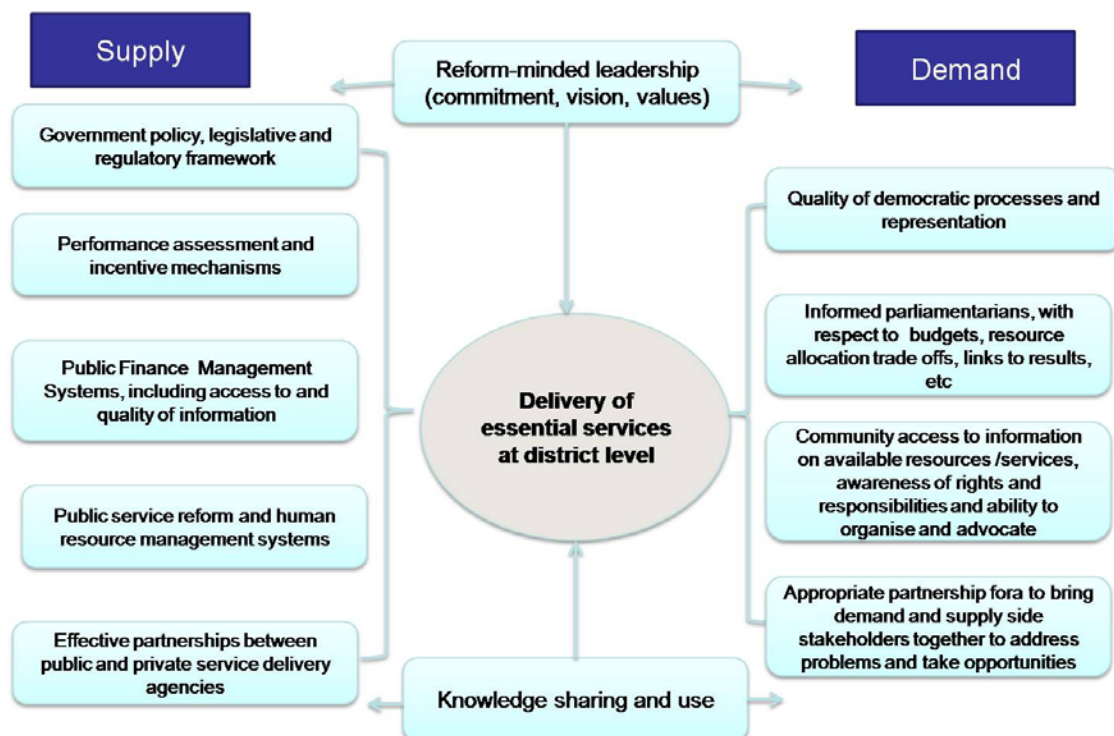
Key findings from the situation analysis

Key findings include:

- The provinces of NTT, NTB, Papua and Papua Barat have a combined population of some 11 million people. Between a quarter and just over a third of these people (depending on the province) are estimated to be living below the poverty line. They also suffer from poor access to, and quality of, basic health, education and infrastructure services. This is both a cause and consequence of their poverty.

- Significant progress has been made since 2001 with implementing decentralisation and other governance reforms in Indonesia, but much work remains to be done.

- Local government can be efficient providers and regulators of local services under the right institutional incentives and with clarity about who does what and with what. However, Indonesia currently remains 'in the balance', with little empirical evidence to show that decentralisation has yet improved service delivery.

- Improving service delivery requires that both 'supply' and 'demand' side factors be addressed. A profile of key issues that impact on the quality of district level service delivery are profiled in Figure (i). Additional factors include: (i) the diversity of circumstances and needs, with provinces such as Papua and Papua Barat facing additional challenges specific to their socio-economic and political circumstances; (ii) corruption, which remains a cause for concern, and undermines effective resource allocation and management; and (iii) gender inequalities in both access to resources (including information) and participation in decision making, which results in (among other things) significant untapped potential for improving community welfare.

- One issue stands out as being of particular strategic importance, namely improved resource allocation and management, at the heart of which is Public Financial Management (PFM). PFM is considered of particular importance because: (i) significant resources are available to both provincial and district governments, but are not being

optimally allocated or managed; (ii) improved PFM is a 'public good', in that it supports systemic improvements that impact on all areas/sectors of government activity; (iii) improved PFM is a key platform for good governance, including increased transparency and accountability; (iv) improved PFM directly supports the aid/development effectiveness agenda, in that it builds P/LG capacity to effectively allocate and manage resources from any source, including donor funds; and (v) there is both a clear capacity building need and (at least in those provinces and districts with reform minded leadership) a demonstrated demand for support.

Figure (i) – Key factors impacting on district level service delivery

- While it is recognised that all elements of PFM are important, AIPD needs to focus its attention/resources on priority areas with the highest likely returns in terms of supporting improved service delivery. Lessons learned from previous governance projects which address PFM have also shown that a focus on specific sub-areas is needed to achieve tangible results.

- As shown by the results from Public Expenditure Analysis (PEA) already conducted, lack of strategic resource allocation across sectors, poor spending prioritisation within sectors, low absorption rates, and lack of sound planning/management information are key constraints to improving service delivery, rather than the availability of financial resources as such. The development returns can thus be high from reviewing public expenditures to identify those with high potential returns, and on-going, low-return expenditures that could be usefully re-prioritized toward high-return uses. Where this process works well, the fiscal space opened up for new investment or more productive current expenditures can be large. One goal of public expenditure management reforms is thus to put into place systems that routinely review and recalibrate priorities. Also,

without first tackling planning and budgeting issues, the other elements of PFM will not by themselves lead to improved service delivery outcomes.

- A natural strategic entry point for AIPD support would therefore be on supporting improvements in planning and budgeting (resource allocation/spending mix), budget execution (monitoring) and establishing a clearer link to service delivery priorities and targets. This will include support to improving access to relevant planning/management /service delivery information (for both government and community), and strengthening the (demand side) mechanisms through which the public can participate in policy formulation, plan and budget preparation and service delivery monitoring.

- While planning and budgeting will therefore be the primary focus for AIPD support, where there is demonstrated need/demand, AIPD will nevertheless also be responsive to providing capacity building support to strengthen other PFM elements, such as for procurement and audit processes. Indeed, there is a high level of demand for general PFM knowledge/skill development at the P/LG level, which AIPD plans to address through supporting the expansion of the MOF/Universities PFM network. Also, through the use of a number of existing analytical and measurement tools (such as the PFM measurement framework and PEA), AIPD will support ongoing analysis and monitoring of progress/change in all PFM sub-systems, not just planning and budgeting.

- It is also recognised that planning and budgeting is a deeply political (and complex) process, and improvements cannot be expected through purely technical solutions.

In order to contribute effectively to improving service delivery, a broad range of stakeholders therefore need to be involved. These are profiled in Figure (ii).

Figure (ii) – Profile of stakeholder partners involved in improving service delivery
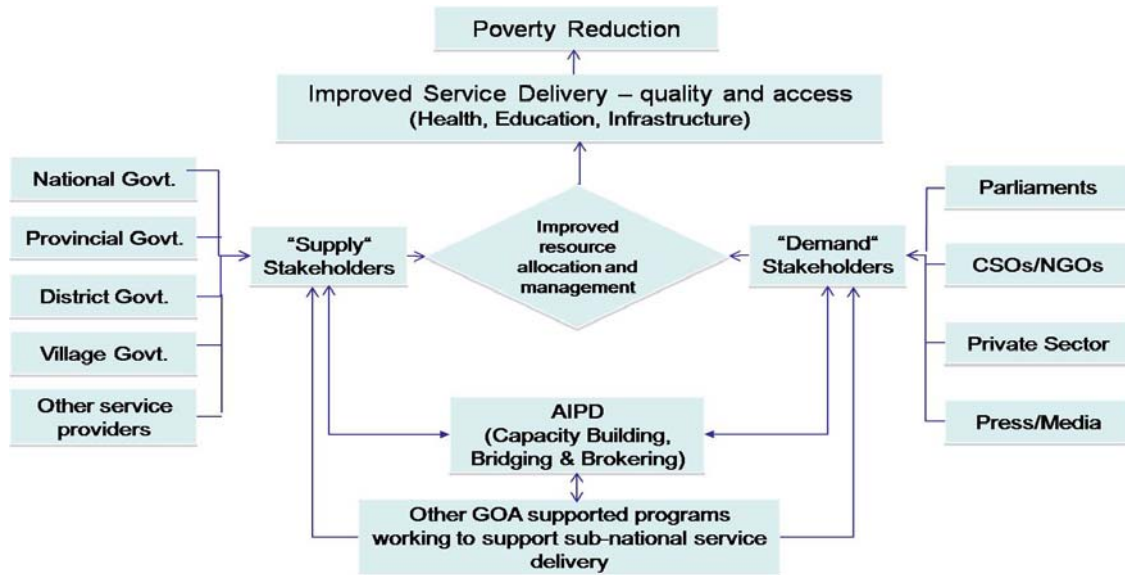
- Figure (ii) also highlights that AIPD is designed as a mechanism to support both demand and supply-side stakeholders, and work through their organisational structures and systems. It will not 'directly' or unilaterally undertake any activities. AIPD will also play a key role in 'bridging' communication gaps between key stakeholders, and helping to 'broker' differences in interests/perceptions (e.g. through providing support for

evidence-based decision making and through facilitating dialogue). AIPD will also provide a 'platform' for more coordinated and coherent GOA engagement at P/LG levels.

- There have been, and still are, a large number of donor programs aimed at supporting decentralisation, good governance and improved service delivery. It is therefore imperative that AIPD assistance be delivered in close collaboration with these donor partners.

- While Australia intends to build on the successes of the current ANTARA program through AIPD, AIPD will differ from ANTARA through its proposed focus on building capacity in a specific reform area (improving resource allocation and management) and its mandate to enhance coordination and coherence of GOA engagement with P/LGs. In addition, it will revise its approach towards the use of TA for capacity building, making much greater use of local organisations/partners rather than 'external' and short-term TA. It will also engage more actively at the national level in order to support the development and implementation of more effective decentralisation policies and regulations, based on evidence from the field.

AIPD scope and objectives

AIPD will initially be financed for a period of five years, from 2010 to 2015. However, it is clearly recognised that the objective of improving service delivery is an ongoing endeavour, and one which may merit donor support over a much longer period of time.

AIPD will initially focus its work in four targeted provinces (namely NTT, NTB, Papua and Papua Barat) as well as at the national level. Within these provinces there are a total of 71 districts (NTB 10, NTT 21, Papua 29 and Papua Barat11), and clearly AIPD cannot provide support to every one of these.

An important part of AIPD's strategy is therefore to be selective in deciding which districts to work with in terms of providing any significant level of sustained support. Selection of districts will be undertaken in partnership with provincial authorities (e.g. the Governor, Sekda and Bappeda), with a view to identifying districts with a clear commitment (and basic ability) to engage in PFM and related reforms aimed at improving service delivery. A process of 'self-selection' may be trialed, as this will likely promote ownership of, and commitment to, resource allocation and management reform initiatives by interested LGs.

In terms of the phasing and pace of AIPD support, this will be determined primarily by an ongoing assessment of circumstances on the ground. Prior to providing any targeted and sustained support at the district level, it will be important to analyse the situation, collect basic data/information, establish working relationships and a clear joint commitment to objectives, and reach agreement on a program of work and responsibilities.

The process of providing AIPD support is profiled in Figure (iii) below. This diagram should be read from the bottom up.

Figure (iii) – Process for providing AIPD support
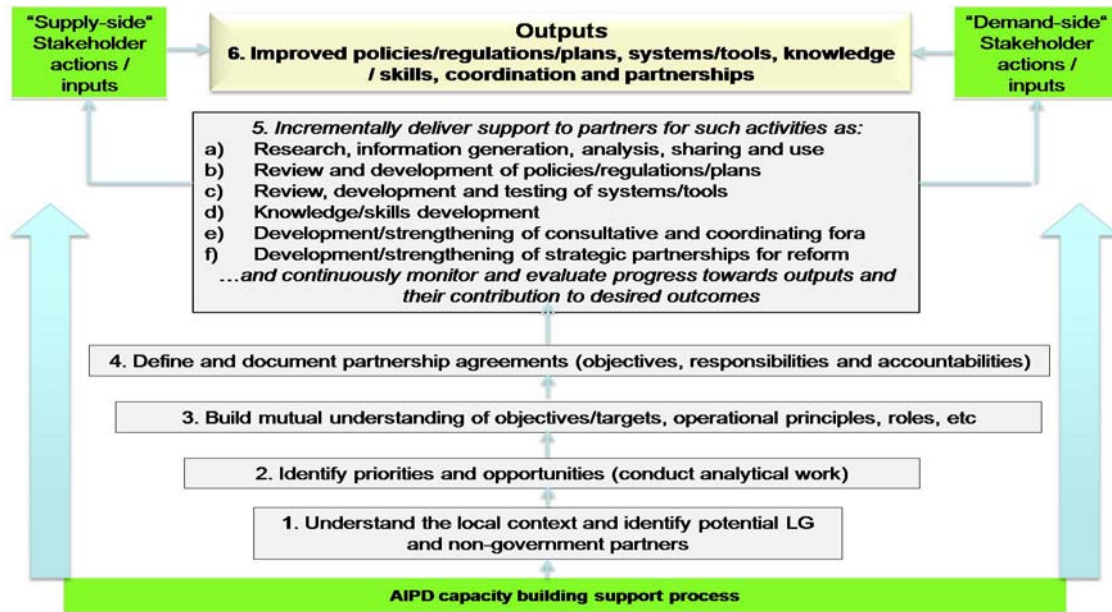
A summary of AIPD's objectives (impact, outcome and outputs) are profiled in Figure (iv) in the form of an 'objective tree'. Further details are provided in the main body of the delivery strategy document.
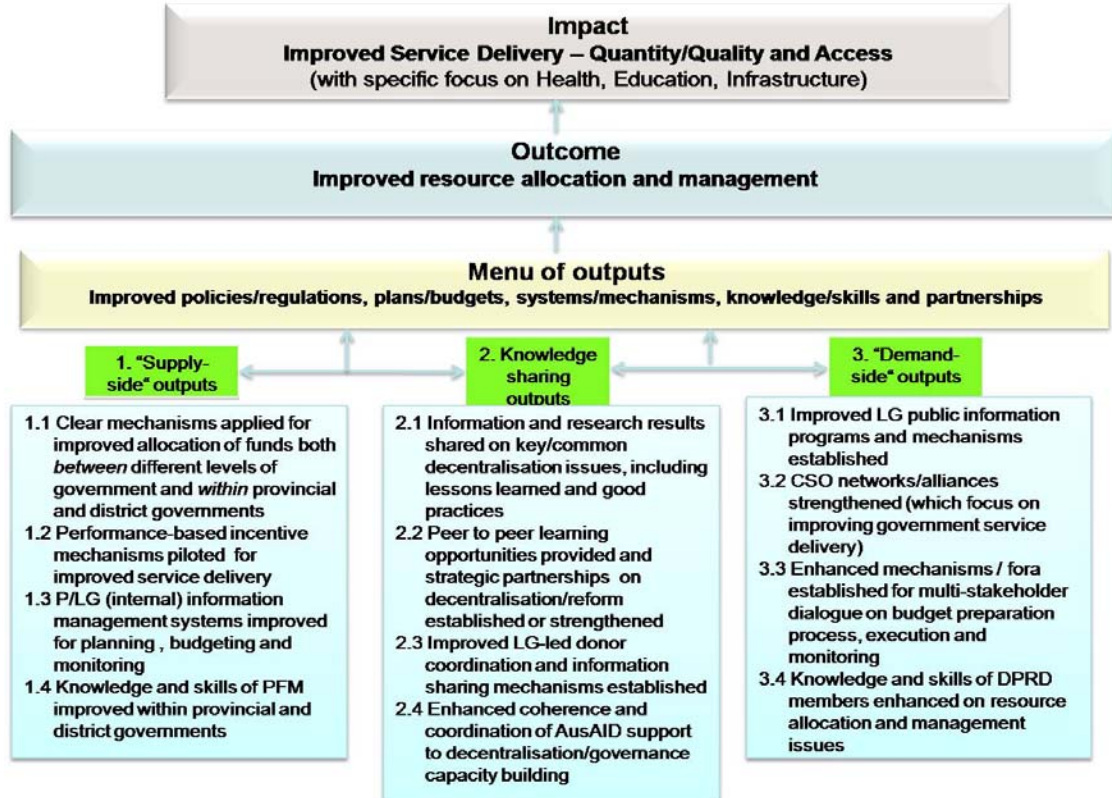
Figure (iv) – AIPD objective tree

AIPD will directly contribute to achievement of Millennium Development Goals in the targeted provinces, specifically with respect to: (i) achieve universal primary education; (ii) promote gender equality and empower women; (iii) reduce child mortality; (iv) improve maternal health; and (v) combat HIV/AIDs, malaria and other diseases.

The primary beneficiaries of AIPD support are expected to be the men, women and children of NTT, NTB, Papua and Papua Barat who depend on government supported services for their health, education and infrastructure needs. Particular focus will be given to targeting the needs of women, children and the poor.

AIPD's primary partners are members of the provincial and district executive and legislatures, civil society groups working to improve governance and service delivery, and key decision makers in central government agencies such as MOHA and MOF.

Governance and implementation arrangements

AIPD's overall governance and coordination arrangements will be similar to those currently used by the ANTARA program.

A Program Coordinating Committee (PCC) will continue to operate, with similar membership and terms of reference as currently in place. The PCC will be the official government forum for strategic decision making on the scope and focus of AIPD. It will be jointly chaired by MOHA and AusAID, and include representation from MOF, BAPPENAS, provincial BAPPEDAs and from any co-contributing donors. It will meet six-monthly.

The Program Advisory Group will meet back-to-back with the PCC, and its membership will be primarily drawn from the P/LG executive in the targeted provinces and civil society. It will be chaired by the AIPD Program Director, who will be directly engaged by AusAID to provide high level strategic and advisory support for implementation of the AIPD.

Figure (v) provides a schematic overview of the governance structure.

Figure (v) – AIPD governance structure
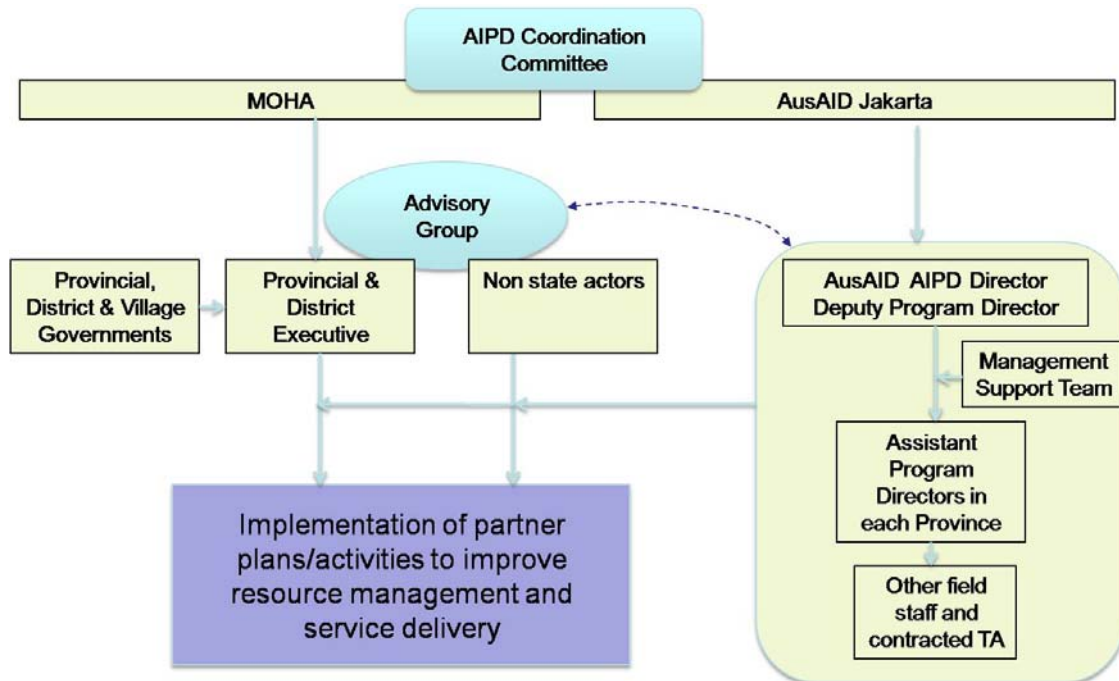
1   Introduction

1.1   Background

This delivery strategy for the Australia Indonesia Partnership for Decentralisation (AIPD) builds on work initiated through the current AusAID funded Australia Nusa Tenggara Assistance for Regional Autonomy (ANTARA) program. ANTARA is a A$30 million, five-year program (due to end in 2010) which has three main objectives, namely to: (i) improve district and provincial governance, (ii) increase incomes for women and men; and (iii) improve quality of and access to basic services.

A Mid-Term Review (MTR) of ANTARA was undertaken in May and June 2008. The review concluded that the program had demonstrated its ability to provide flexible and responsive mechanisms to improve governance and reduce poverty in Nusa Tenggara. The program was also considered to have demonstrated effective governance arrangements and a strong management structure and management team, using best practice approaches to gender mainstreaming and monitoring and evaluation. The MTR recommended that the program continue for another five years, from 2010 – 2015, and that it go ahead with the planned expansion to Nusa Tenggara Barat (NTB) province.

Nevertheless, the MTR recommended some changes/enhancements to the next phase of support, namely:

- sharpening the program focus (to address key issues impacting on basic service delivery by Local Governments);

- promoting stronger links with national government;

- supporting the 'regional architecture' for disseminating lessons and good practices across the region; and

- creating a 'contingency funding' window to further enhance the program's ability to respond quickly to identified high priority activities.

AusAID broadly accepted the recommendations outlined in the MTR, and ANTARA has since established a presence in NTB. In addition, in March 2009 the Indonesian Government (GOI) agreed, via an Exchange of Letters under the current Subsidiary Arrangement (SA), to an expansion to Papua and Papua Barat provinces. ANTARA offices have also recently been established in these two provinces, and preliminary discussions are underway with local stakeholders regarding the development of a program of collaborative work.

1.2   AIPD preparation steps

The main steps leading up to the preparation of this AIPD[1] delivery strategy have included the following:

- AusAID held a multi-stakeholder workshop in Bali on 23 February 2009 to consult with Indonesian government counterparts and other AusAID programs on the development of the design for the new program (AIPD). Representatives from central government and

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[1] The follow-up phase to ANTARA has been renamed the Australia Indonesia Partnership for Decentralisation, to take account of the expanded geographic coverage as well as AusAID's desire to 'rebrand' its support programs as various elements of an 'Australia Indonesia Partnership'.

the four ANTARA provinces were invited. Representatives from Ministry of Home Affairs (MOHA) and the NTT, NTB, Papua and Papua Barat provincial governments attended, including the Governor of NTT and the Provincial Secretaries (Sekda) from NTT and NTB. Some of the main recommendations from the Bali workshop included: (i) endorsement of the approach that focuses on improved planning and budgeting processes for local governments; (ii) that the use of performance incentives should be explored; (iii) that effective monitoring and evaluation systems need to be developed, based on government requirements and providing consistency across donor programs; and (iv) learning strategies were important and needed to be resourced within a general capacity building framework.

- AusAID then held an internal sub-national governance workshop on 5-6 March 2009, to discuss the Agency's approach to sub-national governance in Indonesia and future engagement with National Community Empowerment Program (PNPM). The workshop discussions have helped to consolidate thinking around the directions of the proposed sub-national program.

- Further consultation took place at a Governors' Roundtable held in Lombok on 6 May 2009. Four provinces participated in the roundtable – NTT, NTB, Papua and Papua Barat – as well as senior officials from the Ministry of Home Affairs. The meeting was hosted by Australia's Parliamentary Secretary for International Aid with the Ambassador to Indonesia and AusAID's Minister Counsellor in attendance. Discussions focused on challenges faced by provincial government in the implementation of decentralisation.

Taking into account the outcomes from these consultations, two key documents were subsequently prepared by AusAID, namely an AIPD 'Concept Note' and a document entitled 'Sub-National Level Engagement In Indonesia – A Framework for AusAID 2010 – 2015'. Based on these documents, Terms of Reference for an AIPD design mission were then prepared (see Annex 1), and the design team mobilised on 12 July 2009.[2]

The design team spent three weeks working together in Indonesia. Following a preliminary workshop with AusAID staff in Jakarta, the team made field visits to NTT, Papua and NTB provinces. Discussions were held with a wide range of government and civil society stakeholders at both provincial and district levels. On return to Jakarta, meetings were also held with Bappenas, Ministry of Finance (MOF), the World Bank and CIDA.

Finally, an Aide Memoire was prepared and presented to AusAID officials at a wrap-up meeting in Jakarta on 31 July 2009. Taking into account feedback on the presentation, a first full draft of the AIPD delivery strategy was then prepared. This first draft was circulated for internal review within the design team, edited and then formally submitted to AusAID for appraisal at the end of August 2009.

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[2] The core design team consisted of Jonathan Hampshire (Team Leader), Erman Rahman (Governance Specialist), Jessica Ludwig (PFM Specialist), Petraca Karetji (Knowledge Management Specialist), Jeff Bost (M&E Specialist) and Rob Brink (AusAID/BaKTI). Seven staff from the MOHA also joined the team at different points during the field work, as well as four staff from AusAID.

2   Situation analysis

2.1   Decentralisation policy and democratisation

After the collapse of Soeharto's centralist and autocratic New Order regime, a political environment conducive to democratisation and substantial political and administrative decentralisation emerged in Indonesia.

In 1999, two decentralisation laws were enacted, namely Law 22/99 on Regional Autonomy and Law 25/99 on Fiscal Balance between the Central Government and the Regions. This legislation and the required implementing regulations became effective in January 2001, bringing about fundamental changes in intergovernmental relations.

- Firstly, responsibility and authority for the delivery of key public services was devolved directly to local (district and municipal) governments (LGs).[3] The exceptions (retained at the central level) were for such functions as security, foreign affairs, monetary and fiscal policy, judiciary and religious affairs.

- Secondly, the hierarchical relationship between LGs and provincial governments (PGs) was eliminated, making districts fully autonomous. The district head (*bupati*) and head of municipality (*walikota*) were no longer required to report to the provincial governor, but rather to the locally elected district parliament (DPRD). In contrast, provinces retained a hierarchical relationship with central government.

- Thirdly, substantial parts of the national budget were allocated to provincial and local governments (P/LGs), and they were given effective budgetary and financial autonomy.[4] For example, on average 30% of the national budget (APBN) is now being channeled each year to P/LGs, up from 12% in the mid 1990s.

The two original decentralisation laws were then revised in 2004 to become Law 32/2004 on Regional Autonomy and Law 33/2004 on Fiscal Balance. These revised laws were designed to give back some specific roles and authority to provincial governments, for example authority to supervise and build the capacity of LGs, and to review local regulations issued by the LGs (i.e. regarding their annual budget preparation process and imposition of local taxes and user fees). These laws also somewhat decreased the power of DPRDs, emphasising their function as 'partners' in governance rather than authoritative 'controllers' of district and municipal heads.

In 2005 the first direct elections for provincial governors, heads of district (*Bupati*) and mayors (*Walikota*) were successfully held. The recent 2009 parliamentary elections have since demonstrated that the electorates are keen to use their vote to bring about change, with up to 80% of provincial and local government parliamentarians being replaced by new members. The election into office of a number of reform minded governors (i.e. in NTT and NTB) and *Bupati/Walikota* further reflects a growing awareness of citizens regarding their rights and a growing demand for improvements in P/LG performance.

The transition to democracy has been supported by the emergence of a free press, free speech and a stronger civil society. Considerable progress has been achieved in a very short period of time. Indonesia has now emerged to become one of the most stable and pluralistic democracies in Southeast Asia. The success of this transition needs to be acknowledged and supported through ongoing strengthening of LGs in implementing their roles and functions.

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[3] Local governments refer to district (kabupaten) and municipal (kota) governments.

[4] Authority to collect most revenue is nevertheless still held by the central government.

2.2   Decentralisation and improved service delivery

2.2.1 Overview

Decentralisation holds the promise of improved service delivery, and through improved service delivery, a reduction in poverty levels.

However, for decentralisation to result in improved service delivery, two sets of accountabilities need to work well. The first comprises downward accountability to local residents. As the 2004 World Development Report on 'Improving Service Provision to the Poor' put it: [5]

> *"Where decentralisation is driven by a desire to move service administratively close the people…the assumption is that it works by enhancing citizens voice in a way that leads to improved services…..Voters make more use of information about local public goods in their voting decisions because such information is easier to come by and outcomes are more directly affected by local government actions. And political agents have greater credibility because of proximity to the community and reputations developed through social interaction over an extended period. But on both theoretical and empirical grounds this could go either way."*

The crucial question is therefore whether or not decentralisation increases accountability relative to its alternatives. If local governments are not more vulnerable to (elite) capture than the national government, then decentralisation is likely to improve both efficiency and equity of service delivery.[6] As noted in a recent publication by Transparency International:

> *"Decentralisation must be therefore accompanied by more effective and democratic management of public affairs and establish appropriate mechanisms for citizen participation. In other words, decentralisation can only work when citizens – including those traditionally excluded from both social and political participation – are systematically involved in policy formulation, decision making and programme oversight and evaluation. In the absence of such mechanisms, there is a strong risk of state capture by the local elites."[7]*

The second set of accountabilities is between central and local governments. These include assignment of responsibilities for public service provision, the allocation of fiscal resources, and arrangements for regulatory, fiduciary and other forms of central oversight of local government activities. Clarifying these responsibilities in ways that give each tier of government an incentive to perform its roles effectively is thus critical (although a highly political and complex task). A comparative study on decentralisation experiences concluded that in the case of Indonesia:

> *"The result (so far) has been a kind of institutional limbo… whether by design or as a result of slippages in the implementation process, intergovernmental structures have substantial internal inconsistency. The functions of different levels of government overlap. Bottom-up accountability of locally elected bodies is dampened by top-down methods for appointing key officials. And the discretion given to local authorities in spending unconditional fiscal transfers is effectively curtailed by central government control over human resources."*

As the 2004 World Development Report also concluded:

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[5] World Development Report 2004, Making Services Work for Poor People. Washington DC, Oxford University Press for the World Bank.

[6] Levy, Brian, 2007. Governance Reform. Bridging Monitoring and Action. World Bank, Washington DC, pp.1

[7] Corruption challenges at sub-national level in Indonesia, Transparency International, July 2009

> *"… Sub-national authorities can be efficient providers and regulators of local services under the right institutional incentives and with clarity about who does what-and with what."*

The important point that this highlights is that while decentralisation <u>may</u> indeed result in improved service delivery, there is a complex of political and institutional factors which may either support, or frustrate, such an outcome. Indonesia currently remains 'in the balance', with little empirical evidence to show that decentralisation has yet improved service delivery.

One thing is nevertheless clear, improving LG service delivery is not going to be achieved by purely 'technical' solutions at the local level. Much depends on a shift in governmental/bureaucratic culture, getting the regulatory and fiscal framework right, and providing appropriate incentives for improved performance.

The following sub-sections provide an overview of key factors (issues and challenges) that currently impact on access to and quality of basic service delivery at the district level. As illustrated in Figure 1, these factors are divided into two main categories, namely:

• Supply side factors; and

• Demand side factors.

In addition, two key 'general' factors are identified, namely: (i) the need for reform minded leadership; and (ii) the need for effective knowledge sharing. Some 'other' factors are also briefly discussed in the following pages, including the diversity of circumstances and needs between different provinces, corruption and gender equality.

Figure 1 – Key factors impacting on district-level service delivery
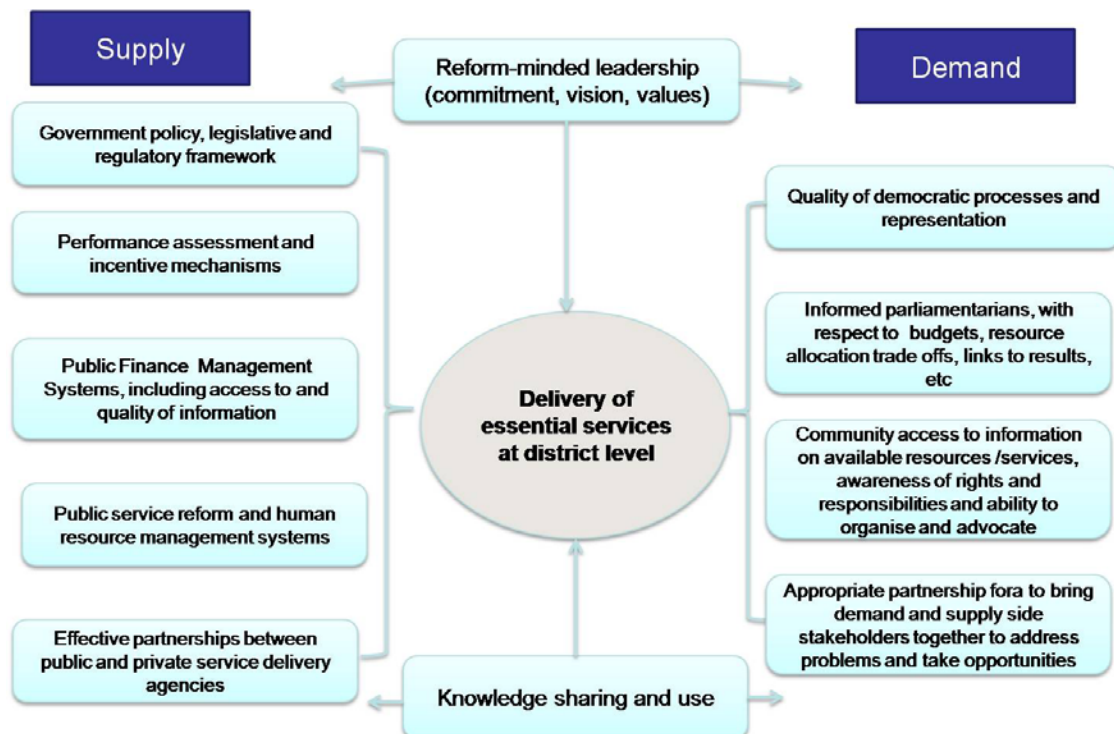
2.2.2 Supply side issues and challenges

Government policy, legislative and regulatory framework

- As already noted, local governments can be efficient service providers under the right policy and institutional framework. However, there has not been a clear overarching government policy statement on decentralisation (e.g. a 'White Paper') to help guide the formulation of decentralisation legislation/regulations and implementation plans. This has contributed to a somewhat ad hoc and reactive (rather than strategic) approach to the design and implementation of decentralisation reforms. One (presumably unanticipated) result of not having clear objectives and a strategy from the outset has been the burgeoning number of new provinces and districts that have been formed since 1999. For example, of the 71 districts/municipalities in Indonesia's four eastern most provinces, 42 (59%) were established since 1999, while one new province has also been created (Papua Barat separating from Papua in 1999). The number of new districts/municipalities in Papua and Papua Barat is particularly high, being 76% and 73% respectively. Managing this ongoing trend of fragmentation poses a significant policy challenge for national government.

- A clear regulatory framework is also required to ensure clarity of roles, responsibilities and authorities. However, ten years on from the enactment of the first decentralisation legislation, there remains significant lack of clarity regarding the authority and roles of different levels of government. The latest Government Regulation on 'Division of Authorities among different levels of government' (GR 38/2007) was issued in 2007 to try and address this problem. However this regulation has had little impact and has merely added to the 'tangle' of often conflicting (and poorly drafted) government regulations emanating from central government agencies (e.g. Ministry of Home Affairs, Ministry of Finance and Line Ministries) as well as from P/LGs.

- For LGs to be able to exercise their autonomy and be accountable for the services they provide, they need to have adequate decision making control over financial resources. While in theory LGs have substantial financial autonomy, in practice most of their revenue is still 'tied/earmarked' to centrally determined priorities.[8] For example, the Special Allocation Funds (DAK) are earmarked for specific (centrally approved) infrastructure projects, and a significant proportion of General Allocation Funds (DAU) are used to cover public servant salary costs.[9] In addition, the central government continues to disburse significant financial resources (e.g. the De-concentrated and Co-managed Funds) which do not pass through district government budgets.[10] The overall result is that districts generally have limited scope (fiscal space) to allocate any

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[8] In the four targeted provinces, central government transfers represent on average 85% of combined P/LG revenues. Own revenues, largely from taxes, levies and charges, vary from between 2% of total revenue in Papua Barat to 10% in NTB.

[9] Using the 2006 formula, some 50% of National DAU pool is for covering the wage bill (source: Indonesia PER 2007, The World Bank).

[10] These de-concentrated and co-managed funds are released by the MOF directly to contractors or local government technical units, who must then account for the funds directly to the relevant National Government Ministry. The amounts are significant. For example, in NTB the 2009 allocation is Rp. 0.95 trillion (excluding PNPM) which equals 74% of the total Provincial budget. In the case of NTT, the 2007 allocation for de-concentration and co-managed funds amount to Rp. 0.76 trillion, which is 80% of the Provincial budget. The total community block grant funds of PNPM are only Rp. 6.9 trillion (2008) and Rp. 9.8 trillion (2009), which are relatively small in comparison to the total provincial and district budgets of Rp. 390 trillion (2008).

substantial funds to their own locally determined development priorities. It also means that many provincial and district leaders spend much of their time in Jakarta trying to influence funding allocation decisions, and accountability for the use of these funds focuses more on Jakarta rather than the local electorate. Limited tax decentralisation also weakens LG accountability and responsiveness to their citizens and raises cost efficiency concerns.

Performance assessment and incentive mechanisms

- A well functioning decentralised system requires that mechanisms be in place for assessing LG performance. The GOI has passed three major government regulations which aim to help evaluate the capacity and performance of local governments, namely: (i) GR 78/2007 on the guideline for formation, eradication, and merging of autonomous regions, (ii) GR 6/2008 on evaluation of sub-national government performance, and (iii) GR 8/2008 on the guideline for formulation, controlling, and evaluation of sub-national development plans. However, there is as yet little evidence that these regulations are being effectively applied, most likely because of their relative complexity and because the regulations do not clearly specify how the information is actually to be collected, analysed and used.

- In order to promote good performance by LGs (e.g. in terms of meeting service delivery standards/targets), a system which links their performance to national government financial allocations is desirable. However, to date no clear financial incentive mechanisms have been established (by the national government) for P/LGs to perform better. Most of the fiscal transfers from national government to P/LGs are based on their factor endowment (particularly natural resources revenue sharing) or are at the discretion of the national government to determine (especially for DAK funds). Indeed, the formula for DAU allocations actually creates a disincentive for P/LGs to improve their performance as, if they reduce the number of civil servants and/or improve their Human Development Index ranking, their DAU allocation would be decreased. In the last few years, MOF has tried to create a 'disincentive' for P/LGs which do not issue their budgets and financial reports on time, by threatening to reduce their allocation and delay fiscal transfer disbursements. This initially had some positive impact on the timely submission of financial reports, but latest data for districts in NTB (see working paper at Annex 2) shows that 2/9 and 0/10 districts submitted their budgets on time in 2008 and 2009, respectively.

Public Financial Management systems and access to information

- Building the institutional capacity of provincial and district level authorities, including local parliaments, to more effectively manage available resources is a key challenge. A series of Public Expenditure Reviews recently conducted in eastern Indonesia have [11] demonstrated that: (i) local governments did not generally have a full understanding of the total envelope of budgetary resources available to them; (ii) district-level budget allocations rarely matched overall development priorities, and they lacked consistency and logic; (iii) bottom-up proposals did not play a significant role in funding decisions; and (iv) public discussion and scrutiny of plans and budgets improved the quality of planning and resource allocation. Also, According to the Ministry of Finance, LGs do not pay the necessary attention to public financial management. Only eight districts

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[11] These have been carried out jointly by AusAID and the World Bank, and are known as Public Expenditure Analysis and Capacity EnHancement (PEACH). More information is available from www.worldbank.org/id

received an unqualified opinion on their financial reports by the external audit agency BPK in 2008. 120 financial reports got "Disclaimer" in 2007.[12]

- The main implication of these findings is that significant scope exists to improve the allocation and management of existing resources, and that the main constraint to improved LG service delivery is not the *availability* of resources per se.

- Access to good quality and timely socio-economic data (including on such issues as poverty and gender equality), as well as information on service delivery (quality and access), budget envelopes, expenditure details, etc is critical to improving (evidence based) decision making on resource allocation and management. In many cases, such information is not readily accessed and/or is not effectively used at P/LG levels. As one key BAPPENAS director commented to the design team, "In many of our government bureaucracies, what happens is not filing of data, but piling of data". The main concern therefore is often not that data does not exist, but that it cannot be readily accessed and/or is not used.

Public service reforms and human resource management systems

- The ability of LGs to deliver services to the public depends greatly on the quality of their staff, their ability to manage these staff effectively, and the development of a service culture within the bureaucracy. In recognition of this, Law No. 25/2009 on Public Service was recently passed by the national parliament, which requires, among others, establishment of public service standards, complaint handling mechanisms, and implementation of customer satisfaction surveys. This is a very positive development.[13]

- However, there remain many challenges to implementing these requirements. P/LGs do still not have full authority over their staffing structures or numbers, low civil service salaries provide little incentive to work diligently or full time, and many public officials remain influenced by the work patterns and attitudes of the previous regime's extremely centralised and hierarchical system of patronage. Change is occurring, but old habits die hard.

Effective partnerships between public and private service delivery agencies

- In all of the AIPD targeted provinces, a significant proportion of education and health services are provided through non-government entities, mostly religious-based organisations.[14] Yet in discussions with LG officials, there appears to be little in the way of effective collaboration between LGs and these providers, in terms of planning, resource allocation, and monitoring of service delivery. This lack of collaboration not only limits the capacity of local governments to ensure effective service provision within their jurisdictions, but also constrains the growth and possible support role of strong, private sector providers. The lack of private sector providers in turn maintains high levels of expenditure on government apparatus.

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[12] Kompas, 12/08/09: UANG NEGARA Rp 600 Triliun di Daerah Berbahaya

[13] Minimum Service Standards (MSS) have been established for health and education that should allow for an objective and comparable measurement of services. However, many regions complain that they are too sophisticated, being more like 'maximum service standards'. Also, the fiscal implications have not been considered by the respective line ministries, and a key question is thus 'How will the achievement of MSS be financed'?

[14] For example, in NTT province there are reported to be 1,648 'private' (mostly Christian) primary schools and 2,525 public schools, while in NTB province there are some 1,379 Madrasah and 2,856 public primary schools (source, http://www.depdiknas.go.id/statistik/0607/sd_0607/index_sd_0607(baru).html)).

- Developing more effective partnerships between LG and non-government service providers, particularly for education and health services, offers significant opportunities to improve overall access to and quality of these services within LG jurisdictions.

2.2.3 Demand side issues and challenges

Quality of democratic processes and representation

- The quality of leadership at provincial and district level is one of the most critical determinants of whether or not service delivery reforms can, or cannot, be effectively developed and implemented. By most accounts, democratic processes are now well established in Indonesia, with recent parliamentary (and presidential) elections being viewed as relatively free and fair. The high turnover of parliamentarians during the 2009 elections also suggests that citizens are expressing their interest in seeing change/more responsive government. The election of an increasing number of reform minded leaders at both provincial and district levels is similarly very encouraging. Nevertheless, there is significant variation in the quality of leadership in different provinces and districts, and accountability mechanisms remain relatively weak.

Informed parliamentarians, with respect to resource allocation and management processes and trade offs

- Given the key role that local parliamentarians (legislators) play in framing policy, making regulations, approving the budget and monitoring the activities of the bureaucracy (including service delivery), it is critical that they are adequately equipped to undertake these tasks. Interviews conducted by the design team with both provincial and district level parliamentarians (primarily in NTT province), as well as officers within Parliamentary Secretariats, indicate that they generally have a strong interest in accessing both more and better information (related to their responsibilities) as well as skill development opportunities.

Community access to information on available resources/services, awareness of rights/responsibilities, and ability to organise and advocate

- Improving service delivery at district level requires a strong and active civil society that is adequately informed and can put pressure on P/LGs to perform. In Indonesia, the process of decentralisation has primarily focused on granting local autonomy without simultaneously promoting accountability of local governments to their citizens. As a result, civil society remains relatively weak at the local level and does not always have the capacity to exert effective public control over local governments. The involvement of, and capacity for, women to influence or exert control over local governments is particularly weak. Civil society is still suffering from the results of 32 years of the New Order era, when they were either coopted or had a confrontational relationship with the Government.

- Recent studies[15] confirm the importance of educating non-governmental stakeholders, especially communities, on budget issues to help establish effective checks and balances. The Ford Foundation study finds that there is real interest in budget work among civil society organisations in Indonesia, and that this work is largely driven by civil society's own priorities and interests rather than in response to donor pressure. It further argues

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[15] Ford Foundation: Budget Advocacy in Indonesia. Country Report: Indonesia. October 2008; International Budget Project: Lessons from the field. The Impact of Civil Society Budget Analysis and Advocacy in Six Countries. *Practitioners Guide*

that to date, much less attention has been devoted to establishing an effective budget oversight system, or to ensuring that independent stakeholders have the information and capacity necessary to hold governments to account.

- The "business" of government also continues to be cloaked in what a recent article in Jakarta Post termed "the Indonesian bureaucracy's culture of secrecy". Despite various efforts to reform and increase transparency and accountability through a range of regulations established by the central government,[16] many provincial and district governments have yet to fully comply with these obligations. There are nevertheless positive changes taking place in some provinces/districts, for example with the establishment of One Stop Shop services (which are designed to improve citizen's access to information and services), the publication of P/LG budgets, and the use by P/LGs of independent 'experts' (e.g. from Universities) to 'independently' review the performance of their service delivery programs.

- At the village level, citizens often have little awareness of their rights, entitlements, as well as of legal processes and available legal resources. Because women frequently do not attend meetings and other fora where information is conveyed, they are even less likely to be aware of their entitlements and the resources available to them in comparison with men. In general, women's disempowerment severely curtails their capacity to push for their entitlements or take advantage of any resources of which they are aware. In 2001, a survey conducted by the Asia Foundation found that only 56% of respondents – and only 33% in rural areas – were able to identify a single right they were entitled to.[17] While this situation has most likely improved in the past eight years, it is nevertheless likely that awareness remains low, particularly in rural areas and among women and the poor.

Appropriate partnership fora to bring demand and supply side stakeholders together to address problems and take opportunities

- The ability for CSO/NGOs to access information, organise themselves and effectively work with their community constituents is one thing. Effectively influencing government policies and actions is another. For CSO/NGOs to be more effective in influencing government policies/actions requires that they: (i) be able to clearly articulate and argue for specific reform/service delivery improvements; (ii) take more of a problem solving, rather than confrontational, approach with government; and (iii) engage in/with appropriate 'partnership fora' which bring multiple stakeholders together to address common concerns.

- Discussions between supply and demand side stakeholders have (as a legacy of the Soeharto era) been largely limited to the 'bottom-up planning process' (through *Musrenbang*), which in most cases does not then get reflected in the annual budget. Meanwhile, the 'top-down planning process' (sectoral planning by technical units) and

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[16] For example, a Central Information Commission has recently been established (Jakarta Post, 22 July, 2009) to combat the issue of transparency, in conjunction with Indonesia's Law No. 14/2008 on Public Information. Standard technical regulations for public information and disputes over such information will be determined by the commission, which will also look towards increased collaboration with Indonesia's civil society.

[17] Village Corruption in Indonesia: Fighting Corruption in the World Bank's Kecamatan Development Program (KDP), Asia Foundation, 2001.

the budgeting process are, in most cases, not transparent. The latter is more significant in influencing the budget.

- There are nevertheless a number of promising initiatives being taken at LG and community levels that can be built on and supported. Some CSO/NGOs are indeed now taking a more informed and less confrontational approach in trying to influence government policies and actions, and have formed multi-stakeholder fora (involving both government and non-government representatives) to discuss specific issues of common concern. Use of mass media channels, including radio and television has also increased the responsiveness of LGs. Some LGs are also actively promoting the use of such consultative mechanisms, including the use of 'Parliamentary Forums' which bring parliamentarians and constituents together to discuss service delivery, resource allocation and related issues. Effective practices, including those which improve gender equality and/or are pro poor in their orientation, need to be supported, shared and more broadly applied.

2.2.4 Knowledge management

Effective generation, sharing and use of knowledge about decentralisation experiences (including what works and what doesn't) is considered a key enabling factor to make decentralisation work, and is relevant to both the supply and demand sides of the equation. It offers the prospect of being able to scale up and replicate what works, as well as to avoid repeating the same mistakes.

This represents a significant challenge. The four AIPD targeted provinces characterise conditions faced in Indonesia's eastern regions, namely limited access to reliable information as well as weak coordination and information exchange mechanisms both internally (between providers and users of public services at LG level) and externally (with other districts and provinces, and with national government).

A number of provinces and districts have sought to address such constraints by developing communication and coordination units. For example, NTT established the Provincial Joint Secretariat for International and Inter-regional Cooperation, through Governor Decree No. 108/2004 in March 2004. This joint secretariat (commonly referred to by the abbreviation SEKBER), has operated as a support unit under the Provincial BAPPEDA. Similar district level units have also been established (i.e. in Kabupaten Timor Tengah Selatan) to bring together information on activities underway in the district, particularly those implemented with international support. Papua Province has established the Papua Knowledge Center, which is a repository for data provided through village facilitators (PNPM-RESPEK) as well as from other research activities conducted in the region. It is currently developing community information programs (including through a reported 1,500 television sets to be distributed to villages throughout the province).

Notable efforts have also been made at the sub-regional level to develop and exchange knowledge on development and decentralisation issues, primarily through the establishment of the Eastern Indonesia Knowledge Exchange (BaKTI) based in Makassar. In 2009, following positive reviews regarding the role and functions of BaKTI (BAPPENAS Review 2008), steps are being taken to establish the organisation as an independent foundation.

BaKTI's main strengths include the following:

a. Established linkages with ongoing AusAID projects and programs that have utilized or collaborated with BaKTI, and also linkages with other donors supporting BaKTI, including the World Bank and CIDA;

b. Linkages with a broad range of stakeholders in each of the targeted provinces who are

already familiar with BaKTI as recipients of newsletters or participants of activities facilitated by BaKTI;

c. Established links to local CSOs which are well positioned to support increased public demand for improved public services;

d. Direct cooperation with the Eastern Indonesia Forum as a knowledge sharing community of reformers in government and civil society, led by BaKTI. This includes sub-forums such as the Eastern Indonesia Heads of BAPPEDA Network and the Eastern Indonesia Researchers Network;

e. Existing systems for managing, storing, adapting into appropriate media and distributing data and information to government and civil society leaders; and

f. Experienced and skilled personnel able to support organising and facilitating meetings, discussions and events. BaKTI also has ongoing collaboration in provinces where local governments have established information centers (i.e. SEKBER in NTT and the Papua Knowledge Center).

However, it should be noted that BaKTI will require institutional strengthening as it shifts from being a program funded through trust funds managed by the World Bank, to becoming an independent indigenous institution. Capacity building should also ensure that BaKTI is gender responsive and that women's organisations and women's issues are firmly integrated into the knowledge sharing process.

With respect to supporting improved resource allocation and management at P/LG levels, four areas of information sharing and knowledge exchange need particular attention, namely: (i) improved access to and use of reliable information within P/LGs to support more informed resource allocation and management decision making; (ii) more effective sharing of information by LGs to the general public; (iii) more effective sharing of knowledge and effective practices between provinces and districts (peer to peer learning opportunities); and (iv) the transfer of knowledge (on both effective practices and critical constraints) from provinces and districts to the central government, so that it can be used to inform evidence-based policy making.

The Working Paper on Knowledge Management and Communication (see Annex 3) provides a more detailed review of knowledge management issues and opportunities.

2.2.5 'Other' factors

- *Diversity of circumstances and needs*. The specific cases of Papua and Papua Barat pose particular challenges. Law No. 21/2001 on Special Autonomy for Papua Province gives the Provincial Government significant levels of authority in financial, political and social matters. The law secures the provision of a Special Autonomy (Otsus) Fund which is set at 2% of the total national allocation to the General Allocation Fund (DAU), with a particular focus on education, health and infrastructure development.[18] However, the implementation of the Law has been slow and incomplete. Presidential Instruction No. 5/2007 on 'Acceleration of Papua and Papua Barat Provincial Development' was subsequently issued, requiring the Governors of Papua and Papua Barat (in collaboration with national government agencies) to develop and implement action plans for accelerating their provinces' development. However, the complex and fragmented nature of Papua and Papua Barat's socio-political economy, combined with the inconsistency of

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[18] Papua now has one of the highest levels of per capita GDPs in Indonesia, and yet also one of the highest levels of poverty.

central government in applying the special autonomy law, indicates that effective implementation of any such plans will be extremely challenging. The key points to make here are therefore that: (i) any support for Papua and Papua Barat must be tailored to their particular circumstances; (ii) a process of incremental engagement will be particularly important; and (iii) access to resources is not currently the binding constraint in terms of improved service delivery.

- *Corruption*.[19] There is contradictory evidence on the impact of decentralisation on levels of corruption. A few studies indicate positive trends in terms of control of corruption, such as a study looking at firm level data set from 2001 and 2004 to investigate whether local democratisation reduced corruption in the post-Soeharto era. Findings suggest that local corruption dropped substantially between 2001 and 2004 in some districts. However, according to many experts, while corruption used to be centralised in Jakarta, decentralisation has contributed to spreading it out to the local and regional levels, leading to more fragmented forms of corruption. A 2008 survey conducted in 39 cities to investigate public satisfaction towards their local governments found that the majority of respondents were disappointed with their local government's commitment to eradicate corruption, and to report practices of corruption, collusion and nepotism.

  Nevertheless, there are also positive signs, with more corruption cases coming to the public's attention (through the media), an increasing number of high profile prosecutions coming to court, as well as evidence that some LGs are taking direct action to investigate and prosecute local officials suspected of corruption.[20]

- *Gender*. As noted in the Australia Indonesia Partnership Country Strategy (2008-2013), the Indonesian Government has strong in-principle commitment to advancing gender equality and women's empowerment. Progress, however, has been mixed and significant implementation challenges remain. For example, gender inequalities in accessing health and education in poor rural areas are considerable, and Indonesia has the highest maternal mortality rate in the region with 307 deaths per 100 000 live births (this figure is more than 1000 in Papua).

  Women are also under-represented in elected leadership positions and management positions in the public service. At community level, men dominate decision making as the household representatives in the public sphere and CSO leadership is dominated by and reflects the perspectives of men, except where organisations focus on women's issues.

  Although there may be awareness about the issue of gender equality, there appears to be a lack of understanding about how to practically go about planning and budgeting to reduce gender disparities and also a lack of commitment amongst some officers to make necessary changes. At LG level there is generally less understanding and commitment to integrating gender into policy and planning amongst leaders and policy makers than in PGs. However this varies between LGs and between government agencies.

  Gender is still viewed by governments as women's business, not that of men, and is associated with Dharma Wanita and Family Welfare Program (PKK) activities (which were established under the Soeharto regime, and therefore have some associated 'stigma'). Meetings concerning gender issues are dominated by women who are sent by

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[19] Sourced from 'Corruption Challenges at sub-national level in Indonesia', Transparency International Publication, 2009

[20] For example, during interviews with government officers in Jayapura District, the design team was informed that a total of six government staff have recently been prosecuted for corruption.

their superiors. There is a need for greater involvement of men, especially those in decision making positions, in understanding the importance of gender equality and being committed to achieving it.

Monitoring and evaluation indicators related to service delivery are rarely gender sensitive and gender disaggregated data (which is necessary for analysis and identification of gender disparities for improved planning) is not always routinely collected or analysed for planning purposes (although much of the BPS data is now gender disaggregated). There is also an expectation within government that any gender activities will require specific budgets in order for them to be implemented, rather than seeing these activities as being integrated into routine planning and programming which already have budgets.

The fourth meeting of the Eastern Indonesia Regional Forum (Forum KTI) which was held in April 2007 discussed the topic of gender perspectives in government services. It concluded that although the government acknowledged the importance of integrating a gender perspective in development planning, there was a lack gender mainstreaming in policies, programming, and activities at both national and local levels. Planning and budgeting was not participatory nor gender responsive. There was a lack of gender equality in access to education, health services and economic development. The human resources of women were not developed to their potential and local women's organisations' capacities were not maximised.

The challenge is therefore to find practical and effective ways in which to promote and institutionalise the mainstreaming of gender equality initiatives into government 'business'.

2.3   Decentralisation and improved Public Financial Management

As noted in Section 2.2 above, there are a broad range of factors that impact on the delivery of essential services at district level. Nevertheless, one issue stands out as being of particular strategic importance to effective decentralisation in Indonesia, namely improved resource allocation and management, at the heart of which is Public Financial Management (PFM).

The reasons why PFM is considered of particular importance are as follows:

- Significant resources are available to both provincial and district governments, but are not being optimally allocated or managed.

- Improved PFM is a 'public good', in that it supports systemic improvements that impact on all areas/sectors of government activity.

- Improved PFM is a key platform for good governance, including increased transparency and accountability.

- Both supply and demand side stakeholders need to be engaged in improved PFM. This includes the executive, the legislature and CSOs.

- Improved PFM directly supports the aid/development effectiveness agenda, in that it builds P/LG capacity to effectively allocate and manage resources from any source, including donor funds; and

- There is both a clear capacity building need and (at least in those provinces and districts with reform minded leadership) a demonstrated demand for support.

The definition of PFM (used in this document) is aligned with that used in the 'Local Government Public Financial Management Measurement Framework'. This tool has been developed jointly by the Ministry of Home Affairs and the World Bank.[21] PFM is broken down into nine strategic sub-areas, mainly referring to processes and procedures.

The main elements of PFM are profiled in Figure 2 below:

Figure 2 – Main elements of PFM
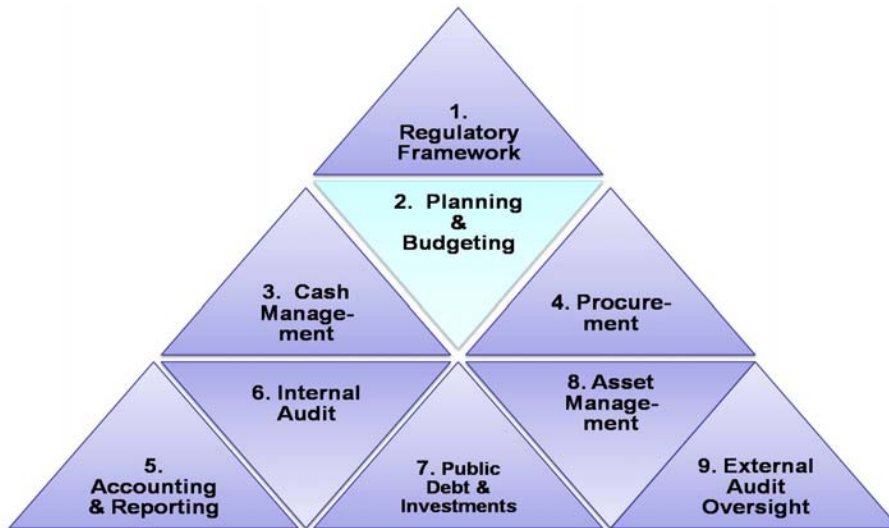
This then begs the next question, 'Are there particular elements of PFM which should be given particular attention/priority'?

While it is recognised that all elements of PFM are important, AIPD needs to focus its attention/resources on priority areas with the highest likely returns in terms of supporting improved service delivery. Lessons learned from previous governance projects which address PFM have also shown that a focus on specific sub-areas is needed to achieve tangible results.

As shown by the results from Public Expenditure Analysis (PEA) already conducted, lack of strategic resource allocation across sectors, poor spending prioritisation within sectors, low absorption rates, and lack of sound planning/management information are key constraints to improving service delivery, rather than the availability of financial resources as such. The development returns can thus be high from reviewing public expenditures to identify those with high potential returns, and on-going, low-return expenditures that could be usefully re-prioritized toward high-return uses. Where this process works well, the fiscal space opened up for new investment or more productive current expenditures can be large. One goal of public expenditure management reforms is thus to put into place systems that routinely review and recalibrate priorities.

Also, without first tackling planning and budgeting issues, the other elements of PFM will not by themselves lead to improved service delivery outcomes.

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[21] Ministry of Home Affairs, The World Bank Indonesia. Indonesia: Local Government Public Financial Management Measurement Framework. Jakarta, 2005.

This therefore suggests that a natural strategic entry point for AIPD support will be on supporting improvements in planning and budgeting (resource allocation/spending mix), budget execution and monitoring, and establishing a clearer link to service delivery priorities and targets. This will include support to improving access to relevant planning/management/service delivery information (for both government and community), and strengthening the (demand side) mechanisms through which the public can participate in policy formulation, plan and budget preparation and service delivery monitoring.

While planning, budgeting and the monitoring of budget execution will therefore be a primary focus for AIPD support, where there is demonstrated need/demand and links to priority service delivery outcomes, AIPD will also be responsive to providing capacity building support to strengthen other PFM elements, such as for procurement and audit processes. Indeed, there is a high level of demand for general PFM knowledge/skill development at the P/LG level, which AIPD plans to address through a number of strategies, including the expansion of the MOF/Universities PFM network. Also, through the use of a number of existing analytical and measurement tools (such as the PFM measurement framework and PEA), AIPD will support ongoing analysis and monitoring of progress/change in all PFM sub-systems, not just planning and budgeting.

However, it may then be asked 'why' will AIPD support be any more effective than past (often unsuccessful) attempts to strengthen P/LG PFM capacity? The answer lies in the fact that the AIPD support strategy specifically takes into account (and addresses) some of the main reasons why many previous efforts have had limited impact, namely:

- PFM capacity building has often been approached largely as a technical task, without adequate focus on the institutional and political dynamics involved in the planning and budgeting process;

- The legislature has often been left out of the equation, and the deeply political process of planning and budgeting thus not adequately accounted for.

- Inadequate attention has been given to promoting CSO/demand side participation in improving PFM systems;

- Technical Assistance has often been supply, rather than demand, driven;

- Assistance has often been provided through short-term technical inputs, rather than through supporting long-term strategic partnerships between P/LGs and local sources of technical support/expertise; and

- Assistance has often not adequately integrated work 'on the ground' (in districts / provinces) with work on improving the policy and regulatory framework at the national level.

2.4 Key stakeholders

The key stakeholders who can influence the more effective allocation and management of public resources (and thus improved service delivery) are profiled in Figure 3.

Figure 3 – Profile of key stakeholders
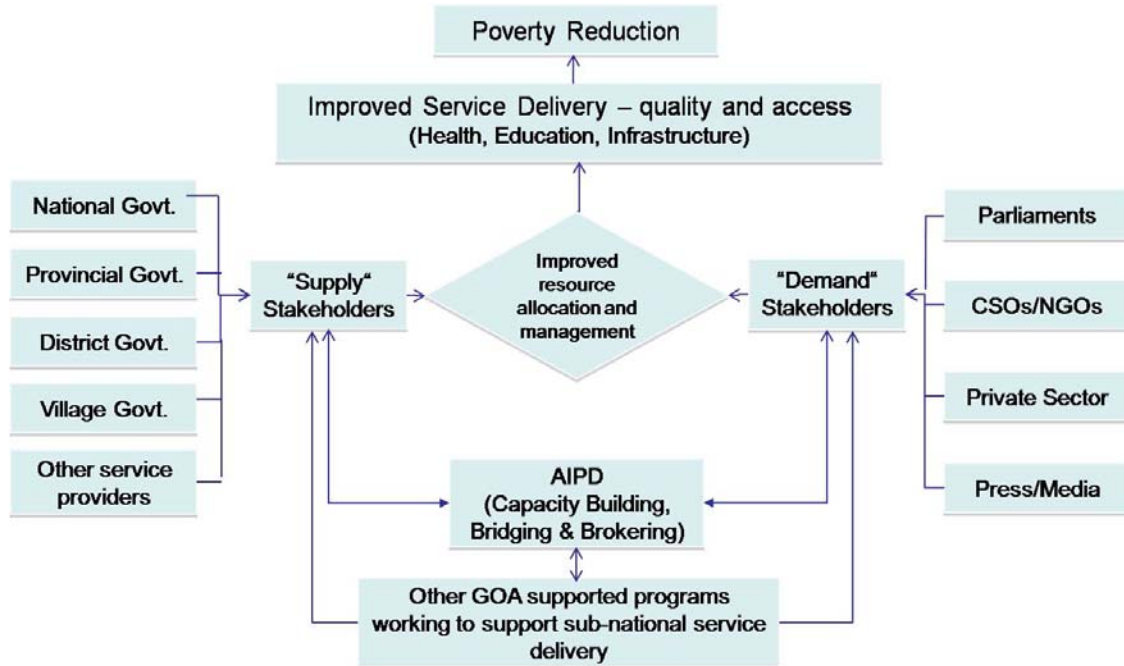
The following main points are worth highlighting:

Supply side

- National government plays a critical role given its influence over allocating the bulk of financial resources available to P/LGs, its legislative and regulatory powers and the fact that it retains significant control over government staffing structures, numbers and performance incentives. Ministry of Home Affairs, BAPPENAS and the Ministry of Finance are the key central government agencies with respect to decision making on decentralisation and resource allocation issues.

- Provincial governments have lost most of their direct authority over districts (although they have regained some), but nevertheless retain important support, capacity building and monitoring functions. They also retain close links to National Government (as de-concentrated agents of National Government).[22]

- Districts have primary responsibility for the delivery of those key social services that can impact most directly on the welfare of citizens (and particularly the poor), namely health, education and infrastructure. The *Bupati/Walikota*, the *Sekda* (the most senior civil

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[22] Papua is nevertheless a 'special' case, where under the special autonomy law, districts are responsible to the governor.

servant) and *BAPPEDA* are key players in coordinating resource allocation and management decisions at the district level.

- Village government is where the 'day to day' concerns of village people are mostly addressed. Village governments access financial resources both from District and Provincial Government budgets as well as directly from nationally managed programs such as PNPM. However, they do not have any formal responsibility for managing the delivery of key public services.

- 'Other' service providers include religious-based organisations. As previously noted, these cover a significant proportion of primary schools and/or madrasahs in the targeted provinces, as well as the provision of primary health care.

Demand side

- Local parliaments have a key role to play on the 'supply side' of service delivery, but also on the 'demand-side' as the elected representatives of the people and given their role as a 'watchdog' over the activities of the executive. Parliamentary Secretariats are also a key stakeholder, given their important role in providing support services to parliamentary members, as well as providing a conduit for communication/information exchange with the executive and the public in general.

- CSO/NGOs include a broad range of organisational 'types', including those advocating on governance reform issues, membership organisations (e.g. for women, farmers, small business, health workers, teachers, etc), professional associations, business organisations, universities and religious organisations. Such groups have a key role to play in helping governments to frame more effective policies, monitoring service delivery and lobbying/advocating for improvements.

- The private sector depends on government to provide a supportive 'enabling' environment in which to do business, for example with respect to levies and taxes, issuance of business licences and regulations regarding environmental protection, occupational health and safety, etc. They can also have significant lobbying power, given the financial resources at their disposal.

- A free (and effective) press/media is a cornerstone of a healthy democracy. It can provide independent scrutiny over the actions of government (politicians and public servants), influence public opinion, and deliver information to a mass audience. The press/media should therefore be seen as a key partner in promoting demand side pressures for improved service delivery and government accountability.

The role of AIPD

Figure 3 highlights the fact that AIPD is designed as a mechanism to support demand driven capacity building initiatives, working through the organisational structures and systems of both demand and supply-side stakeholders. It will not 'directly' or unilaterally undertake any activities, and will not set up new or parallel implementation structures. AIPD will also play a key role in 'bridging' communication gaps between key stakeholders, and helping to 'broker' differences in interests/perceptions (e.g. through providing support for evidence-based decision making and through facilitating dialogue).

AIPD will also support more coordinated and coherent GOA engagement at P/LG levels. This is described further below in section 2.5.1.

2.5   Scope and coherence of donor support

Over the past decade, donors have started to change the way they do business in order to make their aid more effective.[23] The Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008) aim to increase aid effectiveness through promoting partner government ownership of the development agenda, aligning the management/allocation of aid monies with partner systems, enhancing country led coordination donor mechanisms, and strengthening mutual accountability for achieving development results. The Jakarta Commitment (2008) reflects a specific commitment by the GOI and donors to apply these principles in Indonesia. Progress is being made, but much remains to be done, with donor support efforts often still lacking adequate coherence and coordination.

2.5.1 GOA policy and programs

The Australia Indonesia Country Strategy aims to strategically support sustainable poverty reduction in Indonesia. The goal is for the Governments of Indonesia and Australia to work in partnership to achieve a more prosperous, democratic and safe Indonesia by implementing Indonesia's National Medium Term Development Plan. The Strategy's key pillars are:

- Pillar 1: Sustainable growth and economic management

- Pillar 2: Investing in people

- Pillar 3: Democracy, justice and good governance

- Pillar 4: Safety and peace

The proposed AIPD delivery strategy focuses specifically on supporting Pillar 3, and in particular the objective of 'improved local government and public financial management, responding to local demand'. It is also consistent with the principle of 'investing in people' and should indirectly contribute to sustainable growth and economic management at the local government level.

There is a particular imperative for AusAID to invest in strengthening P/LG capacities, as Australia's substantial development assistance investments in Indonesia (including in health, education, infrastructure, and to the GOI's own poverty reduction program PNPM) will increasingly rely on the ability of LGs to manage resources and implement policy.

AIPD will directly contribute to improved coordination and coherence of GOA investments at the LG level (particularly in the targeted provinces) through:

- Supporting development of P/LG capacity to better allocate and manage resources from any source, including the coordination of donor investments.

- The AIPD Program Director taking a proactive role in convening regular coordination/information sharing meetings with the managers and operational staff of other development programs working on improving LG service delivery in the four targeted provinces, such as ACCESS, AIBEP, AIPMNH and SADI 2.

- Providing a source of lessons and guidance to AusAID on how it can better design and manage its 'sectoral' programs (primarily regarding who should be engaged and how), so they are supportive of decentralisation policies and local capacity building.

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[23] A World Bank report in 1998 entitled 'Assessing Aid: What works and doesn't work', was a significant milestone in critiquing donor practices and proposing new aid delivery approaches and methods.

- Helping to establish what the basic 'parameters' (or conditions) are for providing effective support to improved decentralised service delivery.

- Supporting development of a common results framework for all AusAID programs working at the P/LG level (e.g. a set of 'horizontal indicators').

- Providing a central point(s) of contact in the four targeted provinces (and targeted districts) for other AusAID sectoral programs (e.g. to link into/engage with P/LG governments in a more coordinated and coherent manner); and

- Helping ensure provincial and district authorities in the four targeted provinces are better informed about AusAID's overall program of support.

2.5.2 Other agencies/donors

There have been, and still are, a large number of donor supported programs aimed at supporting decentralisation, good governance and improved service delivery. It is therefore imperative that AIPD assistance be delivered in close collaboration with these donor partners.

Key donor partners will include (but not be limited to):

- The World Bank, which continues to play a key role in managing the Decentralisation Support Facility, as well as supporting various initiatives aimed at improving PFM (including PEAs and PFM assessments).

- The Asian Development Bank, which is involved in financing the development and implementation of sustainable capacity building plans for local governments.

- CIDA, which is supporting a program of incentives for LGs to improve service provision in Sulawesi, and have recently expressed interest in supporting the AIPD delivery strategy.

- USAID which has been financing a Local Government Support Program.

- GTZ, which has supported decentralisation initiatives both at the policy and implementation levels (including in NTT and NTB); and

- The Asia Foundation (TAF), which has a long track record of supporting good governance initiatives in Indonesia, and has recently produced a draft document outlining its 'Programming scenarios for the next phase of democratic local governance in Indonesia' (July 2009). TAF's proposed program strategy in many ways mirrors the AIPD strategy and, given their well established networks of local non-government partners, will themselves be a particularly important partner for AIPD to collaborate with.

The existing Decentralisation Support Facility (DSF) is also a key 'player' (initially established by five main donors, namely ADB, DfID, the Netherlands, UNDP and the World Bank, to support improved coordination and effectiveness of donor support to decentralisation).

2.6 Summary of lessons learned

As noted in the document '*Sub-National Level Engagement in Indonesia – A Framework for AusAID 2010 -2015*', the key lessons from AusAID's experience of supporting sub-national development include the following:

- How the government systems work in practice is often different to how they work in theory. Investing time and resources in gaining a comprehensive understanding of how they operate is a worthwhile investment (such as through PEAs and PFM assessments).

- Key challenges at the local level are leadership and capacity, and there is a need to work with elected leaders and parliament. Also, reform minded leadership is critical to making headway in supporting public service delivery improvements.

- Public financial management has central importance in making the whole system work.

- Having a local presence pays off on numerous levels, including building better relationships with local partners and increasing responsiveness to real needs.

- Stand alone short term training doesn't give returns, and instead there is a need to embed training and capacity building initiatives into local institutions.

- Acting as the facilitator to bring 'active communities' and 'responsive governments' together works.

- Corruption risks should be managed, but strategies must be pragmatic and support building local systems of accountability and transparency.

- M&E systems need to be relevant to, and build the capacity of, P/LG partners; and

- Using the Ministry of Home Affairs for national scale up of pilot activities can work (e.g. PNPM and the 'One Stop Shop' concept).

2.6.1 ANTARA

There are a number of lessons from ANTARA that although perhaps not unique are nonetheless significant to its successes in supporting local government reform and sustainable outcomes:

- Give greater focus to building government capacity to deliver services rather than supplementing these services using parallel delivery mechanisms, for example by supporting GOI university programs to train civil servants in PFM.

- Maximise the use of locally sourced expertise / technical advice in order to help build sustainable local capacity and enhance cost-effectiveness.

- Support participatory approaches that are led by local partners, for example in conducting public expenditure reviews.

- Maintain a clear focus on a manageable set of integrated activities with clear and measureable results, in this case a clear focus on improving resource allocation and management (particularly PFM) systems that are linked to better service delivery outcomes

- Ensure the legislature, not just the executive, are actively involved in program activities given their critical role in resource allocation/budget approval decisions.

- Ensure staff and contractors have appropriate operational experience, and a strong knowledge of culture and context; and

- Invest time and resources in building relationships and actively engaging with national level and P/LG authorities.

The last of these points is a key element of ANTARA success, which will continue in AIPD. ANTARA has been particularly good at building, maintaining and leveraging stakeholder relationships to better make sense of and negotiate the local "political economy". This has helped identify points of influence and engagement to facilitate program development and implementation.

Having the right people to do this is crucial. Under ANTARA the PD plays a particularly strong leadership role, combining knowledge and experience of Indonesian culture, context and

language with extensive operational experience in aid program management. Insights and contacts available to the PD, and understanding of the political landscape, have allowed for meaningful engagement with people of influence, assisting program development, implementation and expansion. For instance, from beginnings in NTT, ANTARA has expanded and is co-located with local government in NTB, Papua and Papua Barat. Engagement of local staff equipped with the skills, savvy and contacts to negotiate the local political economy in eastern Indonesia has also been crucial.

Experience attests to the fact that "one-size does-not-fit-all". Different circumstances require different approaches, technically as well as politically. Leadership is one of the most critical determinants for success or failure of reforms. AIPD will build on the ANTARA experience, using smart recruitment and operational practices to ensure productive engagement with local political economies. AIPD will identify and leverage opportunities to support demand-driven reforms, helping to formulate priorities and support the implementation of the locally-set agenda, focussed on helping local administrations better spend public funds for better outcomes.

2.6.2 Technical Assistance

In recognition of the many previous failures of (inappropriately used/managed) TA to deliver sustainable benefits, AIPD will rigorously apply the following principles:

- Use of TA must be based on demonstrated need and local demand.
- TA should focus on institutional, rather than individual, capacity building, and generally play a facilitating/mentoring role.
- Prioritise use of local expertise from within targeted provinces and Indonesia, as part of the overall capacity building and sustainability strategy.
- Use local institutions as a source of TA (e.g. GOI agencies, universities, businesses, NGOs) to help build sustainable partnerships.
- Develop the terms of reference for TA with local partners (the 'clients' of the services), and ensure TA is accountable to local partners for the quality of their product/services.
- Support the development of local partner capacity to manage TA effectively (e.g. District governments); and
- Only use expatriate expertise where it is clear (and agreed with local partners) that this is appropriate and cost effective.

AIPD will also engage at national level to support evidence-based policy making that impacts positively on P/LG resource allocation and service delivery capacity. AIPD will also engage with the targeted provincial and district legislatures as key partners. It will not directly engage in delivering services.

3 Scope of AIPD support

3.1 Guiding principles

Ten key principles will guide the way in which AIPD provides support, namely:

1. Ensure consistency with the Paris Declaration principles, the Jakarta Commitment and AusAID's '*Sub-National Engagement Indonesia – A Framework for AusAID 2010 – 2015*' (which includes a focus on working with, through and 'on' Government systems).[24]

2. Promote a gender and poverty inclusive approach through all supporting actions.

3. Take a long-term perspective, namely engagement for ten years or more in supporting decentralisation.

4. Engage actively at national level to support systemic improvements that can be replicated across provinces and districts, based on 'evidence' from the field.

5. Support provincial/district governments to improve their capacity to improve service provision (rather than AIPD directly providing services) and work with legislators as well as the executive, given their key role in resource allocation decisions and establishing the policy/regulatory framework.

6. Support demand-side capacity building through partnerships with CSO/NGOs, and in particular focus on 'bridging and brokering' initiatives that enhance constructive dialogue on specific service delivery reform agendas/priorities.

7. Be flexible – to respond to diverse contexts and needs (e.g. between provinces and districts) and changing political and policy environments.

8. Be able to scale up, or scale down, depending on progress being made, opportunities identified and constraints encountered.

9. Test and prove approaches/tools that can be replicated across provinces/districts; and

10. AIPD should not present itself as a 'new' program, but as a support mechanism for implementing the GOI's decentralisation policies, which builds on the ANTARA experience.

3.2 Duration, geographic coverage and phasing

AIPD will initially be financed for a period of five years, from 2010 to 2015. However, it is clearly recognised that the objective of improving service delivery is an ongoing endeavour, and one which may merit donor support over a much longer period of time.

AIPD will focus its work in four targeted provinces, namely NTT, NTB, Papua and Papua Barat, which have some of the worst poverty indicators in Indonesia. Within these provinces there are a total of 71 districts (NTB 10, NTT 21, Papua 29 and Papua Barat 11), and clearly AIPD cannot provide support to every one of these.

An important part of AIPD's strategy is therefore to be selective in deciding which districts to work with in terms of providing any significant level of sustained support. Selection of districts will be undertaken in partnership with provincial authorities (e.g. the Governor, Sekda and Bappeda), with a view to identifying districts with a clear commitment (and basic ability) to

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[24] AusAID's support will align with GOI policy objectives, particularly as outlined in the Chapter on Revitalisation of the Decentralisation and Regional Autonomy Process in the 2004-2009 National Medium Term Development Plan. A similar chapter is being drafted for the 2010-2014 Plan.

engage in PFM and related reforms aimed at improving service delivery. A process of 'self-selection' by interested LG's may be trialed, as a means by which to promote LG ownership of and commitment to AIPD supported PFM reform and capacity building initiatives.

Indicative criteria for district selection are listed below:

1. Have a satisfactory PFM score (based on the PFM assessment process/tool).

2. Have clearly stated service delivery improvement objectives and targets.

3. Commit to providing counterpart resources from their own district budget to support service delivery improvement activities.

4. Agree to publish their budget and budget implementation report, and make this available to the public; and

5. The *Bupati* or *Walikota* sign a letter of agreement with AIPD clearly articulating service delivery improvement objectives, the indicative activities to be jointly undertaken, and respective responsibilities and commitments.

It is nevertheless understood that there may be other compelling 'political' criteria that may need to be taken into account, particularly regarding the selection of districts in Papua and Papua Barat. This will be up to the PCC to deliberate on and determine.

It is currently anticipated that AIPD might support a substantive program of work in up to four districts in each province over the period 2010 to 2015 (total of 16 districts). While doing so, AIPD will nevertheless support the sharing of knowledge about what is working well, both horizontally (between districts and provinces) as well as 'vertically' (with national government to help inform evidence-based policy making).

It is also anticipated that AIPD will, as appropriate, support the four targeted provinces to draw on the experience/good practices of other provinces in Indonesia. For example, study tours to East Java could be organised (where there are some notable examples of successful district level reforms being implemented) for key stakeholders in AIPD targeted districts.

In terms of the phasing and 'pace' of AIPD support, this will be determined primarily by an ongoing assessment of circumstances 'on the ground'. Prior to providing any targeted and sustained support at the district level, it will be important to analyse the situation, collect basic data/information, establish working relationships and a clear joint commitment to objectives, and reach agreement on a program of work and responsibilities. Support will then be provided as quickly as possible, but as slowly as necessary, in line with demand from, and capacity, of local partners. In NTT, where ANTARA has developed strong working relationships with partners over the last five years, more ambitious targets can be expected. On the other hand, in provinces where AIPD has only just begun to establish a presence, the initial focus should be on building working relationships with key institutions/partners, establishing common objectives and a clear program of work, and setting modest targets to achieve.

The 'process' of providing AIPD support is profiled in Figure 4 below. This diagram should be read from the bottom up.

The primary beneficiaries of AIPD support are expected to be the men, women and children of NTT, NTB, Papua and Papua Barat who depend on government supported services for their health, education and infrastructure needs. Particular focus will be given to targeting the needs of women, children and the poor.

AIPD's primary partners are members of the provincial and district executive and legislatures, civil society groups working to improve governance and service delivery, and key decision makers in central government agencies such as MOHA and MOF.

Figure 4 – Process for providing AIPD support

3.3 Overview of strategy objectives and structure

AIPD objectives have been formulated with a view to establishing a logical hierarchy of desired objectives (or results), which can be measured and managed, namely:

- **Impact**: The longer term developmental objective to which all AIPD initiatives should eventually contribute.
- **Outcome**: The medium term objective, which supports the desired 'impact' and to which all 'outputs' should contribute.
- **Outputs**: The more specific objectives that will support the achievement of the outcome, and which are the result of implementing activities 'on the ground'; and
- **Indicative Activities**: The actions/initiatives that need to be developed and then implemented to deliver outputs.

The AIPD's objective statements are profiled in Figure 5 in the form of an 'objective tree'.

It is important to note that AIPD's planned 'impact' is not poverty reduction, but rather 'improved service delivery'. This is in order to help keep AIPD's objectives realistic and more measurable. It is implicitly assumed that improved service delivery (particularly in health, education and infrastructure) will make a positive contribution to addressing poverty.

AIPD will directly contribute to achievement of Millennium Development Goals in the targeted provinces, specifically with respect to: (i) achieve universal primary education; (ii) promote gender equality and empower women; (iii) reduce child mortality; (iv) improve maternal health; and (v) combat HIV/AIDs, malaria and other diseases. The monitoring and evaluation framework (which outlines the recommended approach for assessing progress and performance) is provided at Annex 4, and briefly summarised in section 4.4.

Figure 5 – AIPD objective tree and component structure

Impact
Improved Service Delivery – Quantity/Quality and Access
(with specific focus on Health, Education, Infrastructure)

Outcome
Improved resource allocation and management

Menu of outputs
Improved policies/regulations, plans/budgets, systems/mechanisms, knowledge/skills and partnerships

1. "Supply-side" outputs

1.1 Clear mechanisms applied for improved allocation of funds both *between* different levels of government and *within* provincial and district governments
1.2 Performance-based incentive mechanisms piloted for improved service delivery
1.3 P/LG (internal) information management systems improved for planning, budgeting and monitoring
1.4 Knowledge and skills of PFM improved within provincial and district governments

2. Knowledge sharing outputs

2.1 Information and research results shared on key/common decentralisation issues, including lessons learned and good practices
2.2 Peer to peer learning opportunities provided and strategic partnerships on decentralisation/reform established or strengthened
2.3 Improved LG-led donor coordination and information sharing mechanisms established
2.4 Enhanced coherence and coordination of AusAID support to decentralisation/governance capacity building

3. "Demand-side" outputs

3.1 Improved LG public information programs and mechanisms established
3.2 CSO networks/alliances strengthened (which focus on improving government service delivery)
3.3 Enhanced mechanisms / fora established for multi-stakeholder dialogue on budget preparation process, execution and monitoring
3.4 Knowledge and skills of DPRD members enhanced on resource allocation and management issues

3.4   Vision of success

The vision of success at the end of 2015 has five elements, as follows:

1. P/LGs are allocating and managing their available financial resources in a way that links planning to expenditure and stated service delivery improvement targets, particularly for health, education and infrastructure.

2. Improved P/LG decision making, resource allocation and management systems are contributing to improved health, education and infrastructure service delivery, particularly regarding access to these services by poor and marginalised groups, including women.

3. Demand side stakeholders are playing an integral role in P/LG planning, budgeting and service delivery monitoring processes and fora; and there is evidence that community aspirations are reflected in the budget.

4. Lessons learnt from AIPD supported reform initiatives are being effectively shared, replicated as appropriate and are influencing national level policy making and resource allocation decisions in support of decentralisation reforms.

5. Lessons learnt from AIPD are being fed into our health, education and infrastructure sectoral programs to improve their efficiency.

6. Partners are kept informed of the work being undertaken through the AIPD, and regard Australia (AusAID) as an effective partner offering streamlined and coherent support for improved service delivery.

3.5   Differentiating the scope of support at different levels of government

AIPD will work with and support national, provincial and local level government partners. It will also facilitate the exchange of knowledge/information between the different levels, including with/to village level government.

The scope/type of support will also vary between the different levels of government. At the national level, the main focus will be on supporting improvements in policy, regulations and financial allocation mechanisms (in close collaboration with other GOA funded programs such as for Economic Governance). At the provincial level, it will be on supporting the development of their capacity to support and monitor LGs. At the district level it will on building service delivery capacity, through improved resource allocation and management systems. And at the village/community level, it will be on supporting their capacity to 'demand' better services.

Nevertheless, the main focus of all supporting actions will be to improve the capacity of Districts to allocate and manage resources for improved service delivery outcomes. It is therefore anticipated that the bulk of AIPD resources and efforts will be directed to the District level. The rationale for this P/LG focus includes: (i) it is consistent with GOI decentralisation policy; (ii) it is consistent with AusAID's country strategy, to focus on the needs of poorer areas in Eastern Indonesia; (iii) AusAID already has a well established presence (and strong local partnerships) in the targeted provinces; (iv) there are already a range of donor supported programs working at the national level on governance reform, including AIPEG (e.g. it is a relatively 'crowded' field); and (v) there is a need to base national level policy and regulatory improvements on better evidence of what is working and what is not in 'the field'. Figure 5 provides an overview of how the scope of AIPD support will be differentiated at these different levels.

Figure 5 – Differentiating AIPD support at different levels
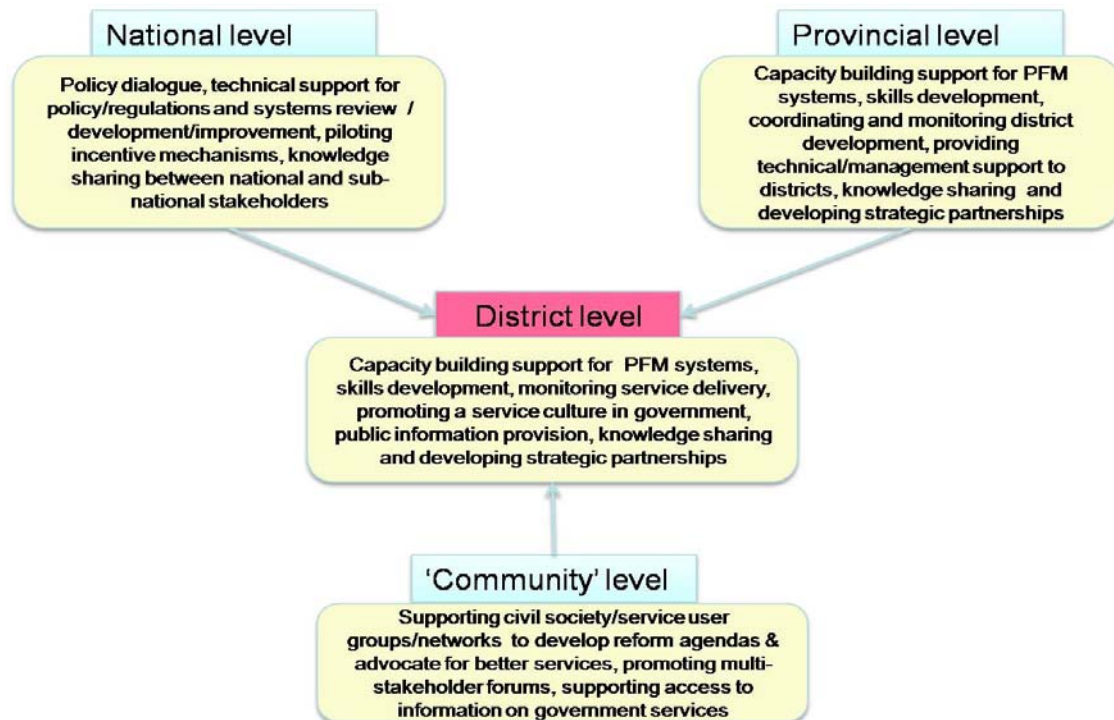
3.6   Description of outputs and indicative activities

This section provides a description of each of the anticipated outputs, as well as indicative activities that will be developed and implemented to support output delivery. The activities are described as 'indicative', because if AIPD is to be a demand driven, flexible and responsive mechanism, all activities cannot be prescribed in advance. Also, it is not until the required analytical work has been carried out on each P/LGs PFM systems (e.g. Public Expenditure Analysis) that the specific capacity development requirements can be determined.

During the preliminary phase of AIPD implementation (or indeed as part of the ongoing ANTARA program) it is also expected that the fiduciary risks of working through partner government systems will be assessed in more detail, based on an assessment framework currently being trialed by AusAID in Papua New Guinea. Lessons from the HIV program will also be considered and integrated into AIPD activities where appropriate.

COMPONENT 1 – SUPPLY SIDE

Output 1.1 – Clear mechanisms applied for improved allocation of funds both between different levels of government and within P/LGs

As noted in the situation analysis, there is significant scope for improving the mechanisms used to more effectively allocate resources between different levels of government and within P/LGs.

The following indicative activities will therefore contribute to the achievement of this output.

Activity 1.1.1 Implementation of Public Expenditure Analysis (PEA).

Public expenditure analysis provides critical information on which to base the development of resource management and allocation improvement plans within P/LGs. It also provides baseline data and (if undertaken in an appropriately participatory manner) is an important learning and capacity building activity in itself.

Among the targeted provinces, PEA has already been undertaken in Papua (2005, and is currently being updated), NTT (2009) and is currently being implemented in NTB. Despite high "buy-in" from the Provincial Governments, there are several lessons learned about the effective design and implementation of PEA, namely: (i) the overall process – from data collection to launch of the report – should not exceed 1 year; (ii) in addition to academics from local universities, various other stakeholders such as local CSO/NGOs, including women's organisations, and government officials need to be actively involved in the process; and (iii) the PEA should focus on pressing issues rather than addressing all normative compliance issues. Several areas of analyses, such as comparative analysis deconcentrated/Tugas Pembantuan funds vis-à-vis local budget, quality of expenditure, and operations and maintenance (O&M) vs. capital expenditure, need to be enhanced; (iv) a PEA that focuses on the provincial level and only includes a few districts is of limited benefit for district governments, and therefore full coverage of all (interested) districts/municipalities in each province is recommended; and (v) limited efforts have been made to follow-up PEA results, particularly at the district level (see Activity 3.1.1 on the demand side).

AIPD will therefore support the implementation of 'improved' PEAs (as outlined above), based on commitment and demand of the PGs and LGs in Papua Barat and remaining districts of NTT in 2010-11. PEAs will be used as an important reference to help target assistance, and will then be implemented again in all targeted provinces and districts in 2015 to help measure changes in the quality of resource allocation and management.[25]

Activity 1.1.2 Improvement of budget preparation and allocation mechanisms.

The program will assist participating P/LGs to reform their planning, budgeting and budget execution monitoring processes, so that their health, education and infrastructure priorities and targets are more effectively translated into expenditure priorities, and are then appropriately monitored. AIPD will focus its support on the following particular areas:

- Inclusion within RPJMD and health and education *Renstras* of a set of clear priorities, performance indicators and targets and annual budget estimates. One tool that can be used to support improved budget preparation is the 'Consolidated Planning and Budgeting Matrix', known as MKPP+ (see also Activity 1.3.1 below), already successfully piloted under ANTARA;

- The provision of budget ceilings prior to the start of the sectoral planning process (based on enhanced RPJMD and *Renstras* as discussed above);

- Enhancement of public participation in sectoral planning discussion (e.g. Forum SKPD on health and education) and budget deliberations by DPRD;

- Enhancement of budget execution monitoring processes and capacity; and

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[25] AusAID has already provided AUD 4 million to the PEACH Trust Fund of the World Bank that will be used mainly to conduct PEA and to improve local capacity in conducting PEA. AIPD will therefore need to liaise closely with the World Bank to avoid duplication of effort.

- National and provincial-level advocacy to improve the allocation and transfer of funds to the district budget for activities under the authority of LGs.

Activities to support the transparency of the budget and budgeting process (public access to information) will also be supported under Activity 3.1.1.

Activity 1.1.3 Development of systems to integrate community driven-development (CDD) programs into district planning and budgeting processes.

Currently there are various CDD programs implemented in most districts in Indonesia. The most significant of these is the nationally managed 'National Community Empowerment Program' (PNPM) which was launched in 2008 to cover all sub-districts in Indonesia. Most districts also provide village block grants (ADD) and some provincial governments also implement other CDD programs. Most of these programs have their own procedures and mechanisms, mainly running parallel to LG planning and budgeting processes.

With the strategy to integrate PNPM into local government processes by 2015, AIPD will support piloting this integration in some of the participating districts and municipalities, starting in 2011-12. National government ministries implementing PNPM (mainly MOHA and Public Works), PGs implementing CDD program(s) and LGs will be facilitated to review existing mechanisms and adopt demonstrated good practices (e.g. transparent, participatory, pro-poor and gender-sensitive planning and budgeting mechanisms) into their own processes.[26] This activity will be integrated with enhancement of the budgeting mechanism implemented under Activity 1.1.2 and will be complemented by Activity 3.1.1 on the demand side. It will also be integrated with the larger capacity building program to be delivered under AusAID's strategy for engagement with PNPM.

Output 1.2 – Performance-based incentive mechanisms piloted for improved service delivery

A lack of performance-based incentives for P/LGs to improve resource allocation and management and service delivery standards is one of the key weaknesses of the current decentralisation funding system, because the equalization formula effectively "punishes" efforts for improved efficiency.

Activity 1.2.1 Development of institutional performance-based incentive mechanisms.

AIPD will engage with the Ministry of Finance (MOF), particularly the Directorate General for Fiscal Balance (DGFB), as the key counterpart responsible for performance-based incentives in intergovernmental fiscal transfers.

AIPD will work with DGFB to support the piloting of an incentive mechanism based on the existing 'Delivery Improvement and Local Governance' (DIALOG) program design.[27] During the preparatory phase of DIALOG, three LGs have already been selected in both Gorontalo and Papua based on their PFM Assessment ratings (see Activity 1.4.1).[28] These LGs have already signed a Memorandum of Understanding to participate in the program (in September 2008), and

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[26] The AusAID funded ACCESS program had wide experience of promoting the "one village one plan" concept, as well as promoting gender and poverty inclusive planning approaches, that can be used to inform this process.

[27] The DIALOG design would nevertheless need to be reviewed and refined/revised as required prior to implementation, given that it is now almost two years old.

[28] These LGs are: Kota Gorontalo, Kabupatens Gorontalo and Pohuwato in Gorontalo Provinces and Kota Jayapura, Kabupatens Jayapura and Biak in Papua Provinces.

have agreed to develop medium term strategies and investment plans to improve access to and quality of health and education services. These plans are expected to be finalized by the end of 2010. Efforts will be made to ensure that these plans are gender responsive.

Based on DIALOG's Performance Agreement, successful preparation and adoption of the plans, improvement in PFM score, improvement in budget transparency and preparation process, and improvement of spending mix in the health and education sectors will make the LGs eligible to access financial incentives and further capacity building/TA support. The performance of participating districts will be evaluated on an annual basis.

A financial incentive grant (a total amount of IDR 12-16 billion per district) for LGs (not including those in Papua) would be provided jointly by AIPD and the provincial government, with the share covered by the provincial government increasing over time for three years. In Papua, the grant will come from the special autonomy (*otsus*) funds, with support from AIPD to design and implement the performance-based incentive mechanism. In addition, support will be provided to the PG of Papua to improve the allocation formula for general grants (non performance-based) from the province to districts. It is envisaged that AIPD will support this activity from Year 2 to Year 5 in Papua (after elections for the Papuan Governor have been completed in late 2010).

A review of this activity in 2013 (as part of an AIPD mid-term review) will help decide whether or not the pilot should be expanded to other districts/municipalities in the two provinces and/or to also expand to other AIPD provinces. Based on lessons learned from this pilot (and other relevant initiatives), the DGFB will also be supported to design a systemic inter-governmental performance-based incentive (financial allocation) mechanism.

For the case of Special Autonomy Funds in Papua and Papua Barat, AIPD will assist the provincial governments in developing a distribution formula that is in line with the existing legislation, partially earmarking these funds. Currently, the provincial government does not allocate these funds based on needs or progress in achieving development outcomes, leaving a question mark over the effectiveness of how these funds are being used.

Activity 1.2.2 Performance Monitoring.

AIPD will pilot the utilization of MKPP+ in NTT (and probably NTB) as a tool to monitor and determine performance based funding allocation for provincial governments. The original tool will be utilized in Papua, where it has already been partially implemented. Provincial governments will also be supported in utilizing MKPP+ as a tool for monitoring LGs' institutionalisation of MKPP.

In addition, support will be provided for developing and piloting 'new' performance monitoring mechanisms as and when required, based on the lessons learned from the application of the MKPP tool. These could include performance monitoring mechanisms related to pro poor and gender responsive service delivery.

Activity 1.2.3 Support access to training and learning activities.

In addition to the financial 'institutionally based' performance incentives that will be provided under activity 1.2.1, access for civil servants to pursue post-graduate degree and specific training in various areas of regional development will be offered as an incentive for selected (high performing) government employees. P/LGs will understand that both women and men will be considered wherever possible and that gender equality is a principle to be applied in participant selection. It is envisaged that AIPD will work with the participating PGs to facilitate opportunities for officials from high performing P/LGs to access: (i) scholarships for in-Indonesia master/doctoral education; (ii) specific training courses in the area of public finance, economics,

public policy, etc.; and (iii) English preparation courses to increase competitiveness for obtaining out-of-country scholarships such as Australian Development Scholarships (ADS) and Australian Leadership Awards (ALA).

This activity will be implemented in all participating provinces, in cooperation with reputable Indonesian universities and relevant GOA agencies, in years 3-5 of AIPD implementation.

Output 1.3 – P/LG (internal) information management systems improved for planning, budgeting and monitoring

Improving resource allocation and management requires that relevant data of adequate quality is available to the right people at the right time. Many P/LGs are struggling to do this. In most cases, the issue is not that there is no information available, but rather that the information is not adequately analysed, exchanged and then acted on in an appropriate or timely manner.

Activity 1.3.1 Support for developing management information systems.

AIPD will support participating P/LGs to build their capacity to organise and manage important data/information that is needed for planning, budgeting and for monitoring budget execution and public service delivery. In each P/LG, the various units responsible for collecting and managing data/information and the primary users of the data[29] will be facilitated to discuss and agree on data needs, management processes and responsibilities.

Based on the consensus, AIPD will then support the process of collecting, documenting, and managing existing data/information with regard to plans, budgets, expenditure and service delivery standards. It is important to note that AIPD does not intend to develop a computerised and integrated information management system, but rather work with/on existing systems and computer software. Making the most of existing BPS data will also be given a high priority.

This activity will be supported on an ongoing basis, but with particular emphasis in the early years of AIPD implementation.

Output 1.4 - Knowledge and skills of PFM improved within P/LGs

The introduction of new GOI regulations on PFM systems (e.g. performance based budgeting and accrual accounting) increases the need to improve the capacity of P/LG officials and, to some extent, local legislative (DPRD) members, to comply with requirements. In addition, increased BPK (State Audit Agency) activity (and the dissemination and use of audit results) is driving demand from P/LGs to improve their PFM.

The MOF responded to this demand by establishing a local university network to provide Regional Financial Training (*Latihan Keuangan Daerah*, LKD) for high level echelon staff and Financial Training Courses (*Kursus Keuangan Daerah*, KKD) for lower level staff. However, the coverage and capacity of the existing LKD/KKD does not yet adequately cover the high demand from P/LGs in Eastern Indonesia.

This output will establish an enabling environment for P/LGs to achieve other "supply side outputs" (particularly Outputs 1.1 and 1.2) and will be implemented through the following three activities:

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[29] This may include Development Planning Board (*Bappeda*), Finance Management Bureau/Agency, Regional Assistant Office for Monitoring, Electronic Data Centre Office (KPDE), Local Statistical Office, Regional Library as well as technical units (e.g. Health and Education).

Activity 1.4.1 Implementation of Public Financial Management (PFM) Assessment.

This assessment provides detailed information on the PFM performance of P/LGs that can be used to both identify strengths and weaknesses of each PG/LG (and identify areas for improvement) as well as to monitor and evaluate progress made over time. The tool, developed by MOHA and the World Bank, covers nine aspects of PFM – from regulatory framework to auditing – with around 120 indicators. Local universities (see also Activity 1.4.2 below) will be trained to implement the assessment that will cover all participating P/LGs. The Provincial Government will then be facilitated to disseminate the results of the assessments to all LGs and discuss measures to improve the scores. These assessments will be conducted in Years 1 and 5 of the Program to provide baseline and evaluation data.

Activity 1.4.2 Expansion LKD/KKD university network, curricula, training modules, and training delivery.

In Year 1 of AIPD, MOF and the Expert Team of the University network will be supported to review its current program, expand its coverage to other PFM aspects currently not covered, and standardise LKD/KKD curricula and training modules, including ensuring that they address gender issues where appropriate. In addition, the mechanisms used for quality control and certification of training participants will also be reviewed and refined.

One or two of the university network members will be selected to expand the network to cover local universities in the participating provinces, such as Cendrawasih University in Papua, Nusa Cendana University in NTT and Mataram University in NTB. Staff of the universities in the participating provinces will be trained to be able to deliver the LKD/KKD to P/LG officials in their respective provinces. These new universities will be assisted to implement the initial LKD/KKD training by the original universities network member(s) to help ensure the quality of training/course delivered. It is expected that LKD/KKD training will cover all relevant government officials in all participating provinces and districts between Years 2 to 4 of AIPD implementation.

Activity 1.4.3 Support for implementation of general PFM reforms.

Participating P/LGs will be facilitated to discuss the results of PFM Assessments, together with other information such as from the results of BPK and Provincial/Local Inspectorate audits, and to identify practical measures that can be implemented to improve their performance. As required, local sources of expertise (e.g. universities) will be used to assist the P/LGs to undertake the required analytical and planning work, the setting of reform 'targets', implementation of reform plans, and the monitoring and review of progress in meeting agreed targets. Support could also be provided in the form of knowledge sharing (e.g. peer to peer learning opportunities) as described further in Component 2.

Supporting the development of the knowledge, skills and systems that will allow PG's to more effectively take on their responsibilities for monitoring and supporting LGs, would also be given particular attention.

The focus of AIPD support will be responsive to need/demand, and could cover any area of PFM improvement that P/LGs identify as a priority, as long as it is clearly linked to improved service delivery targets.

COMPONENT 2 – KNOWLEDGE SHARING AND COMMUNICATION

This component will support the implementation of components 1 and 3, as well as adding value in its own right, by developing and further strengthening mechanisms for knowledge generation,

sharing and use among key stakeholders, specifically on decentralisation and service delivery improvement issues in Eastern Indonesia.

It is anticipated that BaKTI will be an important (although not exclusive) partner, particularly in undertaking some of the activities under outputs 2.1 and 2.2.

Output 2.1 – Information and research results shared on key/common decentralisation issues, including lessons learned and good practices

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LGs as well as provincial and national stakeholders are hampered by a lack of information on what works and smart practices which can be adopted and adapted. Lessons learnt are not disseminated and too often rotations of staff mean that prior experiences must be re-learnt.

Activity 2.1.1 Generate high quality knowledge products for national, provincial and district level stakeholders.

Specific initiatives that could be supported under this activity could include:

- Support for identification of key research topics relevant to improving essential service delivery at LG level, including with respect to poverty focused and gender responsive services.

- Support for implementation of practical action-research projects and reviews aimed at generating evidence to inform and influence specific policy review and development processes at national or local level. Priority topics might include:

    o the use of performance-based incentive systems/mechanisms,

    o regulatory impact assessment,

    o clarification of functions and responsibilities of different levels of government,

    o resource allocation mechanisms, etc.

- Investigate the potential for, and then support, joint work on economic policy issues with other AIP programs.

Activity 2.1.2 Disseminate high quality knowledge products to national, provincial and district level stakeholders.

Specific initiatives that could be supported would include:

- Support the dissemination of information on the core commitments made by P/LGs in such areas as education, health and infrastructure services, so that CSOs and the public in general can monitor their implementation, and engage in more informed dialogue with P/LG authorities on their performance. Attention will be paid to gender issues in information dissemination and subsequent dialogue.

- Support the publication of BaKTI News, a development-oriented monthly magazine in two languages and distributed to 2,500 recipients. Content comes from local development practitioners and provides practical information on good development practices. Information relevant to improving P/LG service delivery would be given particular focus/support. Encouragement would also be given for development practitioners to highlight how they have integrated gender equality initiatives into their work.

- Support for production and dissemination of contextually appropriate and user-friendly publications, including "plain" Indonesian/English publications of P/LG plans and

reports, guides to P/LG planning and budgeting systems, gender mainstreaming at P/LG levels, etc.

- Support the production and broadcasting of radio or television programs that help raise public awareness and understanding of how P/LG service delivery can be improved, success stories, the commitments made by P/LG leaders, the rights and responsibilities of citizens with respect to improving service delivery, etc.

Output 2.2 – Peer to peer learning opportunities provided and strategic partnerships on decentralisation/reform established or strengthened

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Specific activities that could be supported would include:

Activity 2.2.1 Eastern Indonesia Forum Development Conference

- This is an annual event hosted by the Eastern Indonesia Forum which provides a platform for discussing, showcasing and recognising innovative local development initiatives and policies. It includes participation from all twelve eastern provinces, central government and international development partners. AIPD could specifically support participants from the four targeted provinces to present on service delivery reforms/improvement programs that they are engaged in (success stories and constraints being faced) as well as then facilitating follow-up action based on conference outcomes.

Activity 2.2.2 Heads of BAPPEDA Forum

- This is a sub-network of the Eastern Indonesia Forum comprising Heads of Provincial BAPPEDA from the twelve provinces in eastern Indonesia. The Heads meet semi-annually and focus on improving province-centre and inter-province development coordination. Once again, AIPD could specifically support participants from the four targeted provinces to present on service delivery reforms/improvement programs that they are engaged in, as well as then facilitating follow-up action based on forum outcomes. Particular focus could be given to generating ideas and information directly relevant to policy / regulatory reform priorities that need to be addressed at the national level.

Activity 2.2.3 Preparation and implementation of seminars, workshops and comparative study tours

- This subset of activities would help disseminate knowledge and support learning on improved resource allocation and management mechanisms, service delivery improvements, and other decentralisation reform issues. It would target relevant government officers, parliamentarians as well as CSOs (with attention to gender equality in opportunities to participate). The experience of the LOGICA program in Aceh would be drawn on with respect to organising/facilitating district to district study tours/learning events, aimed at sharing experiences and good practices on service delivery reforms.

Activity 2.2.4 Engagement with the media

- AIPD will look for opportunities to engage the media more actively in investigating and reporting on service delivery issues in the targeted provinces, as a means by which to help raise public awareness of key issues, 'monitor' government performance and support demand side pressures for improved service delivery. The AJI (Association of Indonesian Journalists) will be the first point of call to discuss opportunities for partnership.

Output 2.3 – Improved P/LG-led donor coordination mechanisms established

This output focuses on enhancing P/LG capacity to take a lead in coordinating donor support to their respective provinces/districts/municipalities.

Activity 2.3.1 P/LG Donor Coordination Support

Specific initiatives that AIPD could support would include:

- Strengthening P/LG donor coordination units (e.g. Joint Secretariats), for example by sharing good practices/lessons learned and helping to develop operational guidelines.

- Ensuring P/LGs have clear and up to date information on all GOA funded programs that are operating in their provinces/districts.

- Providing opportunities for P/LG officials to learn more about how donors and donor supported programs (including AIPD) operate, including for example through short-term secondments to work in AIPD's P/LG based offices.

- Promoting good practices among the donor community (who are operating in the targeted provinces/districts) with respect to supporting P/LG-led donor coordination mechanisms; and

- Support for implementation of an open data policy for all Australia Indonesia Partnership programs.

Output 2.4 – Enhanced coherence and coordination of AusAID support to decentralisation / governance capacity building

A key role of AIPD is to promote enhanced coherence and coordination of AusAID support at the P/LG level. This will be supported through such activities as:

Activity 2.4.1 Collaboration to establish parameters and/or conditions for effective support to improved decentralised service delivery

- The AIPD Director taking a lead role in organising coordination and information sharing meetings/fora with the managers of other GOA (sectoral) programs that are working in eastern Indonesia to improve LG service delivery. Priority programs will include ACCESS, SADI 2, AIBEP and AIPMNH.

- Providing a source of lessons and guidance to AusAID on how it can better design and manage its 'sectoral' programs (primarily regarding who should be engaged and how at the sub-national level), so they are supportive of decentralisation policies and local capacity building.

- Provision of information/guidance directly to AusAID's managing contractors on how to most effectively engage at the P/LG level.

- Development of a common results framework for measuring the effectiveness of P/LG service delivery capacity building initiatives ('horizontal' indicators); and

- Provision of direct points of contact in the four targeted provinces (and in targeted districts) through which other sectoral programs can engage in a more coordinated manner with key stakeholders involved in resource allocation and management decision making.

Output 2.3 will also contribute to this objective, by enhancing P/LG capacity to take a lead in determining what external support is needed from whom, and how it should be provided.

COMPONENT 3 – DEMAND SIDE

Output 3.1 – Improved LG public information programs and mechanisms established

Law No. 14/2008 on Freedom of Information requires any public entity to provide maximum access (with limited exemption) to public data and information.

Output 1.3 (improved local P/LG information systems) will be used as a basis to then establish institutional arrangements, mechanisms and procedures for external clients (CSO/NGOs and the public in general) to access public data and information and, on the other hand, for the government to actively disseminate data/information based on a sound strategy. It is expected that non-government stakeholders will thus have improved access to data and information needed to participate, advocate and provide feedback to the government that in turn will lead to more effective demand for better services.

Two indicative activities have so far been identified that will contribute to achieving this output.

Activity 3.1.1 Support for establishment of P/LG public information units.

As discussed under Activity 1.3.1, there are various PG and LG units responsible for internally managing data/information, and there are also several units that are responsible for disseminating and providing public access to data/information, such as the Public Relation (*Humas*) Unit and the Public Library. Law No. 14/2008 also calls for every "public entity" to have a data/information officer who is responsible for serving the public. One interpretation of this law could be that each P/LG unit (*dinas/badan/kantor*) should appoint at least one data/information officer to manage data/information and disseminate this information to the public. Another option is to have a "one stop shop" for public information that is responsible for collecting and managing all public data/information and disseminating it to different audiences.

AIPD would not promote any 'new' units to be established, but would rather help to clarify the roles of, and/or upgrade, one or two of the existing units. BaKTI could also provide technical support to the centres to embrace modern principles of knowledge management and satisfy community needs for information. Working closely with BPS will also be critical.

The public information unit(s) would be further supported to enhance the coverage and quality of information dissemination, such as through:

- Promoting the development and application of 'minimum standards' by P/LGs with respect to transparency of budgets, budget realisation reports, gender disaggregated service delivery outcome data, etc.

- Establishment of help desk services at P/LG levels through which development stakeholders from other government agencies, donors and civil society could obtain information and contacts on P/LG development plans, budgets and activities.

- Support for collection, collation, storing and distribution of LG plans, budgets, expenditures and results; and

- Development of knowledge and skills among P/LG partners on improved information management and sharing practices/methods.

This activity would be implemented in each P/LG only if (and after) Activity 1.3.1 has been effectively supported.

Activity 3.1.2 Support for the establishment of Information Commissions.

Law No. 14/2008 requires the establishment of an Information Commission in each province (and, where necessary, district/municipality) to establish general and technical guidelines on public information provision and to resolve disputes on public information through mediation and adjudication. Each Independent Commission will have five members that will be selected by the provincial executive and legislative. AIPD will help organise CSOs interested in access to information to advocate for establishment of the Commission and will also facilitate interested PGs to establish their Commissions, select its members and establish its workplan.

Output 3.2 – CSO networks/alliances strengthened (which focus on improving government service delivery)

The effectiveness of local-level advocacy for improving service delivery relies on the strength of CSOs and their capacity to identify specific issues, formulate a reform agenda and negotiate the agenda with public service providers and policy-makers. The establishment of networks of CSOs with similar or common interests has also been shown to increase their lobbying and negotiation powers. AIPD (or where already active/engaged – other GOA supported programs such as ACCESS, SADI 2 or AIPMNH) will therefore support interested communities and CSOs in promoting reforms in public service delivery, with agreement of the relevant P/LGs.

P/LG level CSOs that have experience in advocating service delivery reform would implement the following proposed activities.

Activity 3.2.1 Facilitation of establishment or strengthening CSO networks to advocate for specific public service delivery improvements/reform agendas.

There are several embryonic CSO networks that advocate public service improvements and reforms on particular 'sectoral' issues. For example, the MOH promotes the establishment of Advocacy Teams for "District Team Problem Solving" (DTPS) to promote evidence-based health sector planning and budgeting, particularly in Maternal, Neonatal and Child Health (MNCH). The Ministry of Education has also been promoting the establishment of an "Education Commission" in each district/municipality. However, these teams/commissions have not yet been particularly effective in advocating reforms for several reasons. Often, these teams were established by the LG without adequate analysis and consultations, memberships are often limited to local universities and 'selected' NGOs, there is lack of access to government data and information on which to formulate specific proposals, and limited support is provided to build the capacity of these teams/commissions.

ANTARA and ACCESS (in particular) have already been supporting the development of CSO networks, and this work will be built on and further supported.

AIPD will therefore support strengthening of existing CSO networks through the following steps:

- conducting stakeholder analysis to identify important stakeholders, including the existing teams/commissions and networks, and assessing their interest, power and capacity;

- facilitating different stakeholders to organise, through informal and formal meetings/workshops; and

- facilitating and building the capacity of stakeholders to discuss public service delivery issues in each sector, and to develop action plans to address identified reform priorities.

Citizen report cards (CRC) and user-based surveys (UBS) could be utilised to help identify key issues and monitor changes in service user satisfaction, ensuring that both women and men are

able to express their respective concerns and satisfaction levels through these or other related initiatives.

The activity will focus particularly on identified health, education and infrastructure service delivery issues.

Activity 3.2.2 Development of district-level CSO capacity on budget issues.

There are several provincial-level NGOs/universities that have experience in reviewing budget preparation processes, budget analysis, and budget monitoring, such as regional universities involved in preparation of PEA and NGO networks working on budget issues. However, the capacity of district-level CSOs in understanding the budget preparation process, analysing the budget and monitoring budget implementation is still limited.

AIPD will therefore support existing provincial organisations (with experience in budget analysis) to deliver capacity building for local CSOs in targeted districts. Several manuals and training modules developed by other programs will be utilised. [30] The steps for Activity 3.2.1 on organising local CSOs on public service delivery will be used to organise local CSOs on budget issues. The capacity building program will focus on budget preparation processes, integration of community-driven development programs into government planning and budgeting processes, and expenditure tracking/monitoring.

Output 3.3 – Enhanced mechanisms / fora established for multi-stakeholder dialogue on budget preparation processes, execution and monitoring

Activity 3.3.1 Support development of multi-stakeholder mechanisms/fora to discuss improved resource allocation and management.

To complement Activity 3.2.1 above, AIPD will also advocate for strengthening existing fora/mechanisms to allow different stakeholders, mainly CSOs, the local executive and legislative to discuss and agree on specific reform agendas, particularly for health, education and infrastructure service delivery.

Based on agreements with LGs, AIPD will facilitate the implementation of budget analysis, involvement of CSOs in the budgeting process, and the monitoring of budget implementation (including procurement monitoring). It is expected that this will contribute to improved effectiveness of budget allocations, acceleration of budget implementation, and help reduce corruption in procurement.

For example, as discussed under Activity 1.1.2, the annual sectoral planning process (*Forum* SKPD) and the budgeting process in DPRD provide opportunities for more effective multi-stakeholder dialogue on resource allocation and management issues. AIPD will therefore work with the respective SKPD and DPRD to promote substantial multi-stakeholder discussions through these existing fora. Other possibilities also include: (i) establishing specific fora to discuss PEA results in the health and education sectors; and (ii) promoting enhanced sectoral mid-term strategic plan development processes, which include substantive discussions with CSOs.

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[30] There are several programs that have focused on developing local CSO capacity in budget issues, such as Participatory Budgeting and Expenditure Tracking (PBET, executed by the National Democratic Institute with World Bank funding), Civil Society Initiatives Against Poverty (CSIAP, executed by The Asia Foundation with DFID support), and the Local Governance Support Program (LGSP, USAID-funded) .

Output 3.4 – Knowledge and skills of DPRD members enhanced on resource allocation and management issues

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AIPD will provide support to enhance the knowledge and skills of DPRD members in targeted provinces and districts on planning and budgeting processes, monitoring service delivery standards and the review and formulation of regulations. The fact that all provincial and district-level DPRD members have been recently elected (with their term in office being 2009-2014) provides an excellent window of opportunity for AIPD to provide support.

Activity 3.4.1 Capacity building workshops/training for DPRD members on planning, budgeting, service delivery monitoring and the formulation of regulations.

In partnership with P/LG executives and local CSOs (such as Universities), as well as the Parliamentary Secretariats, AIPD will support a review/assessment of DPRD member knowledge/skill development needs, existing learning/training resources, and the development of new learning materials and methods as required.

In addition to basic knowledge about the budget and its preparation process, several specific issues would be addressed. For example, how to more effectively integrate the 'community aspiration collection' process (*jaring aspirasi masyarakat* or *"jaring asmara"*) with the executive planning process. Real experiences and solution from other districts (such as Kabupaten Sumedang in West Java Province) would be used as a basis for the workshops / training activities.

With respect to drafting/preparation of regulations, training curricula and modules would be developed utilising a simplified regulatory impact assessment (RIA) method, drawing on real examples and provincial/local-level case studies.

Activity 3.4.2 Strengthening of DPRD support system.

To sustainably support DPRD members in implementing their functions, it is necessary to build support systems that will help them to make informed and evidence-based decisions on an ongoing basis. In NTT, for example, a "Parliamentary Forum" has been established to link DPRD members with various CSOs, which has resulted in the issuance of six local regulations on various issues such as HIV/AIDS, natural disaster management, minimum service standards and human trafficking. AIPD will work with local and provincial governments, mainly the DPRD Secretariats, to facilitate the establishment and effective functioning of such DRPD support systems.

3.7   Addressing gender equality

AIPD's gender strategy will build on the approach developed for the ANTARA program. It will specifically focus on promoting the mainstreaming of gender equality issues into government 'business' within targeted provinces and districts.

The Objective of AIPD's gender strategy will therefore be:

'To increase provincial and district government's understanding of the improvements to be gained in policy and programming effectiveness and efficiency by increasing gender equality and women's participation; and to support the development and institutionalisation of processes and procedures within government to achieve gender equality'.

To support this objective, AIPD will:

Socialisation

- In discussions and meetings with government the value of increasing women's participation and gender equality for tackling poverty and increasing the effectiveness

and efficiency of government programs will be raised by AIPD personnel, together with relevant proposed targets for women's participation which have been identified by AIPD (see below).

Institutionalisation

- AIPD will support activities which encourage government to operationalise and institutionalise processes and procedures to achieve gender equality, such as the collection and analysis of sex disaggregated data, the identification of gender disparities and how to tackle them, measures to address gender inequalities in policy and programming, gender budgeting, as well as target-setting for women and men's participation and action plans to achieve these targets.

- Approaches will need to be practical and applied directly to the routine work of the agency. These could include the collection of quantitative and qualitative sex disaggregated data in the field followed by analysis of the different needs and priorities of women and men in policy and programs; analysis of existing policies or programs of the particular agency to identify whether they are directed to the needs and priorities of women and men with policies and programs revised; targeting and action planning for increasing women's participation; identification and analysis of regulations which might restrict women's participation; the development of gender equality (sensitive) indicators for monitoring and evaluation and increasing the participation of women in development planning procedures, particularly at the district level.

Government proposals

- AIPD will encourage activity proposals put forward by government to improve the integration of gender and targeting of increased participation of women into their routine activities. However proposals must be directed at changing procedures and processes within government, not just awareness raising or socialisation.

Promotion of women

- Throughout its activities, AIPD will encourage and support the capacity building and promotion of women in government where possible (e.g. by ensuring women government officers are equitably involved in training and capacity building activities, and encouraging individuals to seek promotion opportunities).

Reporting

- AIPD activity reports will routinely include information about gender inequalities in government and in relation to service delivery, and how interventions are addressing them. Government partners will also be encouraged to present sex disaggregated data at PCC meetings, include gender issues in its reports and to identify any improvements in gender equality as a result of the AIPD program.

Community participation and interface with government

- Initiatives on the 'demand side' of AIPD will ensure attention to gender equality in participation in decision making, access to information and opportunity to express ideas, needs and priorities. Women will be given support where necessary to participate equally with men.

- CSOs involved in AIPD activities will be encouraged to present women's as well as men's perspectives.

During the first three months of AIPD implementation, this brief outline of the proposed gender strategy will be reviewed and further developed as required, in close consultation with government partners. This will include ensuring direct linkages into/alignment with the final AIPD Monitoring and Evaluation Framework (MEF) and the agreed performance reporting systems. It is also anticipated that a 'Gender Support Team' will be contracted (as is now happening under ANTARA) to provide AIPD with an ongoing source of advice, guidance and practical support in effectively promoting gender equality through its activities.

4 Implementation arrangements

4.1 Overall governance and coordination

AIPD's overall governance and coordination arrangements will be similar to those currently used by the ANTARA program.

A Program Coordinating Committee (PCC) will continue to operate, with similar membership and terms of reference as currently in place. The PCC will be the official government forum for strategic decision making on the scope and focus of AIPD. It will be jointly chaired by MOHA and AusAID, and include representation from MOF, BAPPENAS, provincial BAPPEDAs and from any co-contributing donors. It will meet six-monthly.

The Program Advisory Group (AG) will meet back-to-back with the PCC, and its membership will be primarily drawn from the P/LG executive in the targeted provinces and civil society. It will be chaired by the AIPD Program Director.

Figure 6 provides a schematic overview of the governance structure.

Figure 6 – AIPD governance structure
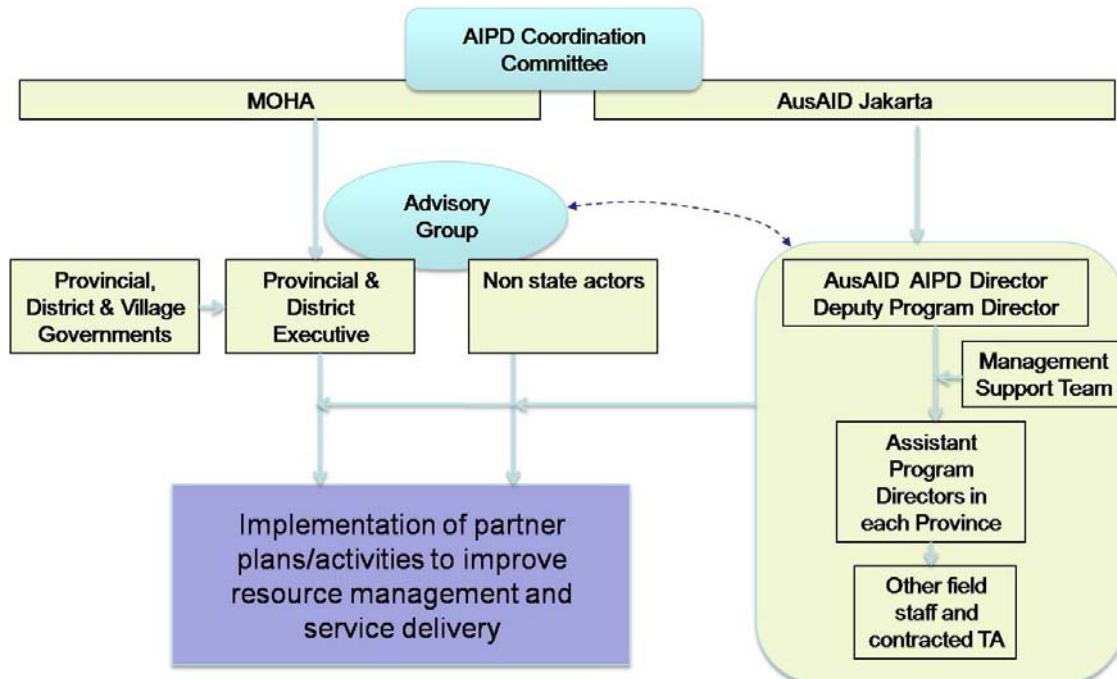
The PCC will review and approve AIPD six-monthly progress reports, as well as future work plans and budgets, taking into account advice provided by the AG.

4.2 Management of implementation

The primary responsibility for managing the implementation of AIPD supported activities rests with GOI and civil society partners.

AIPD's role is to facilitate, support and help to 'quality assure' the processes and products.

The AIPD Program Director will be engaged directly by AusAID, and will be responsible for the quality of the support provided. The Program Director will also provide advisory support to AusAID in regard to policy and program development with respect to supporting decentralisation reforms in Indonesia (including the development of a more coherent and coordinated approach).

The Program Director will be supported by a management support team (MST), contracted separately by AusAID in consultation with GOI through open tender procedures.

The MST will provide all necessary administrative and management support to ensure that:

- AIPD plans and budgets are prepared and submitted to the AG and PCC on time and in a suitable format.

- The AG and PCC meetings are well prepared and supported, and that decisions made are reflected in future work plans and budgets.

- High-quality AIPD staff are recruited in a timely manner, are well managed, have their performance regularly evaluated, and that action is taken to address staff performance issues.

- Required TA is selected, mobilised and managed in line with the principles set out in this document.

- An activity cycle management and quality assurance system is in place, that ensures individual initiatives supported by AIPD are appropriately designed, appraised, contracted (as appropriate) and then well managed.

- All necessary financial management, accounting, procurement and auditing functions are carried out, in accordance with GOA requirements.

- Ongoing monitoring and evaluation is carried out to a high standard, including the conduct of 'Evaluability Assessments' (EAs) in collaboration with partners, collection and analysis of baseline data, the commissioning of specific research/studies, the preparation of progress reports, and the effective exchange/dissemination of information about AIPD activities and outcomes; and

- AIPD's 'engagement principles' are effectively put into practice during implementation.

4.3 Financing arrangements

The 'core' of AIPD support will be financed through AusAID grant monies, as part of GOA's bilateral aid program with Indonesia.

It is anticipated that the bulk of funds will be passed from AusAID through the contractor to the management support team in-country. Nevertheless, some monies may be channeled directly from AusAID to the GOI, for example for the proposed 'incentive payment' scheme under DIALOG, for which funding would have to be provided through the MOF.

In addition, the contractor/MST may also, with PCC approval, channel AIPD resources through GOI systems, such as for supporting the proposed expansion of the MOF/University PFM network into the AIPD targeted provinces. This is in line with GOA's commitment to use GOI resource allocation and management systems whenever possible and appropriate.

It is also hoped that AIPD may attract funding commitments from other donors. This would not only increase the capacity of AIPD to deliver support services, but also promote donor coordination/harmonisation objectives.

4.4   Performance monitoring and evaluation

Overview

A guiding principle for development and implementation of the AIPD Monitoring and Evaluation Framework (MEF) is to work with, through and 'on' Indonesian systems, and thus build local capacity. The MEF cannot be imposed. There therefore needs to be joint understanding and ownership of M&E arrangements. This will require, among other things, that AIPD spend time in the early phase of implementation working with GOI partners to clarify the roles of different levels of government with respect to M&E, and the existing key indicators and tools being used by GOI to monitor both service delivery and PFM improvements.

To date, ANTARA has worked primarily in NTT. The 'new' AIPD strategy will see an expansion into new districts within three new provinces, and with a refined focus on improving resource allocation and management for improved service delivery. Many key networks and partnerships still need to be built/strengthened and the proposed AIPD activities further defined and developed. This will require an active, structured process of engaging with AIPD partners to further design and confirm a joint MEF. Using Evaluability Assessment (EA) will be used to support this process. The results of EA will then also be used to develop the operational M&E 'system' for AIPD. The proposed (draft) MEF for AIPD (including a description of EA) is provided at Annex A4. A brief summary of its main features is provided below.

The MEF will operate at three levels: (i) at the <u>impact</u> level through hypothesis testing and the collation and use of baseline and follow-up survey data on service delivery standards; (ii) at the <u>outcome and output</u> level through the use of key evaluation questions; and (iii) at the <u>compliance</u> level through standard activity monitoring (inputs, activities, deliverables). These levels are profiled in Figure 7.

Figure 7 – Three levels of monitoring and evaluation
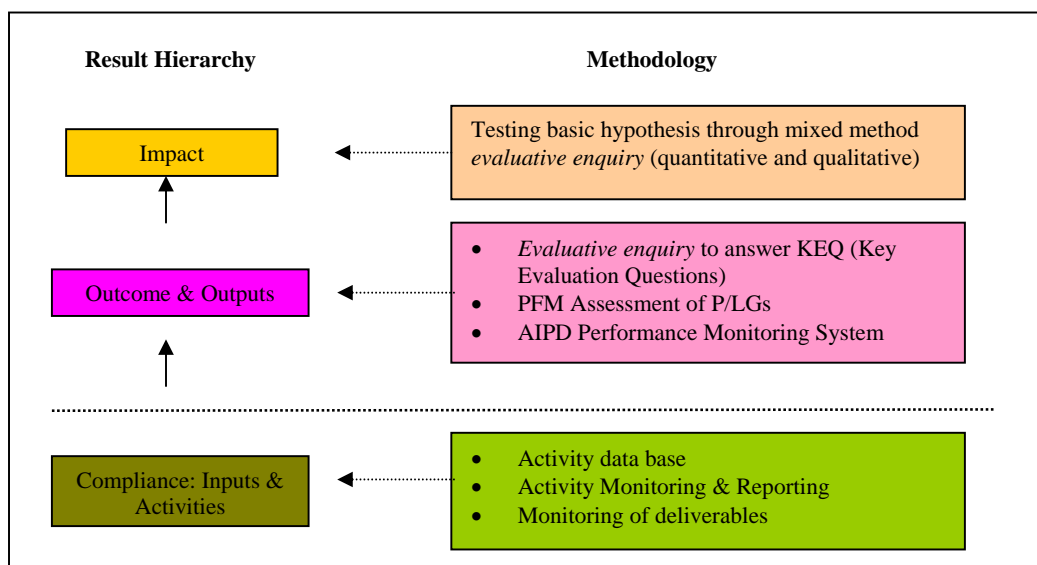
At the impact and outcome/output levels, the MEF will aim to provide clear answers to the following general questions:

1)   To what extent did AIPD achieve what it set out to do, and what is the evidence (including contribution to gender equality)?

2)   Were there any unforeseen results, either positive or negative?

3)   Are the benefits derived from AIPD (if any) likely to be sustained, and if so how?

4)   What new knowledge has AIDP generated and shared, and how is this being used?

5)   Could AIPD have been designed and implemented better, and if so how?

It is proposed that MEF should utilise a research approach to AIPD's performance assessment. This will have two dimensions.

•   At the Impact level, establishing and testing a basic hypothesis.

•   At the Outcome and Output levels, answering Key Evaluation Questions (KEQ).

Basic Hypothesis

At the impact level, the basic hypothesis behind AIPD is that improvements in PFM will lead to improved service delivery. An important role of the MEF will therefore be to determine if this hypothesis is correct, including whether or not poor and marginalised groups have gained improved access to services.

It will be crucial to get the focus/scope and timing of the research right. Testing such a hypothesis can only be done once the program is mature and 'settled'. The research on whether service delivery improvements are occurring as a result of improved PFM is therefore anticipated to be conducted in year 4-5 of program implementation. This will also assess to what extent AIPD has contributed to any observed changed. The enquiry will also attempt to understand what alternative explanations may exist, other than PFM, that may have contributed to any observed improvements in service delivery. The testing of the basic hypothesis will be done through strategically timed mixed method (qualitative and quantitative) evaluation studies, most likely contracted out to an organisation/institute with the requisite knowledge/expertise.

Key Evaluation Questions

KEQs will help determine if AIPD is being effective and remains relevant to need. Used with a results-based approach (strong indicators measuring movement from established baselines) throughout the life of AIPD, they will track progress and highlight change. They will also help identify the factors that are causing or contributing to that change. The initial (draft) proposed questions are directly linked to the AIPD objective structure. They include:

Outcome level

Is there improved resource allocation and management at P/LG levels?

Output level

•   Is there increased transparency around the allocation and use of local government budgets?

•   Have there been improved mechanisms developed and applied for allocation of resources within and between P/LGs?

- Are performance-based incentive mechanisms being effectively piloted?

- Is planning and budgeting information being more effectively collected and used within P/LGs?

- Are there more qualified /competent government staff in place at the P/LG level in relation to PFM, and are they being more effectively managed?

- Have P/LG led donor coordination mechanisms been strengthened?

- Has AIPD contributed to making AusAID's overall program of support to P/LGs (at least in the targeted provinces) more coordinated and coherent?

- How well is AIPD facilitating/contributing to the conduct of relevant research, to disseminating the results and acting as a hub for peer-to-peer learning/knowledge exchange?

- Is there a better understanding of, demand for and participation by civil society in P/LG planning, budget and service delivery and monitoring processes?

- Have the knowledge and skills of DPRD members improved in relation to resource allocation and management issues and processes?

- How are M&E results being used to inform future plans and resource allocation?

- What gender issues are being addressed and how effectively are they addressed?

Selection of relevant performance indicators

Specific indicators will need to be used to help answer the key evaluation questions. As far as possible these should be the same as the indicators and data collection systems being used by the GOI for measuring performance at the Provincial and Local Government levels. Accordingly the first reference point should be the P/LG Medium Term Development Plans (RPJMD) and Annual Plan/Budgets.

At the impact level (improved service delivery), indicators should include the GOI's Minimum Service Standards for Health and Minimum Service Standards for Education. Relevant Millennium Development Goal indicators will also be used, such as in relation to (i) achieve universal primary education; (ii) promote gender equality and empower women; and (iii) combat HIV/AIDs, malaria and other diseases. Citizen report cards and User Based Survey tools could also be used, and would monitor women and men's respective opinions. P/LGs would be encouraged to institutionalise such service-user feedback surveys into their own ongoing activities.

At the outcome and outputs levels, the following indicators could be used for measuring changes in the quality of resource allocation and management at P/LG levels, and improvements in core PFM processes (including public participation).

Indicators	Source of information
Outcome – improved resource allocation and management	
Health/education/infrastructure budget share as % of total budget	PEAs, LG/PG budget
Spending mix in health/education/infrastructure sectors (O&M, capital)	PEAs, LG/PG budget
Planned vs. realized budget in health/education/infrastructure sectors	PEAs, LG/PG budget/realisation report
Development priorities are reflected in budget priorities	PEAs, qualitative analysis based on LG/PG planning/budgeting documents/MKPP, etc
Absorption rate health/education/infrastructure budget 3rd quarter	PEAs, LG/PG quarterly report

Indicators	Source of information
The overall difference between planned and realised expenditure (with a target of being less than 10% in the last financial year)	PEAs, LG/PG budget/realisation report
The overall difference between planned and realized revenue (with a target of being less than 10% in the last financial year)	PEAs, LG/PG budget/realisation report
PFM Outputs – effective systems and processes in place	
Programs and activities in RPJMD can be measured quantitatively	PFM Assessment and PEAs, RPJMD and SKPD documents, additional qualitative assessment as required
SKPD strategic planning is consistently developed based on RPJMD	As above
Annual budget policy includes measurable outcome indicators	As above
Sectoral budgets include measurable outcome indicators related to strategy	As above
Budget priorities and ceilings are set before the budgeting process in SKPD starts	As above
A fixed budget calendar is included in the local budget legislation	As above
Medium-term expenditure framework (MTEF) is implemented in the planning process (RPJMD and Renstra SKPD)	As above
RKPD and RKA-SKPD is derived from RPJMD and Renstra SKPD	As above
Amendments to the budget are based on clear reasons in compliance with the regulations	As above
SKPDs use poverty and gender disaggregated data in developing their programs and activities	As above
Gender responsive and poverty-related programs and activities in SKPD are accommodated by local government budget team	As above
Pro-poor and gender responsive expenditure can be explicitly identified as such in the DPA-SKPD	As above
Combined budgeted expenditure on health, education and infrastructure account for over 50% of the budget, and an 'improved' spending mix within sectors is evident (e.g. with respect to capital and O&M budget allocations)	As above
Each sector records planned and realised activities, including realised budget vs. planned budget	As above
Record of budgeted activities decided upon during the bottom-up process is reported back to the public in villages and sub-districts	As above
Planning and budgeting documents are easily accessed by the public in a suitable format	Specific qualitative enquiry / evaluations
The public is involved in the monitoring and evaluation of P/LG service delivery	As above

Baseline data

In order to track change, gender disaggregated baseline data in each targeted province and district will need to be systematically collected, analysed and stored in a readily accessible format. The core of this data will be accessed from P/LG service delivery data/records (e.g. regarding key health and education services), P/LG plans, budgets and expenditure reports, and from PEA and PFM assessments. In addition, data from citizen report card/service user surveys could be used, namely if P/LGs show interest in using such tools themselves.

A wide range of other potentially useful baseline data could also be accessed and used, including from the BPS.

The most important point to make here is that the collation and use of baseline data will be undertaken as a capacity building exercise in itself, in partnership with the relevant provincial and district authorities. This information is essential for them (not just AIPD) to more effectively manage and allocate their resources and monitor whether or not service delivery improvements are being achieved.

Rolling evaluations and external reviews

Part of the AIPD approach to M&E will be to conduct an ongoing/rolling series of evaluation activities to help answer the key evaluation questions. These evaluation activities will be managed and implemented with the assistance of external expertise (contracted by AIPD), and will form part of the AIPD 'research' agenda.

A mid-term review of AIPD progress will also be conducted around the end of the 3rd year of implementation, involving GOA, GOI and externally contracted consultants. This will be used to help inform preparation of any further phase of GOA support after 2015.

5   Risks and sustainability

5.1   Risks and risk management

As with any process of major institutional reform, there are many factors which might impact (either positively or negatively) on the achievement of planned objectives.

There are likely to be five primary sources of 'risk' with respect to the achievement of AIPD supported objectives. These are summarised below.

Political.   The success of decentralisation, including with respect to expectations for improved service delivery, relies heavily on the strength and quality of political commitment to the vision and objectives of decentralisation. The main risks are that:

- Central government wavers in its commitment, and continues to hold on to, or indeed claw back, powers which would be more appropriately decentralised to P/LGs (e.g. with respect to control over fiscal and human resources).

- Frequent changes/amendments to national decentralisation policies mean that P/LGs do not have the time to understand, institutionalise and effectively implement a clear reform program.

- DPRD members at provincial and district levels are not adequately supported to undertake their mandated functions, and the quality of their leadership and decision making is therefore compromised.

- Old systems of cronyism and patronage continue to play a significant role in political decision making.

Institutional.   For decentralisation to be effective in improving service delivery, a clear and supportive institutional framework and appropriate incentives need to be in place. The main risks are therefore that:

- The respective authorities of different levels of government are not adequately clarified, and continue to frustrate efforts to improve the efficiency and effectiveness of decentralisation reforms.

- The complex and often contradictory regulatory framework continues to cause serious frustrations at P/LG levels, distracting them from the key task of improving service delivery at the local level.

- Fiscal allocation mechanisms are not adequately 'reformed' to provide clear incentives for P/LGs to improve their performance over time.

- Civil service reforms do not get designed or implemented effectively, thus 'stymieing' efforts to make public servants more efficient and effective.

- The fragmentation and proliferation of government administrations (*pemekaran*) and frequent turnover of staff (*mutasi*) undermines effective skills development in key technical areas.

- Old systems of cronyism and patronage continue to play a significant role in bureaucratic decision making.

Community/civil society. As profiled in this document, the capacity of the community/civil society to 'demand' better service and hold both elected leaders and bureaucrats to account is an important 'ingredient' for successful decentralisation and improved service delivery. The main risks are that:

- Powerful vested interests in the legislative and executive undermine efforts to promote civil society participation in planning, budgeting and service delivery monitoring.

- Civil society/community groups are 'captured' by local elites who are not genuinely interested in greater participation and representation, particularly of poor and vulnerable groups.

- Competition (or lack of willingness to collaborate) between civil society/community groups frustrates efforts to support broader networks/alliances which can more effectively pressure and lobby for improved service delivery performance from government.

- Women are unable to participate equally with men in activities, for example, in accessing information or conveying their perspectives, needs and priorities in the public domain.

Donor 'behaviour'. Despite donor commitments to making their aid more effective, there remains some risk that they:

- Continue to 'projectise' too much of their support, rely too heavily on 'external' short-term TA and do not effectively work with/through and on government systems.

- Fail to effectively harmonise and better coordinate their activities; and

- Do not give their Indonesian partners adequately clear, timely and reliable information about medium-term aid flow projections.

AIPD implementation and management. Specifically with respect to the provision of support through the AIPD delivery mechanism, there are some risks that:

- AIPD is not able to effectively contribute to more coordinated and coherent delivery of GOA assistance at the LG level because other sectoral programmes continue to be managed (by AusAID and their contractors) as separate 'silos'.

- AusAID may not provide adequately clear direction and support to AIPD management, and/or overburden the program with unrealistic demands and expectations.

- Contracting and payment arrangements for the MST are too complex/onerous, resulting in them having to spend too much time on meeting administration/compliance based requirements, at the expense of client focused service delivery.

- The quality and/or number of AIPD staff and contracted TA are not adequate to take on the significant and complex challenges of the (rolling) AIPD work programs.

In order to effectively manage these (and other potential) risks, the following main strategies need to be incorporated into AIPD's overall governance and management arrangements:[31]

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[31] These are either in addition to, or reflect/re-emphasise, the already stated 'principles for AIPD engagement' listed in section 3.1 of this document.

- There is ongoing (and effective) high-level policy dialogue between GOA and GOI on decentralisation and related development issues.

- Adequate flexibility is provided to scale up or down AIPD support in different areas of work, depending on progress being made and opportunities arising.

- Sufficient resources are committed to a long-term and ongoing presence in the targeted provinces and districts, so that sound working relationships can be established and sustained, based on mutual understanding and trust.

- There remains a clear commitment to the Jakarta Declaration principles by both GOI and donors, as well as ongoing monitoring of these respective commitments.

- AusAID provides clear and consistent policy direction and support to AIPD managers, and ensures that contractual arrangement for the MST provide the right incentives to focus on 'results' (rather than contract administration and 'procedural' requirements).

- AIPD Program Director responsibilities and authority for improving the coherence and coordination of sub-national investments in the four targeted provinces, through working with relevant AusAID program managers and other AusAID contractors.

- AIPD management establish and maintain best practice procedures for staff and TA recruitment and performance assessment, and for managing AIPD resources in general.

Furthermore, during the first six months of implementation it is expected that a risk management plan will be developed and then regularly reviewed/updated by the AIPD Program Director, in close consultation with the MST and members of the PCC.

5.2 Sustainability

Sustaining the benefit streams that are expected to arise from implementation of AIPD initiatives will be supported through the following strategies:

- *Ownership and alignment.* AIPD will work with, through and 'on' GOI resource allocation and management systems, and support the implementation of GOI policy priorities and service delivery improvement targets. It will not set up 'parallel' service delivery systems.

- *Capacity building.* AIPD will take a holisitic approach to capacity building, providing support not just for skills development, but also for the review/development of policies and plans, the development of improved systems and mechanisms, and for 'socialising' new ways of working (attitudes and behaviours). AIPD will not make extensive use of short-term international TA, but rather work with and through local service providers, such as BaKTI, Universities, NGOs supporting demand for better governance and local membership organisations (e.g. those supporting women's empowerment).

- *Incentives.* AIPD will support MOF as well as P/LGs to develop institutional performance based incentive mechanisms to help guide resource allocation decisions. With the right incentive structures in place, improvements in LG service delivery performance should thus be sustained (and expanded) over the longer term.

- *Sustainable financing.* By improving PFM systems, P/LGs will be able to allocate their own resources more effectively and sustain service delivery improvements over the long-term. AIPD will also support the development of a sustainable financing plan for BaKTI, as well as for the expansion of the MOF/Universities PFM network into the AIPD targeted provinces.

- ***Demonstrating results and sharing knowledge***. By demonstrating results, and sharing knowledge about what works and what doesn't, AIPD will help generate and sustain demand among both supply and demand side stakeholders for establishing improved resource allocation and management systems.

Annexes

A1 – Design team scope of services

Scope of Services

Objective

The objective of the mission is to produce a design that builds on the ideas outlined in the TOR and meets AusAID requirements for design peer review.

Team Members

The Design Team will be comprised of eight people:

- Team Leader, with knowledge of AusAID policy context and design processes;

- Indonesian Governance specialist, with particular expertise in governance issues in a decentralised Indonesian context, Indonesian government systems and working within these systems (especially at sub-national level), and community development;

- International Governance specialist, with expertise in the Indonesian and international contexts of regional autonomy, design skills;

- Indonesian Public Financial Management specialist, with in-depth knowledge of budget transfers and planning and budgeting processes;

- Indonesian Knowledge Management specialist, with expertise in disseminating lessons learned;

- International M&E specialist;

- Ministry of Home Affairs representative;

- AusAID representative.

Duration and Process

The team is expected to be in the field for a period of three weeks from 13 July, with an additional time for report writing. The three-week period will include briefings and meetings in Jakarta and Kupang, as well as field visits to a minimum of two provinces where ANTARA currently operates – NTT, NTB, Papua and Papua Barat.

It is envisaged that the three-week in-country period will begin with a 'kick off' workshop in Jakarta and conclude with a 'wrap up' workshop in Jakarta. Given that the design team will be small, the kick off workshop (with around 10 participants) will be an opportunity to draw on broader expertise (e.g. M&E and cross cutting issues such as gender, HIV and environment) and gain initial input into the design. The wrap up workshop will be a further opportunity to obtain feedback, challenge assumptions, and sound ideas off AusAID and other specialists, before the team writes up the design paper. Indonesian Government counterparts will not be involved in these workshops as they have been consulted in the stakeholder workshop in February 2009 and it is envisaged that the team will meet directly with government representatives again in the field.

Output and Reporting

The Team Leader will report to Richard Manning, Sub national Adviser.

The team will produce the follow outputs:

- An Aide Memoire on completion of in-country consultations.

- A draft design document sufficiently robust to meet AusAID requirements for design peer review, by the end of August.

- A final design document and scope of services, taking into account AusAID peer review comments.

The design will be developed in close consultation with provincial government officials in selected provinces and districts and with officials at the national level – particularly the Ministry of Home Affairs, but also with officials in Bappenas and Ministry of Finance. The Team will also be required to consult closely with relevant AusAID colleagues in Jakarta and Kupang.

Key References

- Australia-Indonesia partnership Country Strategy 2008-13

- Indonesia Medium Term Plan 2004-09

- Paris Declaration

- Accra Action Agenda

- Millennium Development Goals

- Jakarta Commitment

- Indonesian legislation on decentralisation

- ANTARA concept and strategic framework

- ANTARA Six-Monthly Progress Reports

- Multi-stakeholder consultations – Bali, 23 February 2009

A2 – Working paper on decentralisation and PFM
Working Paper on Governance and Public Financial Management
in the Context of Decentralisation

I. Introduction

For decentralisation to help reduce poverty, two sets of accountabilities need to work well. The first comprises downward accountability to local residents. As the 2004 World Development Report on improving service provision to the poor put it[32]:

> "Where decentralisation is driven by a desire to move service administratively close to the people…the assumption is that it works by enhancing citizens voice in a way that leads to improved services…..Voters make more use of information about local public goods in their voting decisions because such information is easier to come by and outcomes are more directly affected by LG actions. And political agents have greater credibility because of proximity to the community and reputations developed through social interaction over an extended period. But on both theoretical and empirical grounds this could go either way.

> The crucial question is whether decentralisation increases accountability relative to its alternatives. If LGs are not more vulnerable to capture than the center is, decentralisation is likely to improve both efficiency and equity." [33]

Another set of accountabilities comprises arrangements that link central and LGs. These include assignments of responsibilities for public service provision (clarifying which services are assigned to local authorities, which are assigned to national authorities and which involve complimentary responsibilities for both local and central authorities), the allocation of fiscal resources and regulatory, fiduciary and other forms of central oversight of local activity. Clarifying these responsibilities in ways that gives each tier of government an incentive to perform its role effectively is a deeply political and complex task. A comparative study,[34] including Indonesia concluded that:

> "The result has been a kind of institutional limbo… whether by design or as a result of slippages in the implementation process, intergovernmental structures have substantial internal inconsistency. The functions of different levels of government overlap. Bottom-up accountability of locally elected bodies is dampened by top-down methods for appointing key officials. And the discretion given to local authorities in spending unconditional fiscal transfers is effectively curtailed by central government control over human resources."

As the 2004 World Development Report already concluded:

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[32] World Development Report 2004, Making Services Work for Poor People. Washington DC, Oxford University Press for the World Bank.

[33] Levy, Brian, 2007. Governance Reform. Bridging Monitoring and Action. World Bank, Washington DC, pp.1

[34] World Development Report 2004, Making Services Work for Poor People. Washington DC, Oxford University Press for the World Bank.

> "… Sub-national authorities can be efficient providers and regulators of local services under the right institutional incentives and with clarity about who does what-and with what."

Has Indonesia achieved this to date?

II.   Situation Analysis
a. GOI Decentralisation Legislation and Policy

Indonesia started the implementation of its decentralisation process in 2001 and devolved most of the authorities of public service provision to local governments (LGs.)[35] Over two million civil servants were transferred to sub-national governments, substantial parts of the national budget were allocated to provincial and LGs, and the power of local parliaments (DPRD) was enhanced, including impeachment power. Meanwhile, provincial governments lost their power of being the superior of LGs. However, authority to collect most revenue is still held by the central government. The two original decentralisation laws[36] were revised in 2004 and became laws 32/2004 on regional autonomy and law 33/2004 on fiscal balance. The major changes to the previous legislation include the increasing role of the provincial government to supervise and build the capacity of LGs and to review important local regulations issued by the LGs, i.e., on annual budgets and those imposing local taxes and user fees.

The decentralisation process has been accompanied with a major democratisation process. Freedom of the press, freedom to establish organisations and parties are in place, in addition to free and fair elections starting in 1999. This was further enhanced by direct elections of the governor, head of district (*bupati*) and mayor (*walikota*) since 2005. The central government issued Law No. 15/2008 on Access to Information in 2008 that guarantees people's right to access public documents and information.

Papua was granted a Special Autonomy Status in 2001. Law No. 21/2001 grants Special Autonomy for Papua Province, in contrast to Law No. 22/1999 that focused on the district/municipal level. Grants provide high levels of authority in financial, political and social matters to the Provincial Government. The law secures the provision of a Special Autonomy (*Otsus*) Fund in the amount of 2% of the total national allocation for the General Allocation Fund (DAU), with special focus on education, health and infrastructure development. However, the implementation of the Law has been slow and incomplete. Presidential Instruction No. 5/2007 on the Development Acceleration of Papua and Papua Barat Provinces was then issued, requiring the Governors of Papua and West Paua province to develop and implement action plans for accelerating the development together with various national-level ministries.

The expectations on Government Regulation 38/2007 to further clarify provincial and LG responsibilities as a decentralisation implementation guideline have not been fully met. One of the most important implementing regulation of the current decentralisation laws, Government Regulation (GR) 38/2007 on the Division of Authorities among different levels of governments was only issued in 2007, three years after the new decentralisation laws. Recently, Law No. 25/2009 on Public Service was passed by the national parliament. The new law requires, among others, the establishment and transparency of public service standards, complaint handling mechanisms and implementation of customer satisfaction surveys.

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[35] LGs refer to district (*kabupaten*) and municipal (*kota*) governments

[36] Law 22/99 on regional autonomy and law 25/99 on fiscal balance

Legislation on Planning and Public Financial Management

Planning and budgeting processes are regulated by various laws and regulations. Law No. 25/2004 on National Development Planning Systems governs the mid-term and annual planning process of various levels of governments. There are several regulations/circular letter based on this and other laws, such as the Joint Circular Letter of Bappenas and MoHA on Technical Guidelines of Implementing Planning Discussion (*Musrenbang*) in 2007, and respective legislation on regional financial management (see below). These regulations are not necessarily coherent and create complicated, inefficient processes of provincial and district level planning and budgeting. [37]

The legislation on financial management systems is stipulating a large reform agenda, both for national as well as sub-national level. Major laws include the State Finance Law 17/2003 (subsequent Government Regulation 58/2005 on Regional Financial Management, implementation regulations Ministerial Decree 13/2006 and 59/207 as successor decree for Ministerial Decree 29/2002) and State Treasury Law 1/2004 as well as the State Audit Law 15/2004. Accounting standards were introduced with GR 24/2005 and GR 79/2005 issued guidelines on internal audit. Reform areas include the introduction of performance based budgeting, accrual accounting, single treasury accounts and medium-term expenditure framework (MTEF).

While legislation is largely complete, its implementation, particularly on sub-national level, is still problematic. This is partially due to conflicting regulations from the Central Government (Ministry of Finance being in charge of financial management policies for all levels of government, whereas Ministry of Home Affairs is in charge of drafting implementing regulations for sub-national governments), frequent changes in budget formats (specifically to MOHA Decree No. 29/2002, which was changed through MOHA Regulation No. 13/2006 and further revised through MOHA Regulation No. 59/2007) and a general lack of support from Central Government for implementation.

LG Performance Evaluation

The attempt by Central Government to evaluate LGs comprehensively has not yet materialized. More recently, the Central Government has acknowledged that the lack of systematic up-to date information on the capacity/performance of LGs hinders evidence-based decision making. Thus, Ministry of Home Affairs embarked on an ambitious agenda and passed three major government regulations attempting to evaluate the capacity and performance of LGs (GR 78/2007 on the guideline for formation, eradication, and merging of autonomous regions, GR 6/2008 on evaluation on sub-national government performance, and GR 8/2008 on the guideline for formulation, controlling, and evaluation of the sub-national development plans). GR 6/2008 is of most relevance for AIPD- however, there are more than 100 parameters in this regulation, and it is unclear how this information is collected, evaluated and eventually used. The GR does not regulate the methodologies, focuses, and indicators. A MOHA decree that elaborates on those issues is still to be drafted. Three types of LG evaluations are described:

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[37] See *"Making People's Voices Matter: An Analytical Study on District Level Planning and Budgeting"* (Bappenas and DSF: 2008) that discusses the legal framework in detail.

Table 1: LG Performance Evaluation according to PP 6/2008

Evaluation	Description	Frequency
LG Performance Evaluation (EKPPD)	Systematic data collection and analysis on the performance on an LG through a performance measurement system for each obligatory and optional function	Annually, and a special one at the end of a mayor's/ regent's tenure
Evaluation on Capacities for Regional Autonomy (EKPOD)	Systematic data collection and analysis on the capacity for regional autonomy which covers people's welfare, public service delivery, and LG competitiveness	For LGs with three consecutive bad EKPPD and on special needs
Evaluation on New Autonomous Region (EDOB)	Evaluation on the development of aspects of LG administration of a new autonomous region	On newly created regions, once every six months for 3 years

b. Key Stakeholders

LGs are responsible to provide most of the basic public services. LGs are responsible to provide most of the public services, which cover 26 obligatory functions and 8 "optional functions" which cover various economic sectors (GR 38/2007). The Regional Secretary (*Sekretaris Daerah* or *Sekda*) is the highest civil servant position in each LG, assisted by several regional assistants (including one responsible for "governance") and heads of bureaus. The Regional Development Planning Board (*Bappeda*) is mainly responsible for LG planning, but often plays an important role of coordinating other LG units. LGs may structure the technical units in various ways, although GR No. 41/2007 limits the numbers of LG units and sets the criteria for different types of the units – *kantor*, *badan*, *dinas* and *unit*. Although Law No. 17/2003 promotes the integration of all functions of public financial management (PFM) into one *badan*[38], many PGs and LGs (particularly in Papua, NTB and NTT) still have several units performing different PFM functions, separating Finance Bureau under *Sekda* and Regional Revenue *Dinas* (*Dispenda*), while the asset management function is unclear. This leads to an inconsistent implementation of financial management legislation, resulting in inefficient, intransparent and duplicating processes.

Provincial governments (PGs) have dual roles –deconcentrated agents of the central government as well as autonomous bodies. The provincial governments, with a similar structure of LGs, have dual roles. Its heads (governors) and provincial DPRD members are directly elected by the people, but the Governor is also accountable to the President through the Minister of Home Affairs. Based on GR 38/2007, its functions in public service delivery are limited. For example, in the education sector, provinces are responsible only for international schools, while primary and secondary schools are under the authority of LGs and universities are under central government authority. The provincial government is expected, however, to monitor and support the improvement of LG's performance.

The power of the provincial and local legislative (DPRD) has significantly increased since decentralisation. During new order era, DPRD was a "partner" of the executive, with no clear role in the development process. This was reformed through the decentralisation and democratisation process, granting the DPRD budgeting, regulatory-drafting, budget

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[38] Unification of revenue, treasury, finance and asset

implementation and public service oversight power, with members directly elected by the people. Nonetheless, limited knowledge of the members about government systems and development issues, together with euphoria of power, makes effective checks and balances far from functioning well.

Recent studies[39] confirm the importance on educating non-governmental stakeholders, especially communities on budget issues to establish effective checks and balances. The Ford Foundation study finds that there is real interest in budget work among civil society organisations in Indonesia, and that this work is largely driven by civil society's own priorities and interests rather than in response to donor pressure. It further argues that to date, much less attention has been devoted to establishing an effective budget oversight system, and to ensure that independent stakeholders have the information and capacity necessary to hold governments to account.

The study of the International budget project summarizing lessons from the field states that…."despite this relative lack of attention, there have been important developments in budget oversight capacity in many developing countries. The most impressive progress has been driven by citizens themselves. In over 60 countries, a wide range of civil society organisations have been working to improve their capacity to understand, analyze and influence the government budget. For some activists and academics, civil society budget work is the key to establishing active citizenship and effective checks and balances over public finances. The argument is that civil society is able to adapt its intellectual and advocacy skills to the budget, and will over time train legislators and journalists to establish complementary policy space and compounding influence."

Civil society organisations and demand for better public service are still weak in general, especially in Eastern Indonesia. Civil society is still suffering from the results of 32 years "new order" era, when they were either coopted or had a confrontational relationship with the Government. The 1999 reforms (freedom to establish organisations) and economic crisis (a lot of recovery programs delivered through NGOs) resulted in an explosion of established NGOs. However, most of them are financially dependent on government projects or foreign financial support. Similarly, academics from local universities have limited access to research funding, and are mainly doing government-funded projects with low quality results. While under the new freedom of press, a lot of new mass media was established since 1999, in general the capacity of the journalists is still weak. Local private sector and SME associations, professional associations, labour unions, although growing steeply in numbers and are formally existent, are still struggling to maintain their existence and role in advocating policies. The community in general lacks a culture to demand better public service, mainly due to lack of trust that their demands or complaints would result in better services, but also lack of awareness of their rights.

c. Key Government Initiatives/Actions to Date

Central government transfers to the regions have been increased significantly since decentralisation. In general, there are three types of transfers from central to PGs and LGs:

♦ *First*, the revenue sharing fund is a percentage-based allocation of taxes (land and building tax, income tax) and natural resources (forestry, general mining, fisheries, oil and gas).

♦ *Second*, the General Allocation Fund (DAU) aims to equalise and allocates on a "basic allocation" formula (numbers of civil servants) and fiscal gap (based on population, territory

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[39] Ford Foundation: Budget Advocacy in Indonesia. Country Report: Indonesia. October 2008; International Budget Project: Lessons from the field. The Impact of Civil Society Budget Analysis

and Advocacy in Six Countries. *Practitioners Guide*

size, construction index, GRDP and HDI). The total amount is secured by at least 26% of the Net Domestic Revenue.

♦ *Third*, the Special Purpose Grant (DAK) is a criteria-based allocation which finances infrastructure development in 13 sectors (2009). In the last five years, the allocation for revenue sharing, DAU and DAK were around 25-35%, 62-67% and 3-8%, respectively.

In Aceh and Papua, the Special Autonomy (*Otsus*) Funds are provided to accelerate development with an allocation of 2% of the total DAU allocation for each province.

As shown in the following graph, the total amount of transfers have continuously increased since decentralisation (2000-2001), with a significant increase in 2006 due to the reduction of the fuel subsidies and high oil prices. These funds are recorded in the regional budgets (APBDs) as revenue and the utilisations of them are discussed through provincial/local-level planning and budgeting mechanisms, where the DPRD is heavily involved. The funds are transferred directly from the central government account to the regional government accounts. DAU is not earmarked whereas DAK funds are earmarked.

Graph 1: National Government (APBN) Spending Trends
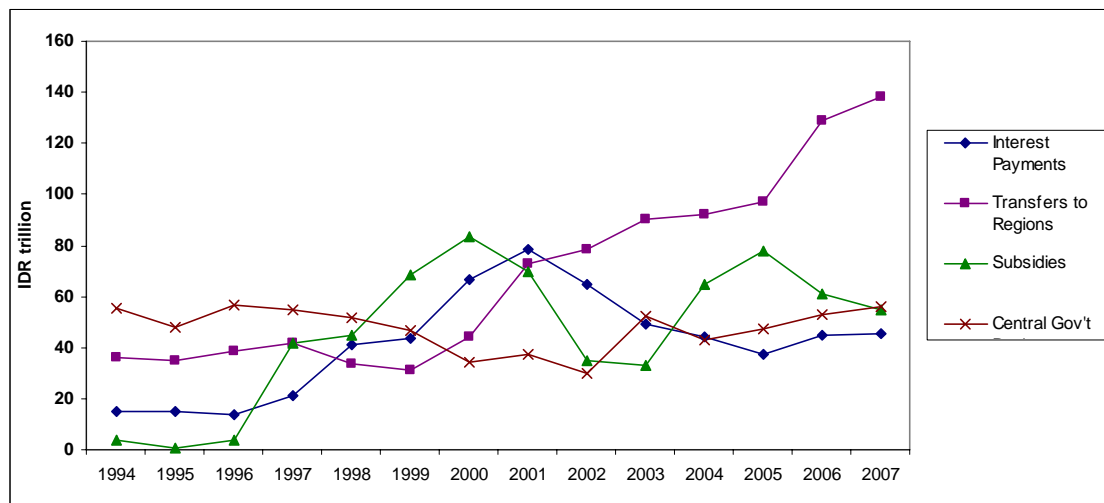
Source: Public Expenditure Review (2007), The World Bank

The Ministry of Finance estimated that an overall of 65% of the 2009 national budget (APBN) is channelled to sub-national governments[40], most of it through deconcentration and co-management (*Tugas Pembantuan*, TP) funds. Funds that are accounted for in the budget of PGs and LGs constitute around 30% of the total budget, around 35% of the funds are "channelled" to the regions utilising deconcentration, co-management (TP) or even national budget accounts. All of these funds are not transferred to the PGs and LGs accounts, but are transferred directly from the Regional Cash Office of MoF to contractors/suppliers or to implementing technical unit accounts,

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[40] Mardiasmo, Director General for Fiscal Balance, in: Kompas
http://m.kompas.com/index.php/news/read/data/2009.01.20.01310258

and these funds are not accounted for in the provincial/local budgets (APBD) and create problems for LG's in adequate planning and monitoring.

Nonetheless, several centrally implemented programs or those channelled through TP funds can be effective. Several programs, notably the National Program for Community Empowerment (PNPM-Mandiri) and School Operations Grants (BOS), show their ability to quickly disburse funds to the intended beneficiaries by utilising TP and national budget accounts with little leakage, respectively. The embryos of the two programs were designed prior to decentralisation (during the 1997-1998 economic crisis). Both programs provide grants to finance projects proposed and determined by the community members and school stakeholders, with strict procedures that are heavily monitored by the program management and non-government stakeholders. The involvement of the LGs (involved LG units are accountable to the central government ministries implementing the program rather than to the *bupati/walikota*), has been limited- only to request the disbursement of funds to the cash office of MoF. The grants are channelled directly to the communities' accounts.

Decentralisation provided opportunities for PGs and LGs to perform reforms. Some LGs have started utilising their authorities to improve governance and public service delivery. For example, the Provincial Government of NTB has prepared a mid-term plan (RPJMD) that includes annual performance indicators, targets and annual budget estimates. The Provincial Government of Gorontalo systematically built its PFM capacity and practices resulting in Gorontalo being the only province in Indonesia that received "unqualified opinion" from the State Audit Agency (BPK). Kabupaten Jayapura (Papua Province) reforms its PFM to combat corruption (see Box 1). Kabupaten Lebak (Banten Province) was among the first LGs issuing a Local Regulation (prior to the enactment of the national law) on Freedom of Information and established a local-level Transparency Commission. Kabupaten Sumedang (West Java) improved its planning and budgeting processes, allowing for a better integration of plans and budget and a participatory approach outside the planning process only. Almost 140 districts/municipalities in Indonesia streamlined business licensing through the establishment of a "one stop shop". Kabupaten Jembrana (Bali) was among the first LGs that reformed education and health services making them accessible to all citizens. All these innovations and good practices can be learned from and replicated by other PGs and LGs.

Box 1. Some PFM experience in Jayapura District, Papua Province

A new district head, committed to undertake public management reforms and combat corruption, entered office in 2006. Some issue that he addressed is the delayed disbursement of special autonomy funds from the provincial government to district governments. Now, finance unit of Jayapura district anticipates these delays (sometimes funds are only received in June-July of the budget year starting in January), resulting in "up-front" spending on development projects out of the district budget or own revenue. This way, project planning, procurement and implementation is not jammed towards the end of the financial year and funds are likely to be spent more effectively.

Furthermore, as the district head is also committed to combat corruption, already six staff have been arrested and charged with corruption charges. If spending irregularities occur, the responsible person is given a chance to account for the missing funds, and if the irregularities remain, the external audit agency is called in. Finally, police, prosecutors etc. take over the case.

> *On the other hand, incentives are provided for well performing officials, mainly in the form of trainings. A considerable number of staff in the finance unit have already attended the regional finance course (duration: 1 month) offered by the provincial university, increasing the understanding and capacity of staff to implement current finance regulations.*

d. Key Issues and Constraints

To date, there are no financial incentives for PGs and LGs to perform better. Most of the fiscal transfers are based on the factor endowment (particularly natural resources revenue sharing) and discretion of the national government (especially DAK). The DAU formula, with the main intention to equalise, actually creates disincentive for PGs and LGs to improve their performance. Sub-national governments that reduce civil servants and improve their HDI, for instance, will receive less DAU allocation from the central government. With high dependency of the PGs and LGs to transfers (see Chart 2), other than the possibility of being re-elected and recognised as "reform minded PG and LG", there is no financial incentive to perform better. In the last few years, MOF has created sanctions for PGs and LGs who do not submit their financial reports on time, by threatening the PGs and LGs to reduce their allocation and delay fiscal transfer disbursements. However, since these threats have not been executed, there has been no impact (see paragraph on budget disbursement below).

Furthermore, the general allocation funds are largely eaten up by personnel costs, leaving very little space for allocation non-earmarked funds at the discretion of LGs.

The creation of new regions is mushrooming under the existing decentralisation framework. The high dependence on central government transfers results in higher revenue received by the regions if provinces/districts/municipalities are split. Of the total of 33 provinces and 491 districts/municipalities, 6 (18%) and 187 (38%) were established in the period of 1999-2008.[41] Among the 71 districts/municipalities in the four targeted provinces of AIPD, 42 (59%) were established during this period. Papua Barat itself was separated from Papua in 1999. The numbers of new districts/municipality in Papua and Papua Barat are incredibly high, 76% and 73% of the total number of districts/municipality, respectively.

| No.	Provinces	Total No.		Newly Established (post 1999)	
		District	Municipality	District	Municipality
1	West Nusa Tenggara	8	2	2	2
2	East Nusa Tenggara	20	1	8	0
3	Papua Barat	10	1	7	1
4	Papua	28	1	22	0
	Total	66	5	39	3

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[41] As of 22 December 2008 (*Stock Taking on Indonesia's Recent Decentralisation Reforms Update*, USAID-DRSP: 2009).

PFM capacity of LGs is still very low – external audits report a significant increase of financial reports with "disclaimer". According to the Ministry of Finance, LGs do not pay the necessary attention to public financial management. Only 8 districts received an unqualified opinion on their financial reports by the external audit agency BPK in 2008. 120 financial reports got "Disclaimer" in 2007.[42] These are worrisome results more than 8 years into decentralisation and it is evident that support in PFM is urgently needed, both for legislative and executive.

However, deconcentrated and TP funds can be effective in reaching the needy communities, but the focus now needs to be on the shift into LG responsibility. Numerous LGs have already enhanced village block grants and made efforts to harmonise own initiatives with PNPM. This is especially important under the aspect that it is envisaged to execute PNPM through LGs by 2015. Non-government stakeholder and DPRD members' participation in sectoral planning and budgeting processes and thus their awareness is still limited.

The provincial and LGs are highly relying on transfers from the central government through equalising funds,[43] particularly in Eastern Indonesia where it reaches 86% of the total budgets. The contributions of equalising funds to the two Nusa Tenggara provinces are around the Eastern Indonesia average. In Papua and Papua Barat, although the equalizing funds are lower than the Eastern Indonesia average, the amount of "Others" category –which is mainly "special autonomy funds" (*Otsus*)– is fairly high, reaching 27% and 13% respectively, which also shows the high dependency on the national government transfers. The percentage of own revenue generated by the two provinces is the lowest among Indonesian provinces, with 2% and 3% respectively.

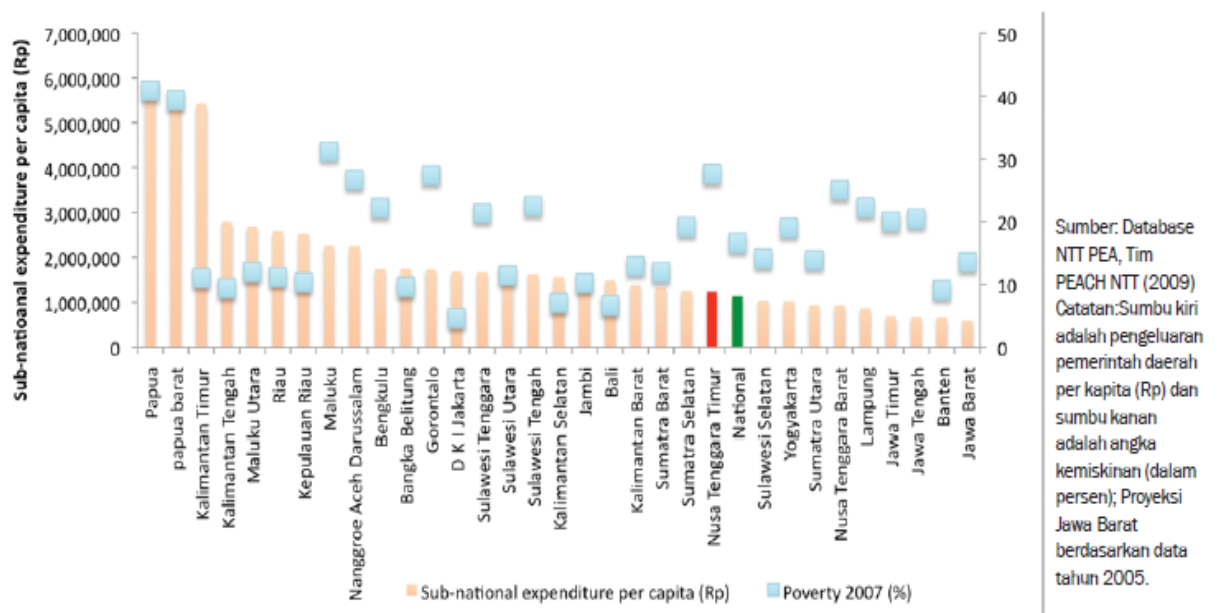Chart 2: Consolidated Provincial and LG Revenues
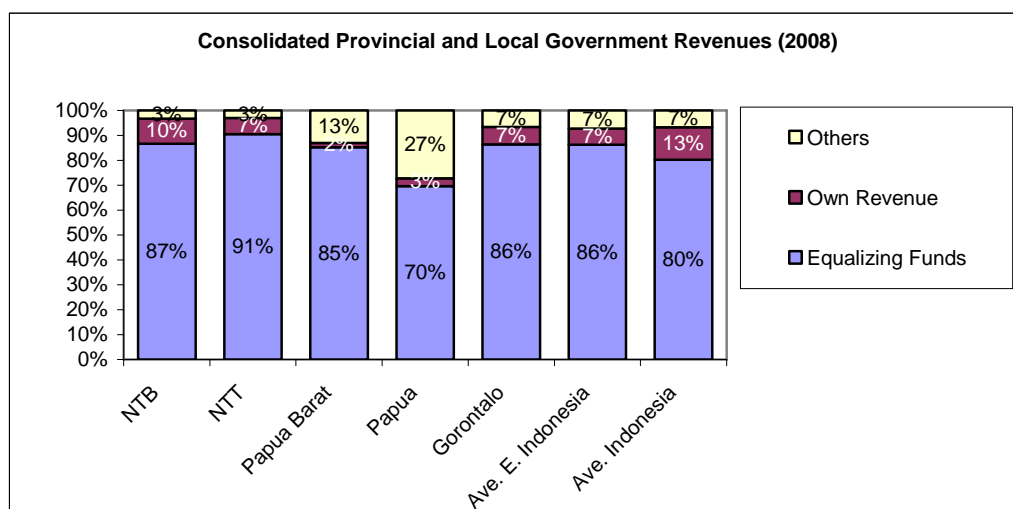
Source: The World Bank staff analysis, based on SIKD (MOF)

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[42] Kompas, 12/08/09: UANG NEGARA Rp 600 Triliun di Daerah Berbahaya

[43] Equalising funds include general block grant (DAU), specific block grant (DAK) and revenue sharing (natural resources and taxes).

However, more sub-national expenditure per capita not necessarily reduces poverty. Papua and Papua Barat are on the top of Indonesian provinces in both expenditure per capita (almost reaches IDR 6 million/person/year) and poverty rate of almost 40%. Gorontalo, NTT and NTB are in a similar situation – their per capita expenditures are around the national average, but their poverty rates are still over 20% (national average is 16.6%).

Chart 3: Sub-national expenditure per capita

Sumber: Database NTT PEA, Tim PEACH NTT (2009) Catatan:Sumbu kiri adalah pengeluaran pemerintah daerah per kapita (Rp) dan sumbu kanan adalah angka kemiskinan (dalam persen); Proyeksi Jawa Barat berdasarkan data tahun 2005.

One possible cause is that the share of provincial and local budgets spent on capital expenditure is relatively low. The chart below shows that for the two Nusa Tenggara Provinces, particularly NTB, personnel expenditure is higher than the national average of 40%. The spending mix based on expenditure category in Papua Barat and Papua is relatively better – 26% and 25% for personnel, 20% and 25% for goods and services and 31% and 41% for capital expenditures, respectively. In NTT for example, only 9% of direct expenditure is actually spent on investments. A close look into the goods and service category reveals that more than 85% does not benefit service directly. In the health unit of the provincial government of NTT, 52% and 13% of goods and services are spent on travel and office costs, respectively. Such spending patterns clearly hamper the achievements of the ambitious health targets set by the current government. [44]

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[44] Calculation based on MKPP+, ANTARA 2009

Chart 4: Expenditures by Category

Consolidate Provincial and Local Gov'ts Expenditures by Category (2008)

	NTB	NTT	Papua Barat	Papua	Gorontalo	Ave. E. Indonesia	Average Indonesia
Unexpected and Others	4%	5%	3%		2%		
Revenue Sharing & Assistance				15%		6%	6%
Capital	22%	27%	41%	31%	32%	31%	29%
Goods & Services	15%	19%	25%	20%	19%	19%	19%
Personnel	51%	43%	25%	26%	43%	39%	40%
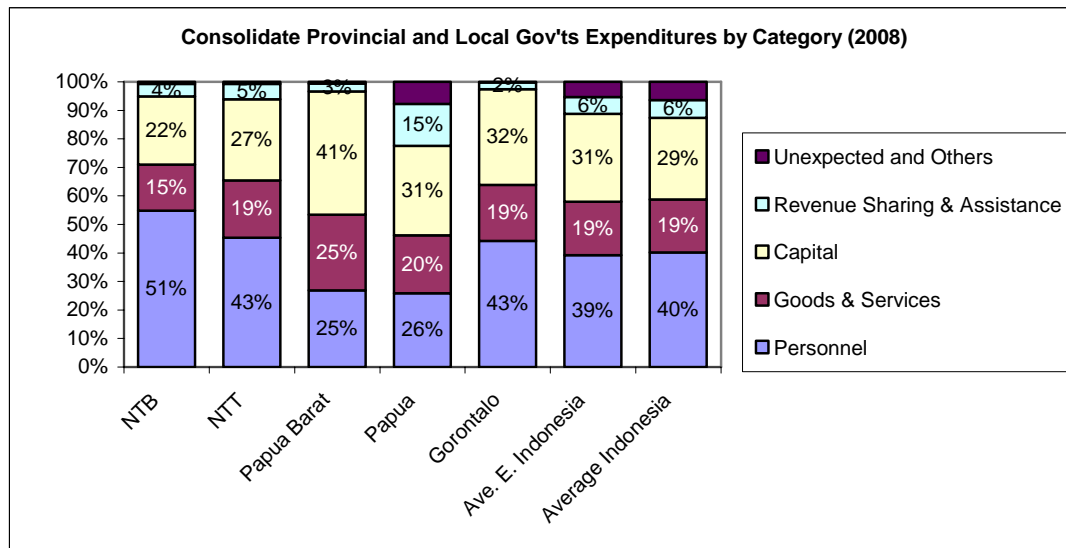
Source: The World Bank staff analysis, based on SIKD (MOF)

Poor resource allocation is a result of many issues in the planning and budgeting processes. There are several main issues in the planning and budgeting processes: (i) the lack of timely and accurate information/data exchange between local/provincial governments leading to formalistic, uncoordinated, un-prioritized allocation of projects and funds (ii) division of authorities between different levels of governments is not reflected in resource allocation of each level of government –a lot of centrally (national, deconcentrated and TP) and provincially implemented programs are financing activities that fall under LG authorities which overlap and create inefficiency; (iii) most of the governments' and technical units' mid-term strategies and plans (*Rencana Pembangunan Jangka Menengah Daerah* [RPJMD] and *Rencana Strategis* [*Renstra*], respectively), often lack priorities, (reasonable) targets and estimated budgets to implement and are disconnected from complicated annual planning and budgeting processes; (iv) in theory, the annual budget is prepared based on the results of annual participatory planning process, RPJMD and Renstra, and DPRD's community aspiration collection (*"jaring asmara"*). In practice, however, the budgets are mainly driven by the executive and DPRD planning process which is neither reflecting the results of the participatory planning process nor the sectoral priorities/plans. All these issues contribute to poor resource allocation resulting in poor public service provision discussed above.

Budget disbursements have been slow, mainly caused by PGs and LGs internal issues. Based on the discussions with provincial and LGs visited during the design mission, this phenomenon is not due to the delays of fiscal transfers from the central government. However, there are several, mostly internal, causes of the delays. *First*, many of the PGs and LGs do not issue their budgets on time, especially in Eastern Indonesia. For example, only 2 of 9 LGs in NTB submitted their FY 2008 budgets on time to the PG, which decreased to 0 for FY 2009 budgets. Most budgets were approved by the PG in January, with 2-3 districts in February-March. *Second*, most of the PGs and LGs start the procurement process after the budgets are approved, although procurement procedures allow to be started before budget approval. *Third*, a lot of LGs save their funds in the bank rather than spending them. The NTT Public Expenditure Analysis (2009) identified that the government's saving balance increased from around IDR 0.8 trillion in 2003-2005 to IDR 1.56 trillion in 2006 and reached IDR 2.2 trillion in 2008, which are around 22-30% of the nominal

total budgets of the PG and LGs. Although some PGs and LGs have significantly increased their expenditure-revenue ratio (for example, NTT increased the ratio from 89% in 2003 to 103% in 2006[45], LGs in Papua increased the ratio from 76% in 2006 to 103% in 2008), several governments still have a significant balance at the end of the FY (Provincial Government of Papua holds IDR 2.1 trillion or 57% of the budget in 2006 that had been reduced to, but still a large amount of, IDR 0.8 trillion or 85% in 2008).[46]

With deconcentration and TP funds, the Central Government maintains largely control over development spending in the regions - creating problems in the implementation from a LG perspective. The amount of deconcentrated and TP funds pouring into the regions can be quite significant. For the province of NTB, for instance, the 2009 allocation is IDR 948 billion (not included activities of the central government offices in NTB and PNPM-Mandiri) which equals 74% of the total Provincial APBD. However, these funds are highly problematic from a LG perspective: *First*, the funds are not recorded in the APBD that makes it less transparent and not accounted for in the LG. *Second*, although in theory the activities will only finance the proposals of the LGs and PGs, the final decision of the activities are received by the LGs and PGs after the APBDs have been finalised. Hence, this makes it difficult to synchronise with locally funded activities and local development priorities, as it potentially crowds-out local spending. *Third*, the technical units implementing deconcentration and TP-funded activities are accountable to the national-level ministries, not the LGs/PGs that make it difficult for the LGs/PGs to monitor the implementation (the DPRD does not even have the right to monitor). *Fourth*, the preparation of the respective national-level budget documents is often delayed (according to the PG and LG officials visited), and disbursement and audits of these funds are beyond the authorities of PGs/LGs, leading to inefficient spending. Finally, the extensive utilisation of these mechanisms for financing LG authorities is against the spirit of decentralisation, but provides a powerful political playing field for central government agencies.

PG has not fulfilled its function satisfactorily to monitor and build the capacity of LGs. Law No. 32/2004 and GR No. 38/2007 mandate PGs to monitor and build the capacity of LGs, but in most cases this function has not been well implemented. The freedom that LGs enjoyed during the initial decentralisation period of 1999-2004 makes it difficult for the PGs to regain their power, which they had during New Order era. In addition, a lack of fiscal power of the province (DAU/DAK and TP are centrally determined), limited capacity to perform monitoring functions and capacity building role increases this failure. Furthermore, the direct election of the Governor and Provincial DPRD creates incentives of implementing populist programs, targeted to communities and/or public service programs under the authorities of the LGs. Different periods of provincial and district/municipal mid-term plans (based on the terms of the heads of the regions on a rolling basis) makes harmonisation and synchronisation of governments plans and development priorities difficult and leaves it to annual planning. However, an increasing amount of governors with strong leadership skills and reform visions have been trying to innovate and build better relationships between PG and LGs.

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[45] NTT PEA (2009)

[46] Data for Papua is obtained from draft Papua PEA update (forthcoming).

e. Donor support to Decentralisation

Several relevant initiatives have been implemented to support decentralisation. The Government of Indonesia implemented several relevant programs to support the promotion of local governance, often with donor support. The World Bank financed the "Initiatives for Local Governance Reform" (ILGR) and "Urban Sector Development Reform Program" (USDRP) that provide incentives to participating LGs through provisions of grants and loans, respectively, together with capacity building and technical assistance. In addition, the World Bank also financed the "Support for Poor and Disadvantaged Areas" (SPADA) that supports specific LGs in linking community with district-level planning, with block grants to support financing activities identified. These programs have been implemented since 2005. "Sustainable Capacity Building Development" (SCBD) with ADB financing has been implemented since 2004, to implement a capacity building action plan identified by each participating LGs. "Delivery Improvement and Local Governance: (DIALOG, AusAID-The World Bank) and "Better Approaches to Service Provision through Increased Capacities in Sulawesi" (BASICS, CIDA) were recently designed to provide incentives to LGs. USAID implemented the "Local Governance Support Program" (LGSP, a successor project of PERFORM and BIGG) in 2004-2009 that assists LGs and other stakeholders building their capacity in various areas. In addition to ANTARA, AusAID also supports "Local Governance and Infrastructure for Community in Aceh" (LOGICA) that rehabilitates and reconstructs communities and LG services destroyed by the tsunami in 2004. GTZ has supported decentralisation both on the policy level (SfDM, "Support for Decentralisation Measures", succeeded by ASSD- "Advisory Services for Decentralisation") and the implementation level (PROMIS-NT, SFGG- "Support for Good Governance", succeeded by GLG, "Good Local Governance"). In addition, regional "Public Expenditure Analysis and Capacity enhancement" (PEACH) have been implemented in Aceh, Papua, Gorontalo, East and West Nusa Tenggara (as part of ANTARA). The Public Financial Management (PFM) Measurement Framework was developed by the World Bank and Ministry of Home Affairs and has been used in more than 100 local and provincial governments to assess PFM performance and capacity.

Several programs supported decentralisation through civil society. AusAID has been funding two phases of the "Australian Community Development and Civil Society Strengthening Scheme" (ACCESS) since 2002 to build the capacity of the community and civil society organisations (CSOs) to enable them to demand for good governance. The World Bank financed "Participatory Budgeting and Expenditure Tracking" (PBET, executed by the National Democratic Institute) in 2005-2008 that builds the capacity of civil society in understanding local budgets and its processes, analyzing the budget, tracking expenditures and monitoring public service provision through citizen report cards (CRC) and user-based surveys. Similarly, "Civil Society Initiatives Against Poverty" (CSIAP, executed by The Asia Foundation with DFID support) promotes budgeting reform from the demand side. A Local Budget Study (LBS) is currently implemented by CSIAP to cover almost 50 districts in 18 provinces in Indonesia.   LGSP has also a component to improve the capacity of CSOs. Only a few NGO networks have been working in the budget analysis area, such as FITRA, Pattiro and FPPM networks and engaged with the above programs.

Most of the programs supporting LGs through the central government have been facing various challenges. Several loan-funded programs, which are implemented through the central government agencies, such as ILGR, USDRP, SPADA and SCBD have been facing various challenges in the implementation. Fund channelling mechanisms through on-granting and on-lending have not been operational until 2009, although various MoF decrees have been issued to stipulate the mechanisms since 2003. Limited capacity of the central government agencies implementing the programs, particularly in dealing with lender agencies' procurement processes,

also contributed to significant delays in the program implementation which resulted in the programs losing its momentum. On the other hand, other programs that have not been implemented through the government system did not face this problem and could be implemented in a timely manner. This shows that the problems are mainly <u>not</u> at the provincial and local levels. There are numerous PGs and LGs, albeit still a small percentage of the total numbers, that are committed to governance reform and are welcoming donor support.

There are several other lessons learned from the implementation of these programs. *First*, a reform-minded leader is *the* key to start. Although several regions, such as those that are newly established and have high poverty headcount/rate, are very relevant and need support to develop, without any strong and committed leadership, any programs promoting governance reform will not be successful. *Second*, intensive facilitation and constant engagement are important to ensure that a reform momentum will be built and sustained. *<u>Third</u>*, in addition to working at the supply side (executive), it is important to work with the local legislative body (DPRD) and various elements of the communities to create demand for reform. *<u>Fourth</u>*, methodologically sound surveys/assessments, with a user-friendly wide information dissemination of the results can create positive competition among LGs that create incentive to perform better. *Fifth*, although fiscal incentives are important to promote reforms, recognition as a "reform-minded government" and access to relevant capacity building activities can also create incentives for PGs and LGs. However, unfortunately, quite a few reform steps taken in various regions have shown not to be sustainable under changing conditions.

Impact of public financial management (PFM) reforms on improved public service delivery is too early to tell. Some local governance programs have focused their attention on PFM. For example, ILGR, USDRP and LGSP attempted to work on almost all aspects of PFM, from improving the local regulatory framework, access to information, planning and budgeting, procurement, accounting and reporting, cash management to audit. Albeit there are some improvements, notably in the local regulatory framework, implementing such wide reform agenda is not easy for the participating LGs. Long delays in the national program preparation discussed above, in the case of ILGR and USDRP, made some LGs losing their momentum for reform. Although the results of Governance and Decentralisation Survey (GDS) 2 (2006) show that public services in USDRP and ILGRP districts/municipalities are perceived as better than other regions, many other factors (e.g., one criteria of selecting the LGs was "reform-mindedness") can be more significant to this result rather than attribution of PFM reforms alone. Other types of initiatives, PFM Assessment and PEACH, for instance, provide a good diagnostic of the overall PFM status and resource allocation and management, but these results have not been followed with systematic efforts to conduct reforms.

III. Strategy for AIPD support to improved resource management capacity at provincial and district levels

The understanding of the term "Public Financial Management" in the context of the AIPD design is aligned with the definition of "Public Financial Management" outlined in the LG Public Financial Management Measurement Framework. This tool has been published jointly by the Ministry of Home Affairs and the World Bank Jakarta in 2005,[47] where PFM is broken down into nine strategic areas (see picture 1 below). While AIPD acknowledges that all these PFM strategic areas are of high importance, it would go beyond the capacity of AIPD to support the improvements of all these areas. AIPD's outcome of improved resource management is

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[47] Ministry of Home Affairs, The World Bank Indonesia. Indonesia: LG Public Financial Management Measurement Framework. Jakarta, 2005.

understood as an outcome of enhanced planning and budgeting processes, a sub-component of Public Financial Management.

Picture 1: PFM Measurement Framework Structure
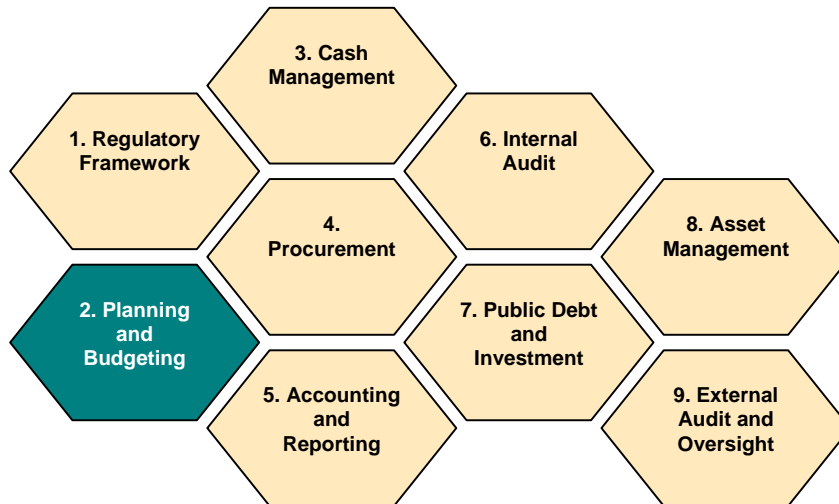
In setting public expenditure priorities, a continuing challenge is to assure that scarce public resources are targeted toward activities with high social returns, and are deployed efficiently. Analysis of the public spending patterns (PEA's) in various provinces and districts of Indonesia (see below) have provided solid evidence that one of the main constraints of improved and efficient public service delivery is rather the lack of strategic resource allocation across sectors, spending prioritization, under-spending, misallocation of funds and absorption rates than the availability of financial resources as such.

AIPD is aiming at improving resource allocation and management, which puts planning and budgeting into a new perspective. This means that AIPD is not supporting the "classic" PFM cycle described above, but resource allocation referring to the planning and budgeting process to be linked to evidence-based policy making and ultimately systematic data management/monitoring and evaluation mechanisms, where the demand side will be provided with crucial information to allow for meaningful involvement in decision-making processes.

The PFM University Network

The Ministry of Finance has established a regional public finance network with universities across the country to build capacity of provincial and LGs in managing public finances. The network currently includes seven universities across the country which have established centres for Regional Finance Studies based on MOUs. The universities are Gadjah Mada University (UGM) in Yogyakarta, University of Indonesia (UI) in Jakarta, Hasanuddin University (Unhas) in Makassar, Andalas University (Unand) in Padang, Brawijaya Universtiy (Unibraw) in Malang, Sam Ratulangi University (Unsrat) in Manado and National Accounting College (STAN) in Jakarta. The Ministry of Finance wishes to expand the network to have ultimately on partner in each province, but this strategy has failed so far due to financial constraints.

The Ministry has established extensive relationships with the regional finance experts of the

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participating universities, for policy dialogue, expert round-tables beyond the technicalities related to the curriculum.

These university centres offer policy related courses for higher-ranking officials (duration one week) and more technical courses for staff level (duration one month) covering PFM aspects comprehensively. These courses are especially designed for provincial and LG officials to meet the demand for intensive capacity building.

In addition, theses universities also offer master courses in Public Financial Management, with duration of two years.

Yet, a critical mass of PFM "hardcore" knowledge inside each LG is urgently needed and the PFM university network will be the main delivery mechanism. Overall capacity of LGs in all aspects of public financial management is still low, impeding quick measurable improvements. It is suggested that AIPD provides strategic technical and financial support to the university network as a sustainable mechanism to deliver capacity building to participating sub-national governments. Universities of all four provinces would be invited to join the network so capacity building would not only be provided to LGs, but also to these universities.

Executive and legislative will be equally supported to strengthen governance processes and systems. While major bottlenecks with regard to efficient resource management exist within the executive, the legislative is mandated to represent the people's interest and to be a "watchdog" of bureaucratic action. However, since this understanding is not yet very well developed among local legislators in Indonesia, AIPD will make substantial efforts to develop the capacity of the legislative. The very recent local parliament elections provide an excellent window of opportunity for AIPD to support the reform momentum and structure smart practices to be implemented.

AIPD recognizes that the gap between formal arrangements and realities on the ground is often wide, especially in highly politicized processes such as budgeting. Therefore, AIPD is intending to use existing measures/tools/parameters to monitor governance in respective sub-systems, such as the PFM measurement framework and PEA. The results can be powerful forces for raising awareness on both, demand and supply side, and they can also focus attention on broad areas that require further focus[48]. AIPD will support the identification of a few specific issues (e.g., based on the results of the M&E, see point 9 below), public-private dialogue to discuss the reform agenda and facilitate implementation of the reforms.

The demand side of public services need to built and strengthened to better monitor government action, specifically public spending. Furthermore, in order to achieve sustainable results and to strengthen democratic governance, AIPD will work with the supply and demand side of basic services and not only strengthen technocratic but also advocacy processes.

To satisfy the demand side, systematic transparency components will be established, not only in the planning and budgeting processes, but also monitoring and evaluation, based on updated and

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[48] The development returns can be high from reviewing public expenditures to identify those with high potential returns, and on-going, low-return expenditures that could be usefully re-prioritized toward high-return uses. Where this process works well, the fiscal space opened up for new investment or productive current expenditure can be large. One goal of public expenditure management reforms is to put into place systems that routinely review and recalibrate priorities

valid data. It is necessary that technical support for planning and budgeting is complemented by greater transparency and emphasis on the potential of public information to improve the developmental discourse among communities, their governments and other stakeholders.

While AIPD's working focus is on LG level, the provincial governments will play a vital role in AIPD to support a dialogue between different levels of government. This is to achieve not only improvements government internally, but to ultimately improve resource management in intergovernmental transfers and other central government funds spent in the regions.

"One-size does-not-fit-all": AIPD will provide demand-driven capacity building and be responsive to local needs. Different circumstances require different approaches, technically as well as politically. As outlined above, leadership is one of the most critical determinants for success or failure of reforms. Therefore, AIPD will react to the reform demand brought forward by the participating provincial and LGs under the AIPD focus areas, help to formulate priorities and support the implementation of the set agenda. Furthermore, AIPD will promote recognition of performance and competition among LGs and PGs (e.g., by utilizing M&E and analytical tools, such as MKPP+).

Various components of government systems relating to improved resource allocation and management will be strengthened through AIPD supply-side capacity building: improved policies/regulations, plans/budgets, and ultimately systems/mechanisms. AIPD's strategy is to provide comprehensive capacity building in all aspects related to resource management. An initial review of existing legislation on resource management processes will identify procedural weaknesses and lack of policy directions, followed by the re-prioritization of development issues and streamlining budgets in accordance with development targets. While initially improving practices, an institutionalization of those will ultimately improve systems and mechanisms.

AIPD's main principle of using and improving government systems translates into the capacity building support strategy on the supply side. The overarching outcome of improved resource allocation can only be achieved when a trusting partnership exists between AIPD and the participating provincial and LGs. While currently government processes might be inefficient and intransparent, however, they are institutionally established and accepted. Improvements supported by AIPD thus lead to sustainable enhanced government systems. As the focus of AIPD is to improve resource management, AIPD acts at "the heart" of government systems and procedures practically prohibiting supporting or establishing parallel systems. This will apply not only to LG systems (e.g., AIPD will avoid establishment of a new multi-stakeholders forum, but try to enhance district sectoral planning and budgeting process), but also at national level as AIPD will utilize the university network established by MOF.

IV.   Proposed outcome, outputs and indicative activities

a. Supply-side

Output S1. Clear mechanisms established and applied for improved allocation of funds both between different levels of government and within provincial and LGs. There are several issues that will be addressed: (i) the lack of timely and accurate information/data exchange between local/provincial governments leading to formalistic, uncoordinated, un-prioritized allocation of projects and funds (ii) most of the government' and technical unit' mid-term strategies and plans (*Rencana Pembangunan Jangka Menengah Daerah* [RPJMD] and *Rencana Strategis* [*Renstra*], respectively), often lack priorities, (reasonable) targets and estimated budgets to implement and are disconnected from complicated planning and budgeting processes, leading to budget allocations that does not reflect people's needs or development priorities; (iii) most of the budget is spent for personnel and recurrent expenditures with limited allocation for capital expenditure

and operations and maintenance (O&M); (iv) division of authorities between different levels of governments is not reflected in resource allocation of each level of government –a lot of centrally (national, deconcentrated and co-management/*Tugas Pembantuan* or TP) and provincially implemented programs are financing activities that fall under LG authorities which overlap and create inefficiency. The following indicative activities will contribute to the achievement of this output.

Activity S1.1. Implementation of Public Expenditure Analysis (PEA). Among the targeted provinces, a PEA has been implemented in Papua (2005, and is currently being updated), Gorontalo (2008), NTT (2009) and is currently being implemented in NTB. Albeit high "buy-in" from the Provincial Governments, there are several lessons and feedbacks to the future implementation of PEA: (i) the overall process –from data collection to launch of the report– should not exceed 1 year; (ii) in addition to academics from local universities, various other stakeholders, such as local NGOs[49] and (young), progressive government officials have potential to be involved in the process; (iii) the PEA should focus on pressing issues rather than addressing all normative compliances - several areas of analysis, such as deconcentrated/TP funds vis-à-vis local budget; quality of expenditure; O&M v. capital expenditure, need to be enhanced; (iv) a PEA that focuses on the provincial level and only includes a few districts is of limited benefit for district governments- therefore, full coverage of the districts/municipalities in one province is recommended; (v) limited efforts have been made to follow-up PEA results, particularly at the district level (see Activity D3.1 of the demand side). AIPD will implement improved PEA's as outlined above, based on commitment and demand of the PGs and LGs in Papua Barat and remaining districts of NTT in 2010. Finally, a final PEA that will be used to measure the achievement of this program will be implemented in all participating provinces in 2015.

Activity S1.2. Improvement of budget preparation mechanism. The program will assist participating PGs and LGs to reform the budgeting process that leads to a translation of health and education outcomes into expenditure priorities. In addition to the transparency of the budget and budgeting process discussed under Activity D 3.1 of the demand side, the program will focus on the enhancement of budget preparation mechanism, particularly in the areas of: (i) operationalisation of RPJMD and health and education *Renstras* to include priorities, performance indicators and targets and annual budget estimates. The main tool for this activity will be the Consolidated Planning and Budgeting Matrix "plus" (MKPP+) (see Activity S3.1 below); (ii) the provision of a budget ceiling prior to the sectoral planning process (based on enhanced RPJM and *Renstras* discussed above); (iii) enhancement of public participation in the sectoral planning discussion (e.g., Forum SKPD on health and education) and budget deliberations at DPRD, with the relevant non-government stakeholders supported under Activity D2.1; and (iv) national and provincial-level advocacy to improve the allocation and fund transfer to the district budget for activities under the authorities of LG.

Activity S1.3. Development of system to integrate community driven-development (CDD) programs into district budget planning process. Currently there are various CDD programs implemented in most districts in Indonesia –the National Community Empowerment Program (PNPM) was launched in 2008 to cover all sub-districts in Indonesia. Most of the districts increased village block grants (ADD) and some provincial governments also implement different CDD programs. Most of these programs have own procedures and mechanisms, mainly parallel to LG processes. With the strategy to integrate PNPM into LG processes in 2015, AIPD plans to support piloting this integration in some of the participating districts and municipalities. National government ministries implementing PNPM (mainly MOHA and Public Works), PGs

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[49] See discussion on budget analysis and advocacy activities by civil society on pp. 5,14

implementing CDD program(s) and LGs will be facilitated to review the existing mechanisms and adopt transparent, participatory, gender-sensitive mechanisms in the local planning and budgeting process. ACCESS has wide experiences of promoting "one village one plan" that can be learned from and inform this process. This activity will be integrated with enhancement of the budgeting mechanism implemented under Activity S1.2 and will be complemented by Activity D3.1 at the demand side. The development of a mechanism is expected to be completed in a year, with support to test the mechanism for at least two budget cycles.

Output S2. Performance-based incentives mechanism piloted. A lack of systemic performance-based incentives for provincial and LGs (PGs and LGs) to improve governance is one of the key impediments in the current decentralisation landscape, because the equalization formula "punishes" efforts for efficiency. AIPD will engage with the Ministry of Finance (MoF), particularly Directorate General for Fiscal Balance (DGFB), as the key counterpart on dialogue on performance-based incentives in intergovernmental fiscal transfers, which is already under discussion. The AIPD Program will explore possibilities to pilot and "pre-test" and performance incentives in AIPD regions.

There will be additional efforts, such as the incentive mechanism based on Delivery Improvement and Local Governance (DIALOG) program design in two provinces, Papua and Gorontalo.[50] Success of the program will increase the role of the PGs in monitoring the performance and providing incentives for good-performing LGs and to base resource allocation on determined incentive parameters, particularly in public service delivery (health and education sectors) and public financial management (PFM). Successful implementation of this pilot will inform the development of the mechanism further and/or pilot expansion to other AIPD provinces.

This output will be achieved through implementing three activities:

Activity S2.1. Development of institutional performance-based incentive mechanisms.

The DGFB-MoF will be supported to design a systemic inter-governmental performance-based incentive program through policy dialogue, workshops, and technical support. This is one of

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[50] DIALOG selected three candidates of participating LGs based on the score of the PFM Assessment (see Activity S4.1) in each of Gorontalo and Papua Provinces.[50] These LGs already signed a Memorandum of Understanding to participate in the program in September 2008 and are facilitated to develop a medium term strategy and investment plans to improve access to and quality of health and education services. These plans are expected to be finalized by the end of 2010. Based on the DIALOG's Performance Agreement, successful preparation and adoption of the plans, improvement in PFM score, improvement in budget transparency and preparation processes, and improvement of spending mix in the two sectors will make the LGs eligible to access financial incentives and further capacity building and technical assistance activities. The performance of the participating districts will be further evaluated on an annual basis.

The grant (in the total amount of IDR 12-16 billion per district) for LGs in Gorontalo will be provided by the Program and provincial government, where the share of the provincial government is increased over time for three years. In Papua, the grant will utilise the special autonomy (*otsus*) funds, with support from the program to design and implement the performance-based incentive mechanism. In addition, supports will be provided to the PG of Papua to improve allocation formula for general grants (non performance-based) from province to district. It is envisaged that AIPD will implement this activity only in the two selected provinces from Year 1 to Year 4 in Gorontalo and from Year 2 to Year 5 in Papua due to the Governor election next year. The program's mid-term review will decide whether the pilot to be expanded to other districts/municipalities in the two provinces and/or to also cover other AIPD provinces.

AIPD's key areas of engagement with the Central Government. AIPD will support MoF in bringing key stakeholders together to kick-start a discussion on performance incentives inside the fiscal formula.

For the case of Special Autonomy Funds in Papua and Papua Barat, AIPD will assist the provincial government in developing a distribution formula that is in line with the existing legislation, partially earmarking these funds. Currently, the provincial government does not allocate these funds based on needs or progress in development outcomes, leaving a question mark on the effectiveness of these funds. Such an activity is also planned under DIALOG.

Activity S2.2. Performance Monitoring. AIPD will pilot the utilization of MKPP+ in NTT (and probably NTB) as a tool to monitor and determine performance based allocation for provincial governments. The original tool will be utilized in Papua, where it has already been partially implemented. Provincial governments will also be supported in utilizing MKPP(+) as a monitoring mechanism for the respective LGs.

Activity S2.3. Support access to training and learning activities. In addition to financial incentives, capacity building and technical assistance provided through Activities S2.1, and S4.2, access for civil servants to pursue a post-graduate degree and specific training in various area of regional development can be considered as an incentive for the government. It is envisaged that the AIPD Program will work with the participating PGs to provide opportunities for officials of good performing PG's and LGs to: (i) scholarships for in-country master/doctoral education; (ii) specific training courses in the area of public finance, economics, public policy, etc.; and (iii) incentive English preparation courses to increase competitiveness for obtaining out-of-country scholarships such as Australia Development Scholarship (ADS), Australian Leadership Awards (ALA). This activity will be implemented in all participating provinces, with cooperation with reputable Indonesian universities, in year 3-5 of the program implementation.

Output S3. LG information management systems improved for resource allocation, management and monitoring. Law No. 18/2008 on Freedom of Information requires any public entity to provide maximum access (with limited exemption) to public data and information. However, most of the PGs and LGs are not ready to implement the regulation, not only because the officials are reluctant to be transparent, but also due to the lack of management of the data/information. Many of the PGs and LGs are not even able to provide data/information in a timely manner to their internal (government) clients.

Activity S3. Support for developing information management system. The AIPD Program will support participating PGs and LGs in organising and managing important data/information needed particularly for planning, budgeting and monitoring of the budget execution and public service delivery. In each PG and LG, various LG units responsible for collecting and managing data/information and primary users of the data[51] will be facilitated to discuss and agree on: data management and responsibilities. Based on the consensus, the program will then support the process of collecting, documenting, and managing existing data/information with regard to budgets and health/education development priorities. It is important to note that the program does not intend to develop a computerised and integrated information management system, but rather work with and general computer software. However, in provinces where MKPP+ is fully operational, a simple software appliance system should be piloted. It is estimated that the

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[51] This may include Development Planning Board (*Bappeda*), Finance Management Bureau/Agency, Regional Assistant Office for Monitoring, Electronic Data Centre Office (KPDE), Local Statistical Office, Regional Library as well as technical units (e.g., Health and Education).

implementation of this activity will take 1 year to complete, to be implemented in phases in Years 1 and 2 of the Program.

Output S4. Knowledge and skills in Public Financial Management (PFM) increased.

Introduction of regulations on new PFM systems (performance based budgeting, accrual accounting) increases the need to improve the capacity of related LG officials and, to some extent, local legislative (DPRD) members. In addition, more coverage and wide dissemination of BPK (State Audit Agency) audit results drive the demand from provincial governments (PGs) and LGs to improve their PFM. Ministry of Finance (MoF) responded to the demand by establishing a local university network to provide Regional Financial Training (*Latihan Keuangan Daerah*, LKD), for high level echelon and Course (*Kursus Keuangan Daerah*, KKD) for lower level staff. However, the coverage and capacity of the existing LKD/KKD is not adequate to cover high demand from PGs and LGs, particularly those from Eastern Indonesia. AIPD will support the establishment of sustainable relationships between research institutes and regional governments and capacity building delivery mechanisms. Furthermore, AIPD will contribute to an oversight and quality control approach to the curriculum by also introducing smart practices (e.g. PEA, PFM). Through this kind of support, AIPD gains access to a national policy dialogue on PFM issues with key stakeholders. This output is expected to establish an enabling environment for PGs and LGs to achieve other "supply side outputs" (particularly Outputs 1 and 2) and will be implemented through the following three activities.

Activity S4.1. Implementation of Public Financial Management (PFM) Assessment. The assessment aims to provide detailed information of the PFM performance of PGs and LGs that can be used to identify strengths and weaknesses of each PG/LG for further improvement and as an M&E tool to measure progress over time. The tool, developed by Ministry of Home Affairs (MOHA) and The World Bank, covers nine aspects of PFM –from regulatory framework to auditing– with around 120 indicators. Local universities (see Activity S4.2 below) will be trained to implement the assessment that will cover participating PGs and all LGs. The Provincial Government will then be facilitated to disseminate the results of the assessments to all LGs and discuss measures to improve the score. The assessments will be conducted in Years 1 and 5 of the Program to provide baseline and endline data.

Activity S4.2. Expansion LKD/KKD university network, curricula, training modules, and training delivery. In Year 1 of the Program, MoF and the Expert Team of the University network will be supported to review, expand its coverage to other PFM aspects currently not covered and standardise LKD/KKD curricula and training modules. In addition, establishment of quality control mechanism and certification for training participants will also be established. One or two of the university network members will be selected to expand the network to cover local universities in the participating provinces, such as Cendrawasih University in Papua, Nusa Cendana University in NTT and Mataram University in NTB. Staff of the universities in the participating provinces will be trained to be able to deliver the LKD/KKD to PG and LG officials in their respective provinces. These new universities will be assisted to implement initial LKD/KKD by the original universities network member(s) to ensure high quality of training/course delivered. It is expected that LKD/KKD will cover all relevant government officials in all participating provinces and districts during Year 2 and 3 of the program.

Activity S4.3. Development and implementation of general PFM reforms. Participating PGs and LGs will be facilitated to discuss the results of PFM Assessment, together with other sources such as the results of BPK and Provincial/Local Inspectorate audits, and measures to improve their performance. The universities will then assist the PG's and LG's to achieve the set targets, which will be measured at the end of each year of the Program implementation.

b. Demand-Side

Output D1. Improved LG public information programs and mechanisms established. Output S.3 (improved local PG and LG information system) will be used as a basis to establish institutional arrangements, mechanisms and procedures for external clients (legislative, non-government, civil society) to access public data and information and, on the other hand, for the government to actively disseminate data/information based on a sound strategy. It is expected that non-government stakeholders will have easy access to data and information needed to participate, advocate and provide feedback to the government that in turn will improve the quality of participation and ultimately will lead to more demand for better services. Two activities will be implemented to contribute achieving this output.

Activity D1.1. Support for establishment of a public information centre. As discussed under Activity S3.1, there are various PG and LG units responsible for internally managing data/information, and there are also several units that are responsible for disseminating and providing public access to data/information, such as the Public Relations (*Humas*) Unit and Public Library. The Law No. 14/2008 calls for every "public entity" to have a data/information officer who is responsible for serving the public. One interpretation of this law could be requiring each PG/LG unit (*dinas/badan/kantor*) to appoint at least one data/information officer to manage data/information and disseminate information. Another option is to have a "one stop shop" for public information that is responsible to collect and manage all public data/information and to disseminate them to different audiences. AIPD is not promoting a new unit to be established, but rather to clarify and/or upgrade one or two of the existing units. BaKTI can provide technical support to the centres to embrace modern principles of knowledge management and satisfy community needs for information.

The unit(s) will be further supported to enhance the coverage and quality of information dissemination, such as summarizing government plans and budgets into a meaningful format, promoting transparency of public services requirements and procedures. The activity will be implemented in each province/district/municipality for 2 years, after Activity S3 has been completed.

Activity D.1.2 Support for the establishment of a Information Commission. The Law No. 14/20008 requires the establishment of an Information Commission in each province to establish general and technical guidelines on public information provision and to resolve disputes on public information through mediation and adjudication. The independent Commission will have 5 members that will be selected by the provincial executive and legislative. AIPD will organize civil society organisations interested in access to information to advocate for the establishment of the Commission and also will facilitate PG's to establish the Commission, select its members, and establish its workplan. AIPD will research on international functioning commissions as references and will support the establishment of relationships with respective international non-governmental organisations.

Output D2. CSO networks/alliances which focus on improving service delivery established/strengthened. Effectiveness of local-level advocacy for improving service delivery relies on the strength of civil society organisations (CSOs) and their capacity to identify issues, formulate a reform agenda and negotiate the agenda with public service providers and policy-makers. Since the political reforms during the late 90's, many CSOs and NGOs with varying agendas were established. However, many of them are either coopted by the government or having a confrontational relationships with the government. They lack access to wider networks and are therefore missing important cross-fertilization with similar groups. AIPD will support organising interested communities and CSOs in promoting reforms in public service, based on the

demand of non-government stakeholders and agreement of the LGs and PGs. Local/provincial-level CSOs that have experience in advocating service delivery reform will be implementing the two indicative activities below.

Activity D2.1. Facilitation of establishment or strengthening CSO networks advocating public service delivery reform. There are several embryos of sectoral CSO networks that are to advocate public service improvements and reforms. For example, the Ministry of Health (MoH) promotes the establishment of Advocacy Teams "District Team Problem Solving" (DTPS) to promote evidence-based health sector planning and budgeting, particularly in Maternal, Neonatal and Child Health (MNCH). The Ministry of Education has been promoting the establishment of an "Education Commission" in each district/municipality. However, these teams/commissions have not been effectively advocating the reforms for several reasons. Often, these team were established by the LG without adequate analysis and consultations, memberships are often limited to local universities and NGOs, lack of access to government data and information and limited support to build the teams/commissions capacity hinders their operationalization.

AIPD will strengthen the existing CSO networks through the following steps: (i) conducting stakeholder analysis to identify important stakeholders, including the existing teams/commissions, and assess their interest, power and capacity; (ii) facilitating different stakeholders to organise, through informal and formal meetings/workshops; and (iii) facilitating and build the capacity of the stakeholders to discuss issues in public service delivery in each sector. For example, citizen report card (CRC), customer complaint surveys (GTZ) and user-based survey (UBS) could be utilised to measure satisfaction of general citizen and users of specific public service, respectively. The program will focus to several health and education sectors. The activity is expected to be completed in 1-2 years for each district.

Activity D2.2. Improvement of community knowledge on good governance issues. To support Activity D.2.1, specific support will be given to various community groups in building their knowledge on good governance issues. Several areas would include: district-level budgeting process, rights to access information and to raise complaints, roles of the executive and legislative and construction monitoring. A simple guidebook (e.g., with comics, local languages) can be developed to help communities understand the concept better. In addition, interactive talkshows can be broadcasted through local radio and television stations. Several NGOs engaged with ANTARA in organising communities, such as farmers and women groups, will be supported through this activity. These community groups will interactively participate in Activity D2.1. The activity will be implemented in 1-2 years in each district.

Activity D2.3. Support development of multi-stakeholder fora/mechanism to discuss public service delivery reform. To complement Activity D.2.1 above, AIPD will also advocate for strengthening existing fora/mechanism to allow different stakeholders, mainly CSOs, the local executive and legislative to discuss and agree on specific reform agendas for each sector. For example, as discussed under Activity S1.2, the annual sectoral planning process (*Forum* SKPD) and budgeting process in DPRD is one of AIPD reform areas. The program will work with the respective SKPD and DPRD to have substantial discussions through these existing fora. Other possibilities include: (i) support fora to discuss PEA results on health and education sectors; and (ii) enhance the sectoral mid-term strategic plan development process to include substantive discussions with CSOs. The support will be provided to each participating district for about 2-3 years.

Output D.3. Enhanced mechanisms/fora established for multi-stakeholder dialogue on budget preparation process, execution and monitoring. There are several provincial-level NGOs/ universities that have experience in reviewing budget preparation processes, budget analysis, and

budget monitoring, such as regional universities involved in preparation of PEA and NGO networks working on budget issues. Nonetheless, the capacity of district-level CSOs in understanding the budget preparation process, analysing the budget and monitoring budget implementation is still limited. The program will enhance the capacity of these CSOs through the following activities, through the experienced NGOs/universities.

Activity D3. Development of district-level CSO capacity on budget issues. Several manuals and training modules developed by other programs[52] will be utilised to build the capacity of local civil society in each district. The steps for activity D2.1 on organising local CSOs on public service delivery will be utilised to organise local CSOs on budget issues. The capacity building program will focus on the budget preparation process, integration of community-driven development programs, and expenditure tracking/monitoring. The local CSOs will then be supported to interact with respective LG's to discuss and agree on specific actions on reforming budgeting process and budget implementation monitoring. Based on the agreement with local LG's, the program will facilitate the implementation of budget analysis, involvement of CSOs (including those focused on public service delivery) in the budgeting process, and monitoring budget implementation, which will include procurement monitoring. It is expected, for instance, that the activity will increase demand to reduce inefficiencies of the budget, acceleration of budget implementation and disbursement and reduce corruption in procurement. The activity will be implemented for at least 3 years in each participating district.

Output D4. Enhanced capacity of DPRD members. The functions of DPRD in the budgeting, regulatory processes and decision-making is of key importance and consultations with several DPRDs in the AIPD design process revealed that there is a need to assist DPRD's building their capacity, on provincial as well as on local level. The term of all provincial and district-level DPRD of 2009-2014 provides an excellent window of opportunity to enhance the capacity of newly elected DPRD members

Activity D4.1. Improvement of DPRD capacity on budgeting and regulatory-drafting. Several training/workshops on basic budgeting issues and regulatory drafting will be implemented in 2010 in order to keep a reform momentum with the newly elected parliament. In addition to basic knowledge about budgets and its preparation process, several issues in budgeting involving DPRD would be discussed. For example, the community aspiration collection (*jaring aspirasi masyarakat* or *"jaring asmara"*) process which is parallel to the executive planning process; inclusion of programs at the end of the budget approval process, without discussion during the planning process would be discussed and resolved. Real experiences and solutions from other districts (such as Kabupaten Sumedang in West Java Province) would be used as a basis for the training/workshops. On regulatory-drafting, training curricula and modules will be developed utilising a simplified regulatory impact assessment (RIA) method, for example, and drawing real examples and provincial/local-level case studies. This Activity will be implemented in 2010 and 2011.

Activity D4.2. Establishment of DPRD support system. To sustainably support the DPRD members in implementing their functions, it is necessary to build support systems that will allow them to make an informed and evidence-based decision-making. In NTT, for example, a "Parliament Forum" was established to link DPRD members with various CSOs which resulted in

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[52] There are several programs implemented that have focus on developing local CSO capacity in budget issues, such as Participatory Budgeting and Expenditure Tracking (PBET, executive by the National Democratic Institute with World Bank funding), Civil Society Initiatives Against Poverty (CSIAP, executed by The Asia Foundation with DFID support), Local Governance Support Program (LGSP, USAID-funded) .

the issuance of six local regulations initiated by DPRD on various issues such as HIV/AIDS, natural disaster, minimum service standards and human trafficking. AIPD will work with local and provincial governments, mainly the DPRD Secretariat, to facilitate the establishment and functioning of such system. The implementation of this activity will take 2-3 years in each location.

V.   Resource requirements (type, scope, source, cost)

Output/Activities			Budget
Supply Side Activities			14,870,000
S.1	Clear Mechanisms for Improved Allocations		2,320,000
	1	Implementation of PEA	700,000
	2	Improvement of budget preparation mechanism	1,080,000
	3	Development of system to integrate CDD programs	540,000
S.2	Performance-based incentives mechanism piloted		9,500,000
	1	Dev't of performance-based incentive mechanism	
		- Gorontalo	8,100,000
		- Papua	200,000
	2	Performance Monitoring	250,000
	3	Support access to training and learning activities	1,200,000
S.3	LG information management systems improved		600,000
	1	Support for developing information management system	600,000
S.4	Knowledge and skills in PFM increased.		2,200,000
	1	Implementation of PFM Assessment	700,000
	2	Expansion LKD/KKD university network & training delivery	1,500,000
Demand Side Activities			9,200,000
D.1	Improved LG public information programs and mechanisms established		600,000
	1	Support for establishment of a public information centre	400,000
	2	Support for the establishment of a Information Commission	200,000
D.2	CSO networks/alliances established/strengthened		4,200,000
	1	Facilitation of establishment or strengthening CSO networks	3,600,000
	2	Improvement of community knowledge about good governance issues	600,000
D.3	Enhanced mechanisms/fora established for multi-stakeholder dialogue		3,600,000
	1	Development of district-level CSO capacity on budget issues	1,800,000
	2	Support development of multi-stakeholder fora/mechanism to discuss public service delivery reform	1,800,000
D.4	Enhanced mechanisms/fora established for multi-stakeholder dialogue		800,000
	1	Improvement of DPRD capacity on budgeting and regulatory-making	600,000
	2	Establishment of DPRD support system	200,000
GRAND TOTAL			24,070,000

VI.   Monitoring/key indicators and sources of information

The following table outlines various possible performance indicators for AIPD's outcome and output level. For the measurement of improved service delivery, indicators should be derived from government-owned systems, such as Minimum Service Standards (MMS), PP 6/2008 or other tools, such as the PFM measurement framework.

To measure progress towards AIPD's outcome and PFM outputs, a quantitative analysis in each participating LG and PG, based on budget data, needs to be performed.

Level	Source
Outcome	
Health/education budget share as of total budget annually	LG/PG budget
Spending mix in health/education sector (O&M, capital) annually	LG/PG budget
Planned vs. realized budget in health/education sector	LG/PG budget/realization report
Absorption rate health/education budget 3rd quarter	LG/PG quarterly report
Development priorities are reflected in budget priorities	Qualitative analysis based on LG/PG planning/budgeting documents/MKPP+
Outputs	
PFM Measurement Framework	PFM Measurement Framework, strategic area planning and budgeting
Programs and activities in RPJMD can be measured quantitatively	
SKPD strategic planning is consistently developed based on RPJMD	
Annual budget policy includes measurable outcome indicators	
Sectoral budgets include measurable outcome indicators related to strategy	
Budget priorities and ceilings are set before the budgeting process in SKPD starts	
A fixed budget calendar should be included in the local budget legislation	
Medium-term expenditure framework (MTEF) is implemented in the planning process (RPJMD dan Renstra SKPD)	
RKPD and RKA-SKPD should be derived from RPJMD and Renstra SKPD	

The difference between planned and realised expenditure was less than 10% in the last financial year	
The difference between planned and realized revenue was less than 10% in the last financial year	
Average budget deficit over the past 3 years is less than 3% of GRDP	
Amendments to the budget are based on clear reasons in compliance with the regulations	
The difference between original and amended budgets in term of economic classification is less than 10%	
SKPDs use poverty data in developing their programs and activities	
Poverty-related programs and activities in SKPD are accommodated by local government budget team	
Pro-poor expenditure can be explicitly identified as such in the DPA-SKPD	
Combined budgeted expenditure on health, education and infrastructure account for over 50% of the budget	
RKA-SKPD evaluation processes comply with KUA and PPA	
Rejected budget proposals are listed and are re-proposed in the amended budget/budget cycle in the following year	
Each sector records planned and realized activities, including realized budget vs. planned budget	
Record of budgeted activities decided upon during the bottom-up process is reported back to the public in villages and sub-districts	
Planning and budgeting documents are easily accessed by the public	
The public is involved in the monitoring and evaluation of activities	

A3 – Working paper on knowledge management and communication

Introduction[53]

Background

1.   The stated purpose of the Australia Indonesia Partnership for Decentralisation (AIPD)[54] is "to strengthen the capacity of sub-national governments in NTT, NTB, Papua and Papua Barat, with the overall aim of contributing to poverty reduction in the region through improved sub-national governance and economic growth".

2.   AIPD's concept note provides reference to the *Sub-National Level Engagement In Indonesia – A Framework for AusAID 2010 – 2015,* stating "poor service delivery in many parts of Indonesia is due to a lack of government capacity to efficiently and effectively manage available resources", and that "many local governments only just developing an understanding of how best to allocate public resources effectively and in ways that respond to communities' needs".

3.   Responding to this lack of capacity, AIPD has thus been portrayed as "a long-term commitment to support incremental systems change at the sub-national level in a way that is flexible, responsive, and demand-driven".

4.   In order for the program to have such characteristics and provide ongoing learning processes incorporating evidence on existing conditions, a Knowledge Sharing and communication strategy is required.

5.   This working paper presents the Knowledge Sharing and communication strategy as a platform to increase the effectiveness of the program and to support synchronization with other AusAID programs underway in the targeted provinces. A situational analysis is provided as input on the issues and conditions to be faced by AIPD, and suggests strategic partnerships, approaches, outcomes and output.

Situational Analysis

6.   The four AIPD targeted provinces characterize conditions faced in Indonesia's eastern regions, especially at the district level, and to a certain degree at the provincial level, being the lack of access to information and limited space for coordination and communications internally between providers and users of public services and externally with other districts and provinces.

Overview of Targeted Provinces	
Combined Land Area	490,000 km2 (Approx. 25% of Indonesia, BPS)
Combined	Approx. 10 Million
No of Districts	71
Average % of Pop. Under	30% (almost twice national average, BPS)
Ethnic Groups based on Languages	342 (46% of national total, source: ethnologue.com)

7.   With limited communication and coordination forums, constraints in local governments in increasing access and quality of public service delivery are not seen as challenges to be addressed jointly by sectoral/technical units. This has resulted in sporadic efforts in each sector, further exacerbated by the lack of coordination and cooperation between line ministries at the central government level.

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[53] The author wishes to acknowledge input provided by Mr. Robert Brink, AusAID

[54] AIPD Concept Note for Peer Review

8.   A number of provinces and districts have sought to address this constraint by developing communication and coordination units. NTT established the Provincial Joint Secretariat for International and Inter-regional Cooperation, International Borders and Special Assistance East Nusa Tenggara, through Governor Decree No. 108/KFP/HK/2004 TK I NTT (March 2004). This joint secretariat commonly referred to by the abbreviation SEKBER, has operated as a support unit under the Provincial BAPPEDA. Similar district level units have also been established (i.e. in Kabupaten Timor Tengah Selatan) to bring together information on activities underway in the district implemented with international support. Papua Province has established the Papua Knowledge Center, which combines data provided through village facilitators (PNPM-RESPEK), and other research conducted in the region, and is currently developing community dissemination programs (including a reported 1,500 television sets to be distributed to villages throughout the province).

9.   Unfortunately, in both cases mentioned above, there has been limited involvement of local CSOs and utilization by province and district level institutions including parliaments. This means that both of these approaches have yet to bridge information needs to CSOs and Parliaments on government planning and budgeting processes, in turn limiting their current effectiveness in supporting greater transparency and accountability.

10. CSO efforts to increase transparency and accountability have also met with varying results. Confrontation regarding shortcomings in public services, for instance in NTB (*Solidaritas Perempuan*) and Papua (Institute for Civil Strengthening), has resulted in negative reactions from related government units. However other organisations such as the Research Institute of Mataram University have been able to substantially support reform agendas of the new governor, reflected in a relatively strong *RPJMD* (Regional Mid-term Development Plan), and as independent auditors of quarterly *dinas* performance reviews.

11. All university representatives consulted were unanimous in their opinion that despite strong reform-minded governors and district heads (*bupati* and *mayors*), the pace of actual improvements in the bureaucracy has been painfully slow. The more recent election into office of reform minded governors (i.e. NTT and NTB) and *Bupati* reflects growing awareness of citizens regarding their rights and the growing demand for change and improvement in LG performance. The 2009 parliamentary elections have also resulted in major shifts, with selection of new members reaching up to 80% of provincial and district/city representatives. Reforms in selection criteria have also prevented parties from maintaining party leaders, many of whom had become more skilled in manipulating the system for personal rather than societal gains[55] (ICS Papua), for instance in one district in Papua where one large party had sought to maintain two former members at the expense of two new women candidates who had received more votes but were seen to be insufficiently capable to represent the party's interests.

12. Unfortunately, a critical element underlying issues in performance and public finance management is the perception of local government bureaucrats towards public resources. As many districts and provinces are reliant on finances channeled from central government, many bureaucrats inherently feel that the availability of funds is based on their efforts to propose and negotiate allocations. As "grants" from central government, there is limited awareness that the use of such funds are not only accountable to the central government "source", but also directly to the district's or province's citizens. Aside from this misperception, the lack of innovative capacity to interpret reform agendas into relevant programs, activities and budget lines, and consistency in monitoring progress and incorporating input from civil society continues to be an issue.

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[55] Comment received from ICS Papua

13.   As noted in discussions with government and CSOs in NTT, NTB and Papua Provinces, the lack of inter-government unit collaboration at district through to national levels extends to limited involvement and cooperation with non-government entities in providing public services, again reflecting the limited innovative capacity of many bureaucrats as mentioned above. The lack of collaboration has not only limited the capacity of local governments in distributing services, but also constrains the growth and possible support role of strong, private sector providers. The lack of private sector providers in turn maintains high levels of expenditure on government apparatus. Many of the important non-government service providers are religious based organisations unwilling to corroborate in corrupt practices and so are "forgotten" as key partners in planning and budgeting processes.

14.   High levels of expenditure on government overheads have also decreased actual spending to increase both quality and access to public services. This is despite the efforts of reform minded leaders at provincial and kabupaten levels seeking to accelerate development and to encourage their bureaucracies to move away from "business as usual", and again reflects both the lack of commitment as well as the lack of capacity in allocating resources.

15.   Broader involvement of civil society organisations could counter the lack of capacity in local governments, however the lack of communication between government and civil society organisations remains as a legacy of the New Order, where NGOs are still characterized as advocacy groups actively criticizing government. Without being able to provide sufficiently robust answers to issues. Various multi-stakeholder forums and use of media such as radio and local television "talk-shows" were seen by CSOs (KIPRA and ICS) in Papua as an effective way to bridge and at times to "force" communication between civil society and government.

16.   The "business" of government continues to be cloaked in what a recent article in Jakarta Post termed "the Indonesian bureaucracy's culture of secrecy". Despite various efforts to reform and increase transparency and accountability through a range of regulations established by the central government, many provincial and district governments have yet to comply with these obligations. Nationally a Central Information Commission has recently been established (Jakarta Post, 22 July, 2009) to combat the issue of transparency in conjunction with Indonesia's Law No. 14/2008 on Public Information. Standard technical regulations for public information and disputes over such information will be determined by the commission, which will look towards increased collaboration with Indonesia's civil society.

17.   In order to be decisive and responsive to developments both nationally and internationally, Indonesia's central government has issued a range of laws and regulations related to local governments. Unfortunately it is not only the content of these regulations (a number of which have been contradictory) but also the process in which they were developed (limited consultations and impact analysis), and how these policies are managed. A variety of issues and tensions have occurred horizontally between government sectoral units and vertically in dealing with different ministries (i.e. between forestry and MOHA) and with directorates within the same ministry (MOHA).

18.   While central government seeks to be perceived as decisive and flexible, the issuance of a variety of laws, regulations, decrees, and revisions has made conditions difficult for local government bureaucracies who seek stability in order to comprehend and implement new policies (i.e. as seen by DPRD members in Kabupaten Kupang who were quite vocal in blaming national government for LG inertia).

19.   A recurring issue raised by a number of concerned bureaucrats and by NGO and university representatives is the frequent *mutasi* (rotation of staff), where the capacity of local government bureaucrats appointed to strategic structural positions often lack sufficient mastery of key

competencies required to perform their roles and functions. This is not only a condition found in local governments, but extends to central government, where the filling of positions is often politically rather than competency driven. This is further amplified by rotation of staff who do not leave behind sufficient information for successors to continue or even know what work and partnerships were underway. From the perspective of NGOs and universities, who must rely on personal trust-based relationships established, each *mutasi* means yet another process of relationship and trust building which will not necessarily be successful, depending on the interests and motivation of the new bureaucrat.

20.   Another legacy of the new order has been the use of research to justify rather then inform development policy. Provision of government funds for research has not resulted in research findings actually being incorporated in policy and programming. Reliance on academic and professional expertise has also been ad-hoc, i.e. in considering budgets and in drafting legislation. On the other hand, this has also led to lack of depth and over-"filtering" of research findings seemingly to avoid tensions with government, resulting in research reports which do not present issues with sufficient depth of analysis to pinpoint problems, actors and actions which must be addressed.

21.   Data and information for development has not been well managed, where projects and programs implemented in the past are not documented and archived for future reference. Many studies and reports can only be found in individual collections and there is a lack of adherence to procedures to store documents for access from both internal and external parties. This has brought about inefficiencies in planning processes. As one key BAPPENAS director commented, "In many of our government bureaucracies, what happens is not filing of data, but piling of data". This issue is not due to lack of government institutions tasked at information management, including LG level statistic bureaus, libraries, archives and electronic data centers, and is more a reflection of the lack of consistency in applying systems to ensure data and information flows.

22.   The lack of alignment and linking of various development plans and targeted indicators from district through to national government is reflected in various projects and programs implemented which have similar objectives but are not coordinated or linked (i.e. CDD type programs, infrastructure development, establishment of "balai" etc.). Such shortcomings in communication and coordination as well as limited capacity, inconsistent monitoring and lack of accountability has allowed for ongoing inefficiencies and mismanagement of public finance required to provide better quality public services.

23.   Despite the existence of internet access in each province, broadband access in most districts is limited and relatively expensive, although increased usage and number of providers will begin to push costs down while encouraging broader coverage.

24.   Mobile telephone technology on the other hand has increased remarkably and provides options for greater connectivity, access to information and complaint/issue handling systems.

25.   All targeted provinces have a variety of printed news media, although journalistic ethics are not consistently maintained and distribution of newspapers is limited outside of main population centers.

26.   Aside from provincial branches of Radio Republik Indonesia, the national radio station, which combines local and national broadcasts, networks of private radio stations and community radios also exist not only as communication outlets but which potentially can receive input via telephone/text messages.

27.   Most communities who are able to receive televised broadcasts prefer this media for information and entertainment, and local stations have been utilized for instance in Papua (ICS) to implement

talk-shows to increase awareness and knowledge of development issues, where key government officials, parliamentarians and civil society representatives present their views and opinions.

28. With the broadening range of communication media, the challenge is in ensuring that information to be channeled is prepared and provided in easily understood and contextually sensitive formats. Although a number of provinces and districts are now willing to publish budgets and reports, often these lack sufficient detail or are too complicated for a majority of the public to comprehend.

29. Appropriate information packages are also an important option to consider in reaching remote communities still largely dependent on verbal communication from village leaders and community elite. Dependence on verbal communication also emphasizes the importance of physical attendance in meetings and discussions for community leaders as portals of information to their communities[56].

Institutional Context and Key Stakeholders

30. AIPD is not only faced with a challenging governance environment but must also cover an immense geographical region. A key lessons learnt from ANTARA, where on the ground presence is necessary in each province in order to build relationships and networks with local actors in both government and civil society and with strategic partners.

31. In order to effectively deliver and provide sustainable results, AIPD must work through and with strategic partners who have the potential of continuing AIPD initiated roles and functions.

32. The National Information Commission, which has been recently established to enhance government transparency, could be a key future partner depending on how the commission develops. Efforts will be required in monitoring and establishing links with the commission as it progresses.

33. The Eastern Indonesia Knowledge Exchange, or BaKTI (Bursa Pengetahuan Kawasan Timur Indonesia) was initially established in 2004 as a knowledge management and sharing function of the multi-donor Support Office for Eastern Indonesia. In 2009, following positive reviews regarding the role and functions of BaKTI (BAPPENAS Review 2008), steps have been taken to establish the organisation as an independent foundation.

34. The incorporation of BaKTI into AIPD's Knowledge Sharing and communication strategy provides a number of advantages, including:

a. Linkages not only with ongoing AusAID projects and programs that have utilized or collaborated with BaKTI, but also linkages with other donors supporting BaKTI, including the World Bank and CIDA;

b. Linkages with a broad range of stakeholders in each of the targeted provinces who are already familiar with BaKTI as recipients of newsletters or participants of activities facilitated by BaKTI;

c. Knowledge of local CSO institutions and universities able to support the need to increase public demand for greater access and better quality of public services;

d. Direct cooperation with the Eastern Indonesia Forum as a knowledge sharing community of reformers in government, politics and CSOs. This includes sub-forums such as the Eastern Indonesia Heads of BAPPEDA Network, and the Eastern Indonesia Researchers Network. This also increases the exposure and added value of the program, as results of AIPD will be shared and used in at least 8 other provinces in the region (Maluku and Sulawesi);

e. Existing systems for managing, storing, adapting into appropriate media and distributing data

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[56] According to KIPRA, Papua

and information to government and civil society leaders;

f. Experienced and skilled personnel able to support organizing and facilitating meetings, discussions and events for AIPD, including secretariats existing in partner institutions of each of the AIPD targeted provinces. BaKTI has ongoing collaboration in provinces where local governments have established information centers (i.e. SEKBER in NTT and the Papua Knowledge Center). However in provinces where these do not exist, secretariats have been incorporated in participating NGOs and universities.

35. It should be noted however that collaboration with BaKTI will require institutional strengthening of the organisation as it shifts from being a program funded through trust funds managed by the World Bank, to becoming an independent indigenous institution.

36. AIPD must seek also to establish strong collaborative relationships with the *SEKDA* of each province and selected District/City governments, BAPPEDA, Finance, and the relevant technical *dinas* (Health, Education and Infrastructure). These relationships will support district programs where much of AIPD support should be directed in order to directly impact on quality and access improvements of public services.

37. In addition, linkages and communication between district/province/national levels must also be supported. This is particularly important so that planning, budgeting and resource management constraints emanating from national level can be addressed and solutions progressed.

Key Constraints

38. One of the key constraints faced by AIPD is the high level of disabling factors within many of the government institutions acting as barriers for Knowledge Sharing and development. For the majority of these bodies, such constraints related to public service delivery include:
a. Limited capacity to capture new trends, ideas, and development;
b. Differing perceptions of bureaucrats within the government institutions towards the vision of the institution and appropriate shared values;
c. Lack of capacity of leaders to motivate and lead transparent, honest decisions towards clear shared goals (i.e. minimum service standards);
d. Existing gaps and rivalry between institutions;
e. Limited self-reflection on institutional and individual own strengths, weaknesses, and limitations;
f. Limited use of available intellectual capital in a regular rather than ad-hoc manner;
g. Low capacity in drawing lessons from past experiences and using these to innovate and change. Many LG (including parliaments) do not lack for training and capacity development opportunities, and so the effectiveness and continued support and reinforcement in applying what is learnt is necessary;
h. Weak networks both within government and with communities, which is also limited by varying levels of access to information and communication technologies;
i. Inability to mobilize those in the bureaucracy to create a spirit of renewal, and;
j. Reluctance to try new solutions, give freedom to experiment, and to allow for possible errors.
39. A number of provinces have developed approaches to counter these constraints. Papua Province has developed a number of smaller units or *badan* to try and overcome the inertia of its bureaucracy. NTB Province has introduced independent performance audits. The effectiveness of these actions are yet to be proven. What is clear though is that removing these constraints are prerequisites for sustainable change to occur, to channel efforts towards creatively using (rather than abusing) existing competencies for improved public service.

Knowledge Sharing and Communications Strategy

40.   AIPD's approach to learning, communications and knowledge exchange should provide a hub for all other activities supported under the program. This is portrayed in the diagram below (Fig.1)
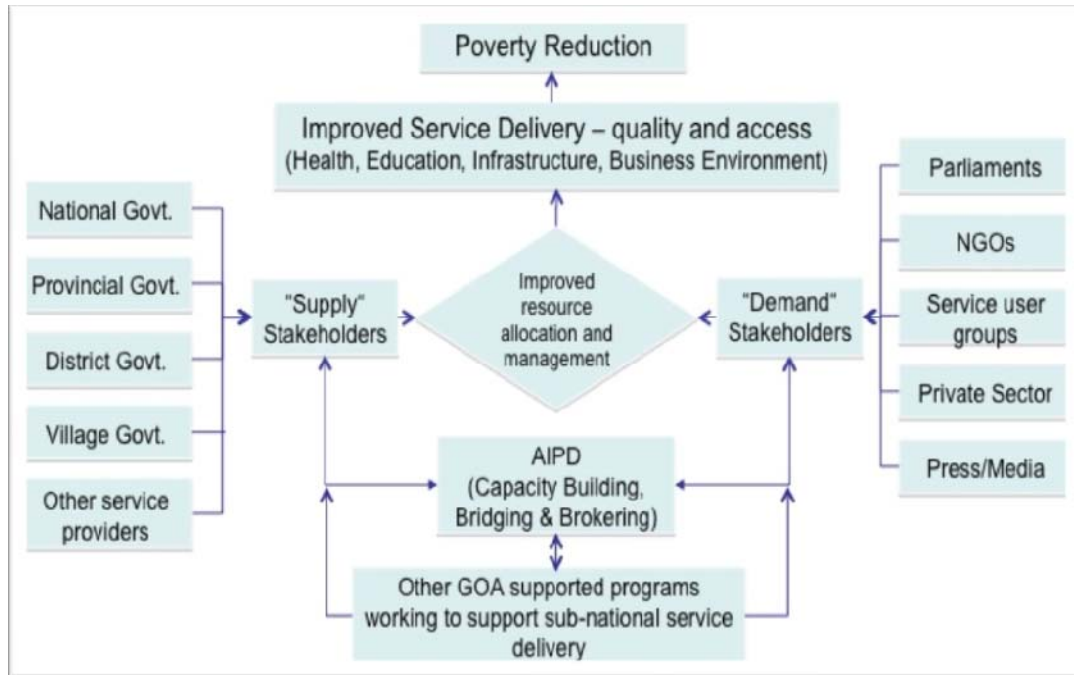

41.   AIPD will seek to *build capacity* (training etc. to enhance skills, competency and knowledge), *bridge capacity* (provide links within the region and support the development of partnerships between local institutions), and *broker capacity* (negotiate and provide external expertise for particular needs not existing in the region) for both supply and demand stakeholders. This can also be referred to as a process of providing ABC (Advocacy, Bridging and Catalyst) support to relevant stakeholders.

Knowledge Sharing and Communication Strategy Components

42.   AIPD's role in building, bridging, and brokering of capacity can be further described from a communication strategy perspective. Components of this strategy would support:

a. *Aligned Planning Processes* – the different timing of presidential, governor and district/city heads has resulted in seemingly different priorities and targets at each level. (description of components). Current bottom-up planning processes resulting in village planning thus becomes meaningless as needs identified by communities do not correlate with other levels of development plans and agendas. To address this, AIPD can provide support in communicating priorities and targets so that different government levels are able to see where alignment is possible and can
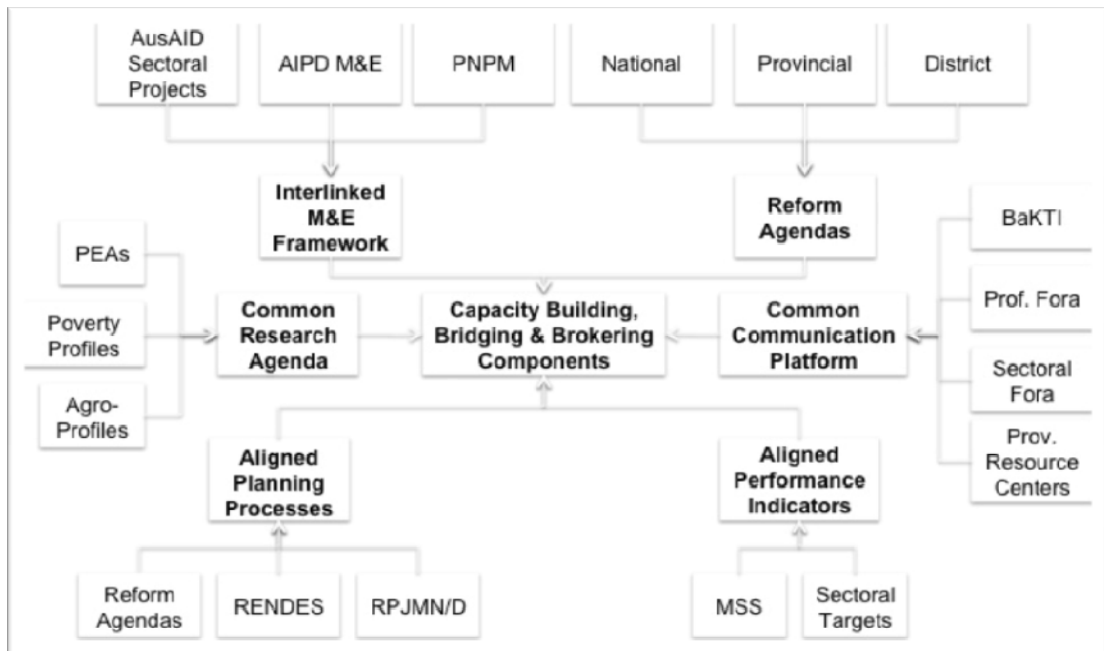
both support and be supported.

Diagram 2: Communication Strategy Components

b. *Aligned Performance Indicators* – MOHA has commenced the task of developing various minimum service standards in collaboration with sectoral ministries such as health and education. These need to be communicated and understood at local levels, channels for feedback and input back to central government. What must also be effectively communicated is that these are minimum and not optimum standards to be surpassed where possible. Targets for instance in raising human development indicators need to be better communicated between provincial and district governments allowing for collaboration in both setting and achieving targets.

c. *Interlinked M&E Frameworks* – AIPD is required to support coherence between different GoA programs working in the same region and this can be achieved through consistent communication and coordination mechanisms between project teams and agreement to be jointly evaluated on the effectiveness of measures implemented to support regional development.

d. *Common Research Agendas* – Applied research based on LG demands and needs will be supported, and these should be able to used by a range of stakeholders and provide evidence required and relevant for different levels of government. For instance poverty profiles of districts should be able to provide data to support district/city governments in allocating resources, but should also be able to support national programs such as ASKESKIN (health insurance for the poor).

e. *ReformAgendas* – AIPD should play a role in communicating and building comprehension of reform agendas within different levels of government and to civil society, providing channels for civil society to communicate and reinforce demand for change and to encourage and acknowledge government responses to demand.

f. *Common Communication Platform* – Where AIPD will support existing communication channels and media for greater efficiency and to help in reinforcing knowledge and relationships between local governments and civil society. This includes use of BaKTI media and networks, professional fora (i.e. researcher networks and independent journalist associations such as AJI), sectoral fora (i.e. Head of BAPPEDA Forum), and existing resource centers such as the Provincial Joint Secretariat for International and Inter-regional Cooperation, International Borders and Special Assistance East Nusa Tenggara. This joint secretariat (commonly referred to by the abbreviation SEKBER) has operated as a support unit under the Provincial BAPPEDA. Similar district level units have also been established (i.e. in Kabupaten Timor Tengah Selatan) to bring together information on activities underway in the district implemented with international support. This platform should also be utilized by other GOA programs working with local governments, and should also link with AusAID funded communication programs such as Radio Kangguru.

41.   The knowledge sharing and communications strategy provides an important support function for the program in which other more intensive and sophisticated support (eg. Training, TA and incentive funds) can be developed. Entry and retention of district governments in the program should be based on their willingness to transparently share data and commitment to achieve measured improvements in performance in collaboration with other local development stakeholders where commitments can be formulated and implemented with a focus towards systemic improvement..

42.   The approach to knowledge sharing and communications needs to be based on a sound understanding of institutional and individual incentives to work towards improved delivery of public services. This applies to incentives for local executive agencies and public servants, the legislature, media, NGOs and academics. Just as for training and other forms of assistance, the policy and program objectives of AIPD communications and knowledge exchange strategy will not be effective if they are working at odds with individual incentives.

43.   The underlying approach of this strategy is to enhance collaboration, making stronger use of the advisory group in the AIDP structure to take on the task of 1) identifying key "champions" and/or partners, 2) clarifying how each could collaborate or synthesize to support reform, 3) areas in which AIDP could build or bridge collaboration and support, and 4) existing gaps AIDP should overcome by brokering external expertise.

44. Enhancing collaboration within government and between government and civil society (supply and demand stakeholders) can be based on a cyclical process[57] where initial outcomes to be achieved must be realistic and necessarily modest where the aim is to build collaborative relationships. As initial outcomes are attained, more ambitious targets can be set with higher levels of collaboration as participants are increasingly comfortable in working with each other. In its work, the AIPD team must be able to maintain a number of collaboration building principles. These include: 1) ensuring clarity of purpose and objectives; 2) seek to comprehend and deal with power differences (i.e. between govern-ment levels and between govern-ment and civil society); 3) support leadership but suppress efforts to dominate forums; 4) allow that under-standing is not always immediate; 5) ensure division of tasks and workload fairly; 6) support equal ownership in processes with collective recognition of achievements; 7) continue to work in building partnerships over time rather than only looking for quick wins.

Collaboration Building Principles
- have clarity of purpose and objectives
- deal with power differences
- have leadership without domination
- allow time to build up understanding
- share workload fairly
- resolve different levels of commitment
- have equal ownership and no point scoring
- accept that partnerships evolve over time

Reinforce Collaborative Attitudes

Develop Relationships for More Ambitious Collaboration

Aim for Realistic (initially modest) but successful outcomes

45. This approach steps beyond "good governance" proposed by the World Bank which merges concepts of public management with advocacy of liberal democracy, by looking at governance essentially as a socio-networking system, where governance:

> "Can be seen as the pattern or structure that emerges in a socio-political system as a common result or outcome of the interacting intervention efforts of all involved actors. This pattern cannot be reduced to one actor or group of actors in particular. These interactions are… based on the recognition of (inter)-dependencies. No single actor, public or private, has all knowledge and information required to solve complex dynamic and diversified problems; no actors has sufficient overview to make the application of needed instruments effective; no single actor has sufficient action potential to dominate unilaterally in a particular governing model". (Kooiman 1993a: 4)[58]

46. In applying this approach, for example in NTT where ANTARA has developed a presence and relationships over the last 5 years, more ambitious targets can be agreed to working from relationships which have already been established. On the other hand, in provinces where AIPD has only begun to commence, the initial focus should be on building working relationships with key institutions, setting modest targets to achieve with the underlying goal of building and reinforcing collaborative attitudes between individuals working in both demand and supply institutions.

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[57] Adapted from the "cyclical trust-building loop", by Siv Vangen and Chris Huxham in their article: "Nurturing Collaborative Relations: Building Trust in Interorganisational Collaboration". Journal of Applied Behavioral Science, Vol. 39 No. 1, March 2003. Pages 5-31.

[58] "Understanding Governance: Policy Networks, Governance, Reflexivity and Accountability", R.A.W. Rhodes, Open University Press, Buckingham, Philadelphia, 1997. PP. 50 - 51

47.   The following diagram (AIPD Network Diagram) provides some idea of how focus (and "attention/pressure") can be applied to district/city governments and the linkages provided and supported through BaKTI and the eastern Indonesia Forum. The diagram shows the socio-networking nature of governance applied by AIPD in encouraging local governments to improve its delivery of public services.

48.   The diagram also provides an overview of the many groups of institutions and stakeholders which will necessarily be involved in the implementation of AIPD not only for the effective implementation and delivery of the program's specific outputs and outcomes, but also to ensure long term sustainability and continued maintenance and refinement of reforms introduced through AIPD.

AIPD Network Diagram: Focusing Collaboration on District/City Service Delivery
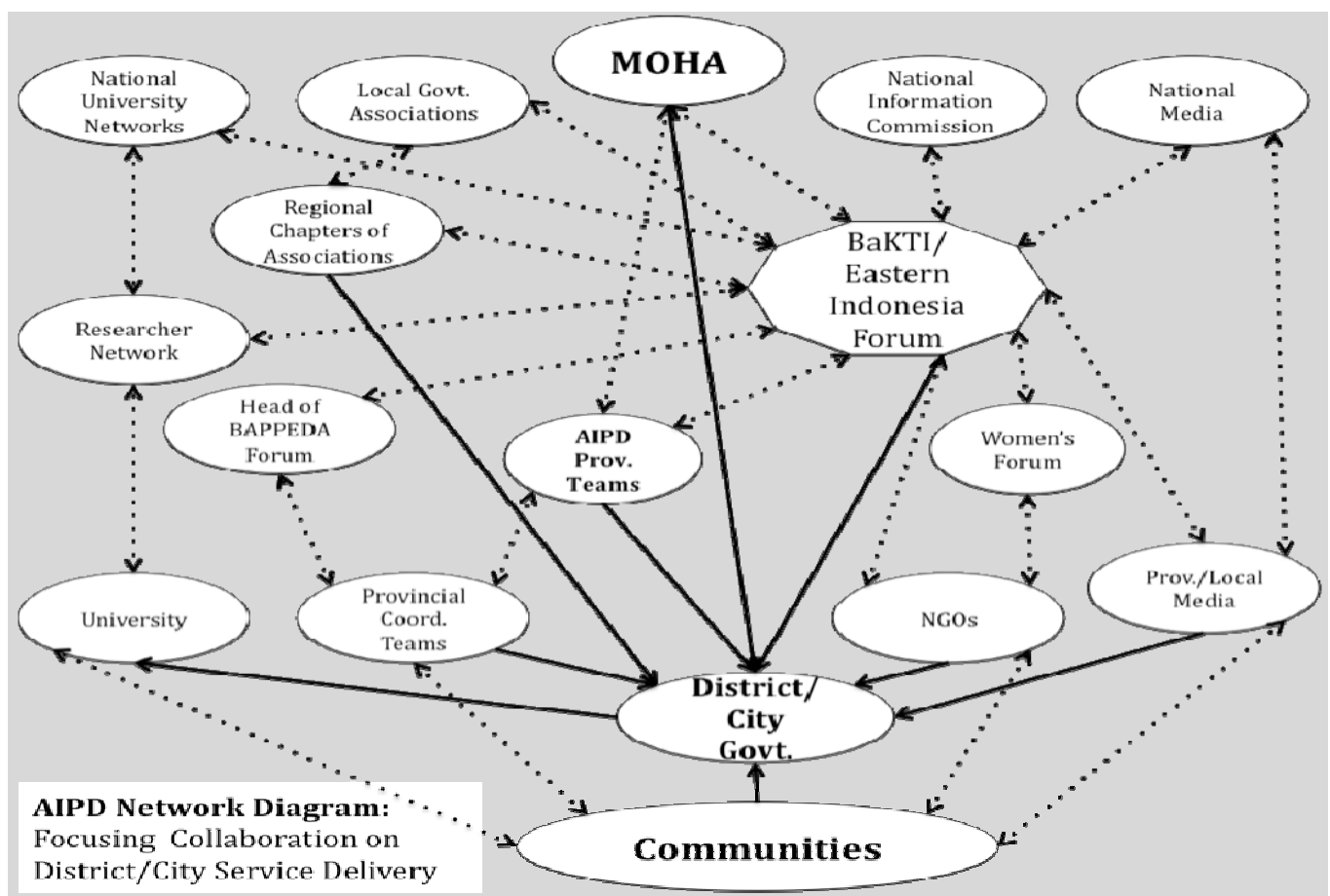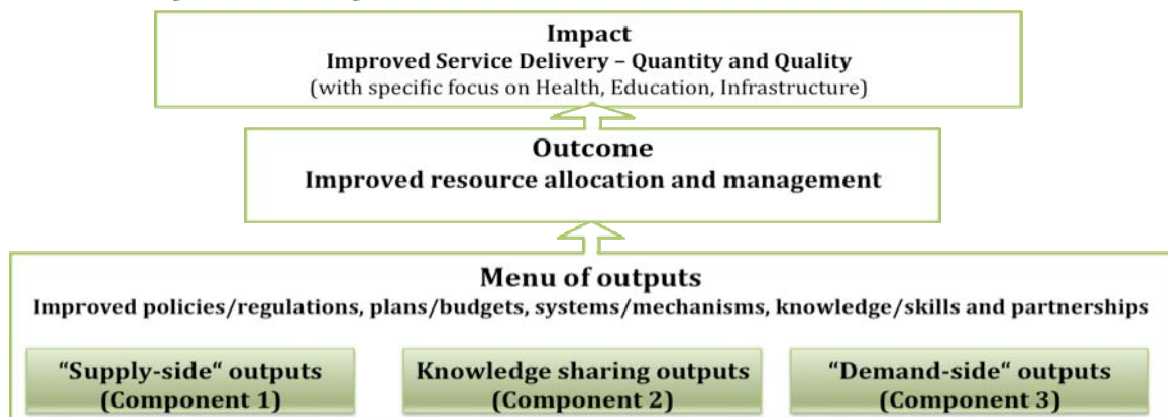
Knowledge Sharing and Communication Strategy General Outputs and Indicative Activities

49.   Specific outputs based on the components of the knowledge sharing and communication strategy could include: 1) Research results shared on key/common decentralisation issues, including lessons learned and good practices; 2) Peer to peer learning opportunities provided and strategic partnerships on decentralisation/reform established or strengthened; 3) Improved LG-led donor coordination and

information sharing mechanisms established; 4) Enhanced coherence and coordination of AusAID support to decentralisation/governance capacity building.

50. As a component of the overall AIPD program, knowledge sharing and communication activities (as depicted in the diagram below – AIPD Proposed Components) can be presented as Component 2 of AIPD and will support and complement other aspects of the program focusing on the Supply side (Component 1) and Demand side (Component 3) of local government public service delivery, as well as adding value in its own right, by developing and further strengthening mechanisms for knowledge generation, sharing and use among key stakeholders, specifically on decentralisation and service delivery improvement issues.

AIPD Proposed Components

Impact
Improved Service Delivery – Quantity and Quality
(with specific focus on Health, Education, Infrastructure)

Outcome
Improved resource allocation and management

Menu of outputs
Improved policies/regulations, plans/budgets, systems/mechanisms, knowledge/skills and partnerships

"Supply-side" outputs (Component 1)	Knowledge sharing outputs (Component 2)	"Demand-side" outputs (Component 3)

51. The knowledge sharing outputs will promote and support effective investments in knowledge products and partnerships to ensure that other districts and provinces can also benefit from AIPD.

52. The following describes the output and indicative activities of the knowledge sharing and communications as the second component of the three output and activity groupings proposed for AIPD:

> **Output 2.1 – Information and research results shared on key/common decentralisation issues, including lessons learned and good practices**

Referring to the situational analysis, LGs as well as provincial and national stakeholders are hampered by a lack of information on what works and smart practices which can be adopted and adapted. Lessons learnt are not disseminated and too often rotations of staff mean that prior experiences and cooperation must be re-learnt. AIPD will support BaKTI (including provision of institutional strengthening TA) to:

Activity 2.1.1. Generate high quality knowledge products to national, provincial and district level stakeholders.

Processes implemented and products generated through this activity would include:

- Support for identification of key research topics relevant to improving service delivery at LG level.

- Support for implementation of practical action-research projects and reviews aimed at generating evidence to inform and influence specific policy review and development processes at national or local level. Topics might include the use of performance-based incentive systems/mechanisms, regulatory impact assessment, functions and responsibilities of different levels of government, resource allocation mechanisms, etc. AIPD will also actively investigate the potential for, and then support, joint work on economic policy issues with other AIP programs.

- Preparation of policy briefs and pamphlets to disseminate the results of research / analysis undertaken, plus use of electronic media.

Activity 2.1.2. Disseminate high quality knowledge products to national, provincial and district level stakeholders.

- Provision of support to disseminate information on the core commitments made by P/LGs in such areas as education, health and infrastructure services, so that CSOs and the public in general can monitor their implementation, and engage in more informed dialogue with P/LG authorities on their performance.

- Publication of BaKTI News, a development-oriented monthly magazine in two languages and distributed to 2,500 recipients. Content comes from local development practitioners and provides practical information on good development practices.

- Further development of an internet-based knowledge portal based around communities of practice (COP) for sharing information and encouraging debate on development issues within the twelve provinces of eastern Indonesia. The portal will allow development stakeholders to post and locate relevant documents, read relevant news items from across the region, engage in online discussions and to search online databases of development contacts, projects and documents.

- Production and dissemination of contextually appropriate and user-friendly publications (including "plain" Indonesian/English publications of P/LG plans and reports, guides to P/LG planning and budgeting systems, etc.)

Output 2.2 – Peer to peer learning opportunities provided and strategic partnerships on decentralisation/reform established or strengthened

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This output will also involve support to BaKTI, as the core mechanism to organise and deliver peer-to-peer learning opportunities and develop/promote strategic partnerships on decentralisation and reform. Specific activities that could be supported would include:

Activity 2.2.1. Eastern Indonesia Forum Development Conference

- An annual event hosted by the Eastern Indonesia Forum which provides a platform for discussing, showcasing and recognising innovative local development initiatives and policies. It includes participation from all twelve eastern provinces, central government and international development partners. AIPD would specifically support participants from the four targeted provinces to present on service delivery reforms/improvement programs that they are engaged in, as well as then facilitating follow-up action based on conference outcomes.

Activity 2.2.2. Heads of BAPPEDA Forum

- A sub-network of the Eastern Indonesia Forum comprising Heads of Provincial BAPPEDA from the twelve provinces in eastern Indonesia. The Heads meet semi-annually and focus on

improving province-centre and inter-province development coordination. Once again, AIPD would specifically support participants from the four targeted provinces to present on service delivery reforms/improvement programs that they are engaged in, as well as then facilitating follow-up action based on forum outcomes.

Activity 2.2.3. Preparation and implementation of seminars, workshops and comparative study tours

- This subset would function to disseminate knowledge and support learning on improved resource allocation and management mechanisms, service delivery improvements, and other decentralisation reform issues. It would target relevant government officers, parliamentarians as well as CSOs. The experience of the LOGICA program in Aceh would be drawn on with respect to organising/facilitating district to district study tours/learning events, aimed at sharing experiences and good practices on service delivery reforms.

Activity 2.2.4. Provision of technical support and advice for P/LG Partnerships

- This would look to support identified stakeholders in the four targeted provinces in establishing effective P/LG and CSO partnership fora at the local level. And provide opportunities to reflect on the appropriateness and/or shortcomings of existing public service practices, and in building personal commitments to reform and effect "mind-shifts" in service delivery based on peer to peer learning with provinces such as Gorontalo who have effectively implemented such programs.

- Another partnership to be supported through this subset of activities is the promotion of media engagement (e.g. AJI – the Association of Indonesian Journalists) in increasing public awareness and monitoring of service delivery issues.

Output 2.3 – Improved P/LG-led donor coordination and information sharing mechanisms established

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This output focuses on enhancing P/LG capacity to take a lead in coordinating donor support to their respective provinces/districts/municipalities, as well as developing their capacity to effectively share information with 'external' stakeholders (including CSOs and donor partners).

With respect to improved P/LG donor-coordination capacity, activities that could be supported would include:

Activity 2.3.1. P/LG Donor Coordination Support

- Strengthening P/LG donor coordination units (e.g. Joint Secretariats), for example by sharing good practices/lessons learned and helping to develop operational guidelines.

- Ensuring P/LGs have clear and up to date information on all GOA funded programs that are operating in their provinces/districts.

- Providing opportunities for P/LG officials to learn more about how donors and donor supported programs (including AIPD) operate, including for example through short-term secondments to work in AIPD's P/LG based offices.

- Promoting good practices among the donor community (who are operating in the targeted provinces/districts) with respect to supporting P/LG–led donor coordination mechanisms, including the profiling of LG leaders to Jakarta based forums and programs such as the DSF and the Donor Working Group on Decentralisation. mechanisms.

Activity 2.3.2. Improvement of information sharing mechanisms

- Facilitating the development of collaborative agreements and mechanisms between P/LGs and the Central Information Commission.

- Promoting the development and application of 'minimum standards' by P/LGs with respect to transparency of budgets, budget realisation reports, service delivery outcome data, etc.

- Establishment of help desk services at P/LG levels through which development stakeholders from other government agencies, donors and civil society could obtain information and contacts on P/LG development plans, budgets and activities.

- Support for collection, collation, storing and distribution of LG plans, budgets, expenditures and results to appropriate public information centers in each province.

- Development of knowledge and skills among P/LG partners on improved information management and sharing practices/methods; and

- Support for implementation of an open data policy for all Australia-Indonesia Partnership programs.

Output 2.4 - Enhanced coherence and coordination of AusAID support to decentralisation / governance capacity building

A key role of AIPD is to promote enhanced coherence and coordination of AusAID support at the P/LG level. This will be supported through such activities as:

Activity 2.4.1. Collaboration to establish parameters and/or conditions for effective support to improved decentralised service delivery

- Providing a source of lessons and guidance to AusAID on how it can better design and manage its 'sectoral' programs (primarily regarding who should be engaged and how), so they are supportive of decentralisation policies and local capacity building.

- Provision of information/guidance directly to AusAID's managing contractors on how to most effectively engage at the P/LG level.

- Development of a common results framework for measuring the effectiveness of P/LG service delivery capacity building initiatives ('horizontal' indicators); and

- Provision of direct points of contact in the four targeted provinces (and in targeted districts) through which other sectoral programs can engage in a more coordinated manner with key stakeholders involved in resource allocation and management decision making.

Output 2.3 will also contribute to this objective, by enhancing P/LG capacity to take a lead in determining what external support is needed from whom, and how it should be provided.

53. These outputs and activities are also outlined in the following matrix to provide some guidance on required budget commitments/allocations:

Outputs	Indicative Activities

Output 1 - Research results shared on key/common decentralisation issues, including lessons learned and good practices	• Support to BaKTI as the core mechanism (including institutional strengthening TA) to deliver knowledge products, i.e.:
	  o Support for practical action-research projects aiming to generate and use research-based evidence to influence a specific policy process at national or local level together with universities, BPS and sectoral ministries to improve collection of specific data needed for policy evaluation.
	  o Dissemination of core commitments from heads of region in education, health, infrastructure and/or local economic development
	  o Research, reviews and analyses reports on topics related to incentives, systems and resource management including potential revenue development, on budget allocation processes and mechanisms distributed to relevant users and available online
	  o Policy briefs and pamphlets to disseminate research results produced
	  o Identification of key research topics relevant to improving service delivery, provision of grants for appropriate action-based research, dissemination and utilisation of findings
	  o Publication of BaKTI News, a development-oriented monthly magazine in two languages and distributed to 2,500 recipients. Content comes from local development practitioners and provides practical information on good development practices.
	  o An internet knowledge portal based around communities of practice (COP) for sharing information and encouraging debate on development issues within the twelve provinces of eastern Indonesia. The portal will allow development stakeholders to post and locate relevant documents, read relevant news items from across the region, engage in online discussions and to search online databases of development contacts, projects and documents.
	
	• Production and dissemination of contextually appropriate and user friendly publications (including "plain" Indonesian/English publications of P/LG plans and reports, guides to P/LG planning and budgeting systems, etc.)

Output 2 - Peer to peer learning opportunities provided between districts, provinces and at national level	• Support to BaKTI (including institutional strengthening TA) as the core mechanism to organise and deliver peer to peer learning opportunities and develop/promote strategic partnerships on decentralisation and reform
	  o Eastern Indonesia Forum Conference: An Annual event hosted by the Eastern Indonesia Forum providing a platform for discussing, showcasing and recognising innovative local development initiatives and policies. It includes participation from each of the twelve provinces, central government and international development partners.
	  o Heads of BAPPEDA Forum: A sub-network of the Eastern Indonesia Forum comprising Heads of Provincial BAPPEDA from twelve provinces in eastern Indonesia. The Heads meet semi-annually and will focus on improving province-centre and inter-province development coordination.
	  o Seminars, workshops and comparative study tours to disseminate and support dialogue on mechanisms targeting relevant government officers, parliamentarians and CSO
	  o Implement "mind setting" of public servants (and other development stakeholders) in understanding and supporting and/or monitoring the region's priority program objectives based on peer to peer learning with provinces such as Gorontalo.
	• Promote/support media engagement (e.g. AJI) in promoting public awareness and monitoring of service delivery issue

Output 3 - Enhanced coherence and coordination of AusAID support to decentralisation/governance capacity	• Support for strengthening P/LG donor coordination units (e.g. Joint Secretariats), including their access to information about donor programs/activities • Strategic partnerships on decentralisation/ reform established or strengthened, i.e.: o Collaborative agreements and mechanisms with Central Information Commission and other relevant organisations • Help desk services for development stakeholders from government, donors and civil society to obtain information/contacts and support for identification, feasibility, design, appraisal and review missions. • Implementation of an open data policy for all Australia-Indonesia Partnership programs:

building	- Minimum standards for sharing through internet and with project partners and beneficiaries; - Transparency of budgets, outputs, outcomes and impacts to all project partners and beneficiaries - Awareness and Skills Developed for Knowledge and Learning for AIPD partners: - Knowledge audits, outcome mapping, COP, social networking technologies, stories, peer-to-peer learning, media. - Through practical training (multiplied through training of trainers), workshops and staff exchanges and secondments, and international partnerships with recognised leaders in knowledge and learning (eg. WBI, ODI). - Joint opportunities for best practice learning, communications and M&E approaches practised by projects, and to broaden understanding of the range of approaches that exist to capture and communicate outcomes and impact.
Output 4 - Improved LG-led donor coordination and information sharing mechanisms established	- Provision of information/guidance to AusAID sectoral programs - Development of a common results framework for measuring effectiveness of P/LG engagement/capacity building ('horizontal' indicators) - Strengthening of a repository facility (BaKTI) to ensure back-up of information and data available for access - Strengthened capacity and utilization of existing donor coordination units - Strengthened capacity and utilization of information centers and outlets through BaKTI networks (local NGOs and Universities) - Regular coordination meetings aligned to government planning processes conducted by LG - Collection, collation, storing and distribution of LG plans, budgets, expenditures and results to appropriate public information centers in each province

A4 – Working paper on monitoring and evaluation

Introduction

The purpose of the Australia Indonesia Partnership for Decentralisation (AIPD) is to strengthen the capacity of sub-national governments in NTT, NTB, Papua, and Papua Barat with the overall aim of contributing to poverty reduction in the region through improved service delivery (quality and access) with a focus on health, education, and infrastructure.

The monitoring and evaluation framework (MEF) for the AIPD is required to enable the various stakeholders to assess the overall performance and value of the Strategy. Development of a comprehensive MEF is a Quality at Entry Issue. Although the MEF will need to be formulated and approved during the first six months of AIPD commencement, preliminary work undertaken in the remaining timeframe of the current ANTARA is recommended.

Purpose

This working paper provides a guide on how the MEF should be developed. It takes as its starting point the experiences, successes, and lessons learned from implementation of the ANTARA MEF. It then incorporates the key M&E issues and concerns outlined in the AIPD Concept Note and the peer review comments. In response to AusAID's request that, as far as possible, there be alignment and consistency in performance measurement approaches across all sub-national (decentralisation) sector activities, the working paper draws from the approach in the recently trialed and approved AusAID PNG Sub National Strategy (SNS) MEF[59], and the World Bank PNPM project.

Guiding principles

The AIPD MEF will reflect the following guiding principles:

- Provide comprehensive information about the operations of the AIPD but with a particular focus on outcomes

- Be flexible, demand-driven and responsive

- Be transparent and accessible to all stakeholders

- Work through, and seek to enhance, the development of Indonesian systems

- Increase the capacity of stakeholders to assess, analyse and utilize performance information

- Be able to adopt and incorporate new areas for assessment and new sources of information in line with the development of the AIPD.
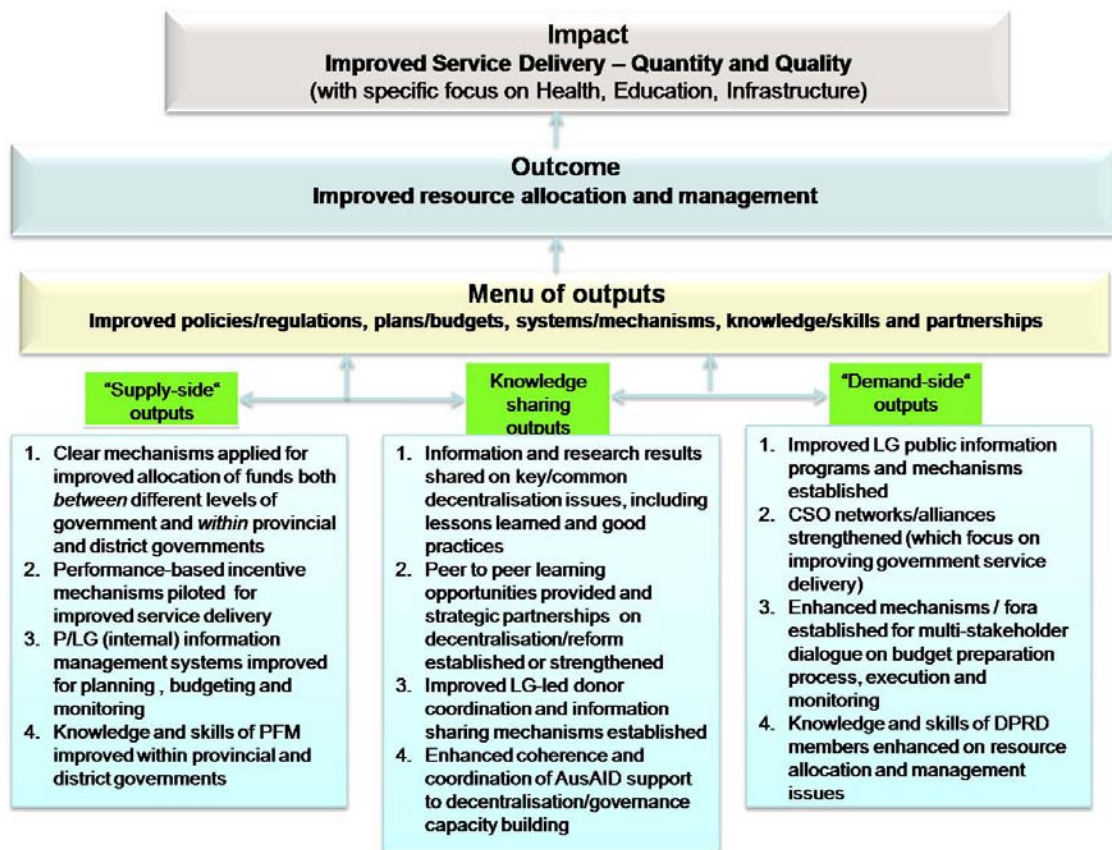
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[59] The initial (February 2008) and final (June 2009) MEF were given to the Design Team as an example of good practice. The SNS MEF reflects the experience of the SNS program in its first two year of operation.

Focus and program logic

AIPD is a mixture of resources (both financial and other), policy support, capacity development and other elements which are bought together through the AIPD team to support the work of the Indonesian Government as well as influencing the work of the wider Australian Government aid program.

AIPD will operate in three major work areas (supply side, demand side, and knowledge sharing), with activities producing outputs within each area. These outputs feature improved policies/regulations, plans/budgets, systems/mechanisms, knowledge/skills and partnerships.

The program logic of AIPD is illustrated by the simple results hierarchy diagram below. Each of the hierarchical levels will provide the main focus of MEF activity. Unlike ANTARA, there is no logframe matix. This is in line with moves away from conventional monitoring approaches in program ("facility") assessments towards a greater focus on action research. This features the setting and testing of hypotheses and formulating specific key evaluation questions (KEQ) with related indicators to measure impact, outcomes, high-level outputs, processes and strategies.

Impact
Improved Service Delivery – Quantity and Quality
(with specific focus on Health, Education, Infrastructure)

Outcome
Improved resource allocation and management

Menu of outputs
Improved policies/regulations, plans/budgets, systems/mechanisms, knowledge/skills and partnerships

"Supply-side" outputs	Knowledge sharing outputs	"Demand-side" outputs
1. Clear mechanisms applied for improved allocation of funds both *between* different levels of government and *within* provincial and district governments 2. Performance-based incentive mechanisms piloted for improved service delivery 3. P/LG (internal) information management systems improved for planning , budgeting and monitoring 4. Knowledge and skills of PFM improved within provincial and district governments	1. Information and research results shared on key/common decentralisation issues, including lessons learned and good practices 2. Peer to peer learning opportunities provided and strategic partnerships on decentralisation/reform established or strengthened 3. Improved LG-led donor coordination and information sharing mechanisms established 4. Enhanced coherence and coordination of AusAID support to decentralisation/governance capacity building	1. Improved LG public information programs and mechanisms established 2. CSO networks/alliances strengthened (which focus on improving government service delivery) 3. Enhanced mechanisms / fora established for multi-stakeholder dialogue on budget preparation process, execution and monitoring 4. Knowledge and skills of DPRD members enhanced on resource allocation and management issues

Approach and methodology

General

The AIPD MEF approach will need to complement the principle and key processes of the AIPD as outlined in the AIPD Delivery Strategy Document. It will operate at three levels - at the impact level through hypothesis testing; at the outcome and output level through the use of key evaluation questions; and at the compliance level through standard activity monitoring (inputs, activities, deliverables). This working paper focuses on the impact and outcome/output levels.

In summary, the AIPD MEF should enable answers to the following questions:

- Did AIPD achieve what it set out to do, and what is the evidence?

- Were there any unforseen results, either positive or negative?

- Are the benefits derived from AIPD (if any) likely to be sustained?

- What new knowledge has IADP generated and shared?

- Could AIPD have designed and implemented better?

Building on ANTARA's experience and the elements that have worked

The AIPD MEF will not be starting from scratch. In 2008 the current ANTARA MEF and M&E systems were assessed by the AusAID Mid-Term Review as representing good practice. It therefore makes sense to identify and build on the elements that have worked well.

ANTARA has excellent linkages within and between Government, CSOs and donor agencies in NTT and increasingly in other regions within Eastern Indonesia. There are established points of entry into policy, management, research and community networks. Other points of entry outside NTT need to be further developed.

Good practices featured in ANTARA included working with implementing partners to develop activities and common M&E system and approaches, having a strong focus on producing tangible results, and implementing a comprehensive gender strategy. This should continue.

ANTARA has established a range of performance indicators. It has also produced and progressively improved reporting formats in line with the needs of key stakeholders. These can be adopted or further developed.

The need for Evaluability Assessment(s)

A guiding principle for development and implementation of the AIPD MEF is to work with and through Indonesian systems. The MEF cannot be imposed. There needs to be joint understanding and ownership of the M&E arrangements. ANTARA has worked primarily in NTT. The AIPD strategy will see a much greater focus on service delivery, and the expansion into new districts within three new provinces. Many key networks and partnerships still need to be built / strengthened and the proposed AIPD activities further defined and developed. This will require an active, structured process of engaging with the AIPD partners. Using Evaluability Assessment (EA) will be required to support that process.

In the first months of AIPD development and initial implementation - and at other strategic times as the program takes shape and develops - it will be important that partner / stakeholders in the particular area of AIPD engagement come together to confirm a shared interpretation of the

expected long term and end of program benefits - and how to get there. The EA should include the following:

- A review of the AIPD program logic and description of the extent to which it is evaluable including clarity of expression of end-of-initiative outcomes in the documentation;

- Confirm the key hypothesis(es) to be tested

- Confirm the key evaluation questions (KEQ) of interest to stakeholders;

- An examination of proposed/potential data sources (including partner systems) to ensure that data is of sufficient quality; is collected and analysed as expected; and will be available within the required reporting cycles;

- An assessment of the capacity of the implementation team and partners to participate in the design and/or conduct of M&E activities;

- A review of the budget/resources available for M&E activities;

- Identification of reporting requirements for key stakeholders. This includes progress reporting, Quality at Implementation Reporting, and Annual Program Performance Reporting. There should be a clear recognition of how the M&E is expected to provide evidence for reporting against the Australia Indonesia Country Program Performance Assessment Framework.

- A review of cross-cutting policy areas that will need to be included in M&E planning;

- Clear identification of issues and/or constraints that will affect the MEF.

The results of the EA(s) will help drive the final design and implementation of the IADP MEF.

Taking a research approach

It is proposed that MEF should utilise a research approach to AIPD's performance assessment. This will have two dimensions.

1. At the Impact level, establishing and testing a basic hypothesis.
2. At the Outcome and Output levels, answering Key Evaluation Questions (KEQ).

Basic Hypothesis

At the impact level, the basic hypothesis behind IADP is that <u>improvements in PFM will lead to better service delivery</u> (and ultimately contribute to reducing poverty). A fundamental role of the MEF therefore will be to determine if this hypothesis is correct.

It will be crucial to get the level and focus of the research right. The aim is to demonstrate if improvements in service delivery within the AIPD timeframe are the result of improved PFM. The program logic is that this, in the longer term (ie beyond AIPD), will have contributed to poverty reduction. The testing of the basic hypothesis will be done through strategically timed mixed method (qualitative and quantitative) evaluation studies.

Key Evaluation Questions

KEQs will help determine if AIPD remains relevant. Used with a results-based approach (strong indicators measuring movement from established baselines) throughout the life of AIPD, they

will track progress and highlight change. They will also help identify the factors that are causing or contributing to that change (recognising that assessment of progress needs to be specific to each location and the context and pace of change). T he initial (draft) proposed questions are directly linked to the AIPD objective structure. They include:

Outcome level

- Is there improved resource allocation and management at P/LG levels?

Output level

- Is there increased transparency around the allocation and use of local government budgets?

- Have there been improved mechanisms developed and applied for allocation of resources within and between P/LG?

- Are incentive mechanisms being effectively piloted?

- Is planning and budgeting information being more effectively collected and used?

- Are there more qualified /competent government staff in place in relation to PFM?

- Are there structural changes (human resource and organisational structure) that promote and support improved PFM?

- Is there a better understanding of, demand for and participation by civil society in P/LG planning, budget and delivery processes*?*

- How well is AIPD acting as a hub for peer-to-peer learning / knowledge exchange?

- How are M&E results being used to inform future plans and resource allocation?

- Are women, poor and marginalised groups benefiting from AIPD?

Table 1 provides an <u>initial</u> outline - a Key Results Matrix. This will need to be further developed as part of the scheduled Evaluability Assessment process and consultations

Cross cutting issues

The MEF also has to meet AusAID corporate requirements. These include attention to cross cutting areas, risk monitoring, monitoring for sustainability and also monitoring information for aggregated sector reporting. Initial (draft) questions here include:

- What are the implications for HIV/AIDS mitigation as a result of AIPD?

- What are the risks and how are they changing?

- How will the results / benefits of AIPD support be sustained?

Table 1: Key Results Matrix (draft - to be further develop through Evaluability Assessment process)

Research Focus	*Indicator / Target*	*Method / Source*
Hypothesis		
1. Improvements in PFM will lead to better service delivery (and contribute to poverty reduction)	No,. % and location of districts where priority service delivery targets have been met, such as: - Immunisation coverage - Pre-natal care visits - Attended births - Teacher / pupil ratios - Access to schools / increased enrollment rates - Access to safe water - Access to, and quality of, transport infrastructure	- Summary annual report prepared by relevant provincial authority. - District health and education authorities with support of other relevant agencies - Commissioned surveys (Years 2,4) - Impact evaluations (Years 3,5)
Key Evaluation Question		
• Is there improved resource allocation and improved PFM at P/LG levels?	- No. and location of districts where the quality of PFM has improved, as assessed against agreed quality criteria - Budget allocations to health, education and infrastructure as well as actual expenditures, both total value and as proportion of district budget – assessed against district health, education and infrastructure plan targets - Assets (namely infrastructure) – assessed against district plan targets	- PFM Performance Assessment Toolkit (adapted where necessary) - Public Expenditure Analysis Data
• Is there increased transparency around the allocation and use of local government budgets?	- Improved quality of annual provincial plans and budgets (as assessed against agreed quality criteria) - Publication of budget and budget realisation reports	Summary annual report prepared by relevant provincial authority.
• Have there been improved mechanisms developed and applied for allocation of resources within and between P/LG?		
• Are incentive mechanisms being effectively piloted?		
• Is planning and budgeting information being more effectively collected and used?	•	
• Are there more qualified /competent government staff in place in relation to PFM?	• % of planned staff positions filled and occupants trained and applying skills and knowledge	
• Are there structural changes (human resource and organisational structure) that promote and support		•

Research Focus	Indicator / Target	Method / Source
improved PFM?		
• Is there a better understanding of, demand for and participation by civil society in P/LG planning, budget and delivery processes?	• Citizen satisfaction with CSO and government improvements in 4 governance areas: participation, transparency and accountability, social justice and pro poor services • Number of Partner CSOs developing innovative ways to interact with their local government on improving citizen participation, organisational accountability and transparency, social justice and pro-poor service delivery at district, sub-district and village levels	• Commissioned surveys (Years 2,4) • Impact evaluations (Years 3,5)
• How are M&E results being used to inform future plans and resource allocation?	• Quality of information on AIPD activities in the province which is available to provincial and district administrations, as assessed against established criteria • No. and type of strategic investments made (sector focus, partner, duration, scope, cost etc) • Monitoring and evaluation infrastructure in place producing credible data and meeting AusAID reporting requirements	• Project reports. Possible external verification through additional/independent studies.
• How well is AIPD acting as a hub for peer-to-peer learning?	• Quality of demand-driven information on IADP activities in the province which is available to national provincial and district administrations, and other stakeholders (including research institutions and donor agencies) • GOA program managers/team leaders view AIPD as playing a positive role in promoting synergies and information flow between them with respect to decentralisation activities	
• Are women, poor and marginalised groups benefiting from AIPD support?	• Women, poor and marginalised groups are more willing and able to take action on their development needs • Targets set (and met) for women and men's participation in planned activities • % participation rate of women and poorest community members in planning and decision-making meetings	

Selection of relevant performance indicators

Directly arising from the hypothesis and each of the KEQs, the MEF will need to develop specific program level indicators. Table 1 provides the first draft. As far as possible these should be the same as the indicators and data collection systems being used by the GoI for measuring performance at the Provincial and Local Government levels. Accordingly the first reference point should be the P/LG Medium Term Development Plans (RPJMD) and Annual Plan/Budgets.

Other relevant sources for choosing or constructing relevant indicators will need to drawn from :

- GoI - Minimum Service Standards for Health
- GoI - Minimum Service Standards for Education
- GoI / World Bank - PFM Measurement Framework Assessment Tool

It is important to keep in mind the AIPD time frame, outreach, scope, and other external factors involved in the decentralisation sector. The impact of AIPD is intended to be felt on improved service delivery, and not poverty reduction. The performance indicators used should therefore be closely aligned with those areas of engagement that can be influenced and observed by AIPD. Additional indicators could be those relating to longer term outcomes for which AIPD may have limited direct influence but is making a contribution

ANTARA MEF has developed a number of indicators (including gender sensitive indicators supported by a Gender Strategy) that can be retained in AIPD.

Other sources may be found in the MEFs of other AusAID programs (ACCESS, INDII, Maternal and Neonatal Health, and Basic Education II). Practical, proven indicators can be used or adapted, and help maintain a consistency of approach across AusAID's sub-national activity.

The Evaluability Assessment process provides the opportunity to confirm the most appropriate ones to be used, including setting realistic targets.

Finally, and as a general principle there is no "correct" number of indicators. However it needs to be remembered that every indicator will require a data collection, analysis and reporting strategy and process to support it. This has resource implications, particularly in light of the AIPD principle of keeping M&E simple. Ideally, it is the minimum number that can be used to demonstrate plausible evidence of change and achievement.

Establishing initial baselines

The importance of clear baselines cannot be over-emphasised. In order to be able to measure change establishing the initial baselines is essential. This will need to be a priority task leading into and during the program commencement phase for those specific areas of AIPD engagement already identified. As the program progresses and new initiatives arise, specific baseline will similarly be required.

At a minimum, the baseline information needs to include:

- Service delivery indicators (Minimum Service Standards) for health, education and infrastructure
- Quality of resource allocation and management (PEA and PFM scores)
- Civil Society / Service User Satisfaction Indices
- Range, quality and effectiveness of peer to peer learning mechanisms
- Range, quality and accessibility of public information systems

P/LG Medium Term Development Plans (RPJMD) generally identify baselines (and indicative targets). However the validity as some of these may not uncertain and, if feasible, some degree of cross-referencing (triangulation) may be required. Other external sources of data may be found in recent surveys or studies conducted by Indonesian institutions or donor agencies (including the work of other AusAID programs working in the sector/region).

Maintaining a clear separation between compliance and outcome reporting

The AIPD M&E system will monitor and evaluate quality of process, outputs and outcomes. At any one time, there will be significant number of activities being funded by IADP. There is likely to be substantial diversity in the institutional capacity amongst the implementing partner organisations to design, manage, evaluate and report on their funded activities.

A strong feature of ANTARA was ensuring a clear separation of M&E reporting between below-the-line implementation (processes for inputs, activities, deliverables) and above-the-line results (high level outputs, outcomes). The IAPF MEF will similarly need to develop a practical system that not only demonstrates compliance and achievement of the individual activity-level objectives but, crucially, links this information to the higher-level performance assessments required to inform key stakeholders on whether the overall program-level objectives are being met.

Ensuring AIPD is on track

AIPD's contribution to service delivery outcomes needs to be periodically assessed. This will help ensure the program remains on track and relevant. It is important to know whether a proposed or funded activity is the right intervention at the right time of the program. The program is designed to be able be adapt or move in different directions when required. The AIPD M&E arrangements need to similarly adapt.

The MEF should have clear provision for the scheduling of rolling evaluations using the relevant agreed KEQs. The nature, scope, and methodology (including team membership) of the evaluations should be negotiated with GoI partners. If independent assessments are required then external expertise can be added eg the use of Indonesian institutions / consultants, AusAID Office of Development Effectiveness (ODE), or other agencies (DfID, UNDP, World Bank etc) that have experience working in the sector.

Keeping the specific needs of information users in mind

A fundamental design aspect of IADP is about identifying new knowledge - generating, sharing, applying - within a framework of peer to peer learning and partnerships. The AIPD MEF plays a central role in that process. The new reporting system must be sensitive to who are the intended recipients, what are their specific needs, when they need it and ensure that the information required is then given in the most effective way. ANTARA has produced and progressively improved reporting formats in line with the needs of key stakeholders. These will need to be further developed in line with the expanded audience and new expectations of AIPD.

Beyond the immediate reporting needs within AIPD there will be interest by AusAID and other donor de-centralisation sector programs outside Indonesia. AIPD evaluation findings can engage with and contribute to structured learning in other countries.

Building M&E capacity of partners

Consistent with the intent of the Paris and Jakarta Declarations AIPD will be promoting a culture of M&E. Where required (and asked) this includes building up local capacity among partners.. The aim is to increase the capacity of stakeholders to assess, analyse and utilize performance information. It needs to be demand-driven. The Evaluability Assessment is a major part of this process.

The ANTARA team has worked closely with each implementing partner (Government or CSO) to clarify and sharpen the activity logic, identify target outcomes and establish practical indicators, baselines and targets to report against. This engagement has included M&E workshops and other training opportunities. This is good practice and should continue. All evaluations of AIPD will be jointly undertaken. This process creates a shared understanding and ownership. This will help build the M&E capacity of individuals and organisations, improve reporting and, crucially, will enable partner access to, and use of, the M&E results. By supporting the mainstreaming of M&E within each partner organisation it will add value beyond the life of AIPD.

Towards a single high-level Monitoring and Evaluation Framework

Over time AusAID is keen to see the development of a single high level monitoring and evaluation framework that will shared by all programs within the decentralisation area. This will contain a maximum of ten clear and measurable performance indicators. These "horizontal indicators" will measure the collective contribution of AusAID's suite of sub-national programs towards the achievement of key MDG indicators. AIPD will lead the development and monitoring of this framework.

Resourcing

An appropriate allocation will be made from the AIPD budget towards monitoring and evaluation. This amount will be commensurate with the size of the investment overall, approximately 3- 5% of the total program budget. This will enable recruitment of full time staff (M&E Officer, Research Co-ordinator, Research Assistant/s), STA inputs (M&E Specialist), commissioning of research, survey work, and M&E training activities.

Review of the MEF

The IADP is a developing program which can be expected to change over the program life. In line with this the MEF needs to be regularly updated and developed. It is proposed that this development is undertaken each 12 months and is designed to reflect the changes in IADP emphasis as well as the further development of knowledge and focus in the MEF itself.