

Independent Completion Report (ICR) of Indonesia Strengthening Public Procurement Program (ISP3)

MANAGEMENT RESPONSE

Prepared by: Public Financial Management
Approved by: Sam Zappia, Chief of Operations
Date Approved: 30/3/2011

Aid Activity Summary

Aid Activity Name			
AidWorks initiative number	INH521		
Commencement date	1 September 2007	Completion date	30 June 2011
Total Australian \$	\$10,459,375.01		
Total other \$	\$0		
Delivery organisation(s)	Charles Kendall & Partners Pty Ltd		
Implementing Partner(s)	Indonesian National Public Procurement Agency (Executing Agency); Other partners include Government of Aceh Barat District, Government of Aceh Besar District, Indonesian National Internal Audit Agency (BPKP)		
Country/Region	Indonesia		
Primary Sector	Economic Governance		

Aid Activity Objective:

The program's *overall purpose* was to assist the Government of Indonesia to improve the efficiency, transparency and accountability of the national public procurement system.

Overview of activity:

ISP3 consists of 2 components:

- Component 1: Improve the institutional & regulatory environment for procurement at the national level;
- Component 2: Strengthen procurement process in targeted provinces and districts.

Independent Evaluation Summary

Evaluation Objective: To assess the performance of the ISP3 program to date and to provide recommendations to AusAID on future directions for AusAID's investment in the procurement reform area after the end of the current ISP3 program.

Evaluation Completion Date: November 2010

Evaluation Team: Karin Attström (Team Leader), Ramboll Management Consulting; Rusman Ismail, Independent Consultant; and Mr Matthew Fehre¹, Director Working in Partner Systems at AusAID, Canberra.

¹ Mathew Fehre did not contribute directly to the writing of the report and making judgements on the rating of evaluation criteria to avoid the risk of conflict of interest since he was involved in the design of the ISP3.

Management Response to Ratings

AusAID broadly agrees with the ratings of the ICR, with the exception of the Efficiency criterion. The ICR rates the overall efficiency of the program as 3, however we think it should be a 4 for the following reasons:

- Firstly, the ICR linked remaining activity budget to a high risk of wasteful spending with the comment that “42 % of the activity budget remaining with only 10 months to go in the current program”. This is factually incorrect and AusAID advised the ICR team that at the time of writing (November 2010) only 36% of the total activity budget remained for 2010-11².
- We also disagree with the comment that “It is now planned for spending the full amount in coming months, something which in the opinion of the Review Team seems unrealistic and inefficient”. The nature and history of the program support the fact that the program is ramping up so it is reasonable to expect a significant acceleration of the work rate in the final year. Activities to 30 June 2011 will focus heavily upon four areas of:
 - internal capacity building within LKPP;
 - support to LKPP in their drive to professionalise procurement within the public sector;
 - support to LKPP in the CPI Study and Business Climate/Sustainable Procurement Studies; and
 - procurement audit with BPKP.
- AusAID has agreed with ISP3 to monitor the budget for the remaining activities budget on a monthly basis to ensure the money is spent efficiently and effectively.
- One important criterion in assessing efficiency is the effectiveness of the management structures. According to the ICR: *“the Technical Management Team (TMT) has developed into an important strategic forum for the LKPP. According to interviews with LKPP, the TMT now also discusses other issue than ISP3 support, and is generally considered an important tool for joint priorities and discussions within the organisation. According to interviews with TMT members, this forum is likely to continue after ISP3.”*

AusAID considers that this has contributed significant to the efficiency of the program and was not adequately reflected in the score given in the ICR.

Recommendation One: Continued support after the end of ISP3

Findings from the ICR: The recommendation is to extend the current program with LKPP as the main stakeholder. It is suggested that any extension is only of medium term duration (18-24 months), and that it is made an explicit objective to either transfer support to LKPP and procurement reform to another AusAID program. If support to LKPP is to be phased out after the extension, an exit strategy should be developed.

Response: Partly Agree. We have decided that the extension will be for 12 months only. This time frame will allow AusAID to determine the best way to support procurement reform going forward and address the concerns of the ICR about future support. We feel that a 12 month extension will not in anyway jeopardise ISP3, and the aid effectiveness objectives as outlined in the ICR.

Recommendation Two: Set-up of extension

Findings from the ICR: The overall activity budget for an extension should be limited, in order to ensure that LKPP are able to make good use of the assistance, and also to promote proper prioritisation and value for money advice.

An extension with the current contractor should be a preferred option if possible, to reduce transaction costs and loss of momentum.

It is suggested that the Managing Contractor (MC) management team should continue to sit in LKPP and the organisational set-up should be the same as now, with the TMT suggesting priorities and discussing implementation, and the Program Coordination Committee (PCC) as a decision making body.

² The activity budget for 2010-11 has been fully spent. To keep the programme going at full speed and delivering the planned outputs (as set in the Annual Program Plan). A contract amendment is currently under preparation to reallocate unspent personnel and reimbursable budget to the activity budget (imprest account).

A stronger focus must be put by LKPP on making best use of the advice provided, and the time when experts are available. The TMT and the PCC should be fully transparent in terms of budgets and available resources, in order to build capacity in planning and prioritisation among the TMT members.

Particular focus should be put on the following aspects:

- Prepare LKPP and TMT for integration in a larger framework programme, such as the Australia Indonesia Partnership for Economic Governance or Government Partnership Fund by building capacity to prioritise in line with strategies
- Support better cooperation with other key stakeholders in procurement reform, in order to prepare and support implementation of procurement reforms (see recommendation three)
- Achieve and sustain results in the Human Resource Development (HRD) Masterplan³ and support the Compliance and Performance Indicator (CPI) Study.⁴
- Building systems for knowledge transfer and institutional capacity to ensure the sustainability of ISP3 assistance beyond the life of the program

Response: Agree. The Activity Budget for the 12 month extension will be less than the current budget of \$2.5 million per year. It will be tightly focused on three core areas as agreed with LKPP:

- Support implementation of HRD Masterplan
- Support implementation of the CPI Study
- Support LKPP's organisational development

Recommendation Three: Support after suggested extension

Findings from the ICR: It should be the aim that support "post" ISP3, shift focus to improvement of the actual procurement process, throughout the procurement cycle in Indonesia. This support will, by definition, need to be decentralised and directed towards the actual procuring entities and other stakeholders in the process, rather than to LKPP as a national policy institution.

Response: Agree.

Recommendation Four: Remaining implementation current ISP3

Findings from the ICR: For the remaining period of the current ISP3, the main recommendation is to avoid overspending with the risk of wasting resources. It is not assessed realistic to spend 42% of the total activity budget in the remaining 10 months of the program, so if possible funds should be transferred over to an extension.

Response: Disagree. The ICR was incorrect in stating that 42% of the total activity budget remained with 10 months of the program to run. It was actually only 36% of the total activity budget that remained at that time. In addition, the remaining activities in the ISP3 work plan to 30 June 2011 will deliver important products to meet emerging LKPP priorities/needs as set in the ISP3 Workplan 2010-11. ISP3 has developed a detailed and costed workplan which outlines how the remaining activity budget will be spent this financial year. We are confident this expenditure will be effective and efficient. While we agree with the general principle that it is important to avoid overspending and we need to be cognisant of the ability of LKPP to make the best use of the advice provided by ISP3, we are confident that this will not be an issue for ISP3 to June 2011. Momentum within LKPP has been steadily developing, and ISP3 is well positioned to deliver on the proposed program of support.

Recommendation Five: Coordinate support from development partners

Findings from the ICR: ADB and the WB are planning direct support to LKPP, thus it will be important to increase efforts in donor coordination. The working group on procurement would be a good forum for this, and the coordination work needs to be led by LKPP, with full transparency to all involved.

The ties and synergies between ongoing support to procurement reform within other AusAID sector programmes and the support provided at national level should be strengthened.

Response: Agree.

³ The Master Plan is a key element in the drive to professionalise procurement in the public sector.

⁴ The CPI Study will provide Indonesia and development partners with essential insight into the level of competency among procuring entities, training needs, corruption levels, perceptions of public procurement within Civil Society and law enforcement bodies.