

**Indonesia – AusAID**

**Papua Public Expenditure Analysis & Capacity  
Enhancement (PEACH) – Independent Review**

**Final Report**

**DISCLAIMER:** This report includes the views and recommendations of consultants, which do not necessarily reflect the views of the Commonwealth of Australia or indicate its commitment to a particular course of action.

**10 February 2009**

## Table of Contents

<b>ACRONYMS AND ABBREVIATIONS</b>	<b>4</b>
<b>1.0 EXECUTIVE SUMMARY</b>	<b>7</b>
<b>2.0 INDEPENDENT REVIEW OF PAPUA PEACH</b>	<b>12</b>
<b>2.1 Background</b>	<b>12</b>
2.1.1 Introduction	12
2.1.2 Policy Setting	13
2.1.3 Formulation and Design	19
2.1.4 Objectives and Scope at Design	20
2.1.5 Implementation Arrangements	22
2.1.6 Implementation Arrangements for the ‘PEA’	24
2.1.7 Implementation Arrangements for the ‘CH’	25
2.1.8 Financing	26
<b>2.2 Relevance, Efficiency and Effectiveness</b>	<b>26</b>
2.2.1 Objectives and activities	26
2.2.2 Timeliness and appropriateness	28
2.2.3 Benefits to the target population	28
<b>2.3 Impact</b>	<b>29</b>
<b>2.4 Sustainability</b>	<b>29</b>
2.4.1 Institutional capacity	29
2.4.2 Recurrent costs	29
<b>2.5 Cross-cutting issues</b>	<b>30</b>
2.5.1 Gender	30
2.5.2 Environment	30
2.5.3 Anti-corruption	30
<b>2.6 Conclusions and recommendations</b>	<b>30</b>
2.6.1 Conclusions and Overall Assessment	30
2.6.2 Lessons Learned	31
2.6.3 Recommendations	32
<b>3.0 FUTURE PROSPECTS FOR PEACH</b>	<b>35</b>
3.1 Is there an overarching PEACH development objective?	35
3.2 Is there a PEACH ‘franchise’?	36
3.3 Is an “open architecture” possible for implementing PEACH	38
3.4 Conclusions and recommendations	39
<b>4.0 APPENDICES</b>	<b>40</b>
4.1 Appendix 1: Terms of Reference - Independent review of Papua Public Expenditure Analysis and Capacity Enhancement (PEACH) Program	41

<b>4.2</b>	<b>Appendix 2: Itinerary and Persons Met .....</b>	<b>52</b>
<b>4.3</b>	<b>Appendix 3 - Some critical notes on the sub national /local PFM (Public Financial Management), with special reference to planning and budgeting policies and regulations and institutions .....</b>	<b>56</b>
<b>4.4</b>	<b>Appendix 4 – Links between PEACH and the ADB Local Government Finance and Governance Reform Sector Development program (LGF) .....</b>	<b>60</b>

## Acronyms and Abbreviations

Acronym or Abbreviation	Bahasa Indonesia	English Equivalent
<b>ADB</b>		Asian Development Bank
<b>AIP</b>		Australia Indonesia Partnership
<b>ANTARA</b>		Australia Nusa Tenggara Assistance for Regional Autonomy Program
<b>APBD</b>	Anggaran Pendapatan Belanja Daerah	Regional Government Budget
<b>AusAID</b>		Australian Agency for International Development
<b>Bappeda</b>	Badan Perencanaan Pembangunan Daerah	Regional Development Planning Agency
<b>Bappenas</b>	Badan Perencanaan Pembangunan Nasional	State Ministry for National Development Planning
<b>Bawasda</b>	Badan Pengawas Daerah	Regional Government Internal Audit
<b>BASICS</b>		Better Approaches to Service Provision through Increased Capacities in Sulawesi (CIDA)
<b>Bawasda</b>	Badan Pengawas Daerah	Regional Audit Agency
<b>Biro Keuangan</b>		Regional Government Functional Office for Finance
<b>BKN</b>	Badan Kepegawaian Negara	National Civil Service Agency
<b>BP3D</b>	Badan Perencanaan dan Pengendalian Pembangunan Daerah	Agency for Planning and Coordination of Regional Development
<b>BPK</b>	Badan Pengawas Keuangan	Supreme Audit Authority
<b>BPS</b>	Badan Pusat Statistik	Central Bureau of Statistics
<b>CH</b>		Capacity Harmonisation
<b>CIDA</b>		Canada International Development Agency
<b>DAK</b>	Dana Alokasi Khusus	Special Allocation Grant
<b>Dana Otsus</b>	Dana Otonomi Khusus	Special Autonomy Fund
<b>DASK</b>	Dokumen Anggaran Satuan Kerja	Work Unit Budget Document
<b>DAU</b>	Dana Alokasi Umum	General Allocation Grant
<b>DIALOG</b>		Delivery Improvement and Local Governance Project
<b>DIK-DA</b>	Daftar Isian Kegiatan Daerah	Warrant for Regional Government Routine Expenditures
<b>Dinas</b>		Regional Government Functional Office
<b>DIP-DA</b>	Daftar Isian Proyek Daerah	Warrant for Regional Government Development Expenditures
<b>Dispenda</b>	Dinas Pendapatan Daerah	Regional Government Revenue Collection Agency
<b>DPRD</b>	Dewan Perwakilan Rakyat Daerah	Regional Parliament

<b>DSF</b>		Decentralisation Support Facility
<b>GDP</b>		Gross Domestic Product
<b>Gol</b>		Government of Indonesia
<b>GRDP</b>		Gross Regional Domestic Product
<b>HDI</b>		Human Development Index
<b>INPRES</b>	Instruksi Presiden	Presidential Instruction
<b>Kab/Kota</b>	Kabupaten/Kota	Regencies/Cities
<b>Kepmen</b>	Keputusan Menteri	Ministerial Decree
<b>LG</b>		Local Government
<b>LGF</b>		Local Government Finance and Governance Reform Sector Development Program (ADB)
<b>M&amp;E</b>		Monitoring and Evaluation
<b>MEF</b>		Monitoring and Evaluation Framework
<b>MKPP</b>	Matriks Konsolidasi Perencanaan dan Penganggaran	Budgeting and Planning Consolidated Matrix
<b>MoF</b>		Ministry of Finance
<b>MoHA</b>		Ministry of Home Affairs
<b>MPR</b>	Majelis Permusyawaratan Rakyat	People's Consultative Assembly
<b>MRP</b>	Majelis Rakyat Papua	Papua People's Assembly
<b>MTR</b>		Mid-Term Review
<b>NTB</b>	Nusa Tenggara Barat	West Nusa Tenggara
<b>NTT</b>	Nusa Tenggara Timur	East Nusa Tenggara
<b>OSR</b>		Own Source Revenue
<b>PC</b>		Per Capita
<b>PEA</b>		Public Expenditure Analysis
<b>PEA</b>		Public Expenditure Analysis
<b>PEACH</b>		Public Expenditure Analysis & Capacity Enhancement/ Public Expenditure Analysis & Capacity Harmonisation
<b>PEACH II</b>		Papua Public Expenditure Analysis & Capacity Harmonisation – Phase II
<b>Perda</b>	Peraturan Daerah	Regional Regulation
<b>Perdasus</b>	Peraturan Daerah Khusus	Special Regional Regulation
<b>PFM</b>		Public Financial Management
<b>PMC</b>		Program Management Committee
<b>PPMC</b>		Provincial Program management Committee
<b>PREM</b>		Poverty Reduction and Economic Management
<b>PUN</b>		Papua University Network

<b>QA</b>		Quality Assurance
<b>Propeda</b>	Program Pembangunan Daerah	Regional Development Program
<b>Renja-SKPD</b>	Rencana Kerja - Satuan Kerja Perangkat Daerah	Working Plan of Work Unit
<b>Renstra</b>	Rencana Strategis	Strategic Plan
<b>Renstra-SKPD</b>	Rencana Strategis - Satuan Kerja Perangkat Daerah	Medium Term Development Plan of Work Unit
<b>Repetada</b>	Rencana Pembangunan Tahunan Daerah	Annual Regional Development Plan
<b>RKPD</b>	Rencana Kerja Pemerintah Daerah	Regional Government Work Plan
<b>RPJMD</b>	Rencana Pembangunan Jangka Menengah Daerah	Regional Medium Term Development Plan
<b>RPJPD</b>	Rencana Pembangunan Jangka Panjang Daerah	Regional Long Term Development Plan
<b>Satker</b>	Satuan Kerja	Work Units
<b>SDO</b>	Subsidi Daerah Otonom	Subsidy for Autonomous Region
<b>SIKD</b>	Sistem Informasi Keuangan Daerah	Regional Financial Information System (MOHA & MOF)
<b>SIPKD</b>	Sistem Informasi Pengelolaan Keuangan Daerah()	Regional Financial Management Information System (Provinces)
<b>SOfEI</b>		Support Office for Eastern Indonesia (now DSF Eastern Indonesia)
<b>SUSENAS</b>	Survei Sosial Ekonomi Nasional	National Socio-Economic Survey
<b>UNCEN</b>	Universitas Negeri Cendrawasih	Cendrawasih State University
<b>UNDP</b>		United Nations Development Program
<b>UNIPA</b>	Universitas Negeri Papua	State University of Papua

## 1.0 Executive Summary

### Background and methodology

This Independent Review of Papua PEACH was conducted over the period 10 November 2008 to 14 January 2009. An Aide Memoire was presented to AusAID Jakarta on 3 December 2008. There are no divergent views between members of the Review Team.

The task consisted of a desk study of associated literature, qualitative analysis through stakeholder consultations in Jakarta, Makassar, Jayapura and Kupang; and preparation of a draft and final independent report.

### Introduction

Papua PEACH has its origins in Indonesia's 1999 fiscal decentralisation. A 2004 World Bank rapid analysis noted that weak public financial management was the main factor behind Papua's inability to improve its social welfare. In 2005, a two-stage "pilot-program" was launched to address this problem.

First, there was a 2005 Public Expenditure Analysis (PEA); second, a Capacity Harmonisation (CH) program was designed, called PEACH II. Australian granted \$1.0m to the Indonesia Decentralised Support Facility (DSF) Trust Fund for PEACH II; to be managed by SOFEL. M&E is funded by AusAID at an extra cost of \$300,000.

Similar PEACH pilots are now being proposed by other Development Partners for eight additional provinces, mainly in Eastern Indonesia.

### Policy context

The policy settings around PEACH are not clear, which reflects the complex and challenging nature of implementing decentralisation in Government of Indonesia (GoI). GoI has enacted Laws to harmonise the original legislative framework for decentralisation, but further refinements are needed to achieve full integration of the various Laws. Further, decentralisation has only been underway since 2000, with real progress starting to be made in 2004 when the revised Laws on were passed.

Since 2000 there has been no progress between Bappenas, MOHA and MOF on developing a joint policy framework to guide and support decentralised financial management; and no clear policy leader has emerged from amongst these three central agencies on the issue of sub-national services delivery. It is up to each province to determine its own financial management strengthening initiative to improve services.

With the eight proposed PEACH pilots covering 27% of Indonesian provinces, it is increasingly important to create opportunities to engage and inform national-level policy on how best to support improved provincial financial management in all 33 provinces. This is relevant to the sustainability of PEACH pilots; and addresses the issue of equity.

Bappenas - Directorate of Regional Autonomy advised the Review that PEACH pilots can inform the on-going development of a joint GoI policy framework for decentralisation, but these need to represent "*each typology of province in Indonesia*". The Review was advised by Bappenas that the current group of nine PEACH pilot provinces are not a representative sample of the "*five or six typologies*" of province in Indonesia, but could become so with the addition of 4-5 agreed provinces. Further consultations with Bappenas did not elaborate on the make-up of these typologies; and the Review cannot formulate a proxy of them.

Accordingly, the Review considers that Bappenas and the Development Partners investing in PEACH pilots need to consult and define the Indonesia Provincial typologies; and clarify which provinces fall under each typology. The parties can then consult on which additional provinces could be added to the PEACH pilots to make the sample representative and so able to properly inform the GoI policy debate on decentralisation. This may not result in additional provinces being added to the PEACH pilot, but will inform Development Partners on the likely impact of their current investment in PEACH pilots and may guide any future investment in PEACH pilots.

The Review finds that the Development Partner perspective on support for decentralised financial management is ahead of the current GoI position on this issue. This is because integrated financial management, linking planning, budgeting and accounting, is well-understood by the Development Partners, but is yet to be implemented in GoI where these processes remain independent systems. Further, the benefits of authorising an activity manager to directly control resources and receive regular financial reports are well understood by Development Partners, but are yet to be incorporated into public sector management practices in Indonesia. All stakeholders need to share the same viewpoint on these potential benefits of public financial management, for the PEACH pilots to have optimum impact. This is a new challenge for the PEACH pilots; and requires a coordinated effort by all stakeholders, possibly through a collective forum such as DSF.

At the working level, the Review notes a major ADB supported initiative, the US\$330m LGF, to introduce automated budget and accounting systems into all 33 Provinces. This activity is the MOHA and MOF initiative to implement decentralised financial management and informs their policy perspective. It also formally links budgeting and accounting within the common GoI financial management system for the first time.

LGF offers significant benefits to the PEACH pilots and decentralised public financial management in the long-term; and links need to be built with this initiative. Effective links to LGF will enable automated provincial financial management systems to generate the data needed to update the MKPP and to analyse resources application and utilisation; rather than manually compiling this data as is the case in the current PEACH pilot in Papua. This can add to the efficiency and sustainability of the PEACH pilots.

## **Major conclusions**

PEACH II was not subject to Peer Review when the activity was designed around a World Bank Concept Note in late 2005. There are significant design flaws, most notably that the objectives are overly ambitious and the resourcing and timeframe are insufficient to achieve the stated outcomes. The design is weak in all areas of cross-cutting issues.

Further, the Papua Program Management Committee (PMC) lacks leverage within the Provincial Government. The Review considers that this structural weakness can only be addressed by placing proposed follow-on Papua PEACH activities into a new initiative.

Flexibility in design has delayed implementation, but has also allowed innovation in the form of a simple provincial tool to link planning, budgeting and financial management in a single framework. This provincial management tool, MKPP, is now the central focus of PEACH capacity building efforts. This is because of its immediate relevance to a province; and the strong technical integrity of MKPP, which links together planning, budgeting and accounting in an example of international good practice for GoI public financial management. This approach of leading capacity building from the MKPP can be built on and replicated.



Implementation has also been hampered by political delays and weak execution by DSF. The Review concludes that the PEACH Team Makassar is significantly under-resourced; does not have public financial management or capacity building expertise and lacked the experience to fully appreciate the importance of maintaining whole-of-province policy alignment and buy-in to sustain financial management reforms. The initial political capital forged so effectively during the Papua PEA process has not been built on during the capacity harmonisation phase of PEACH II.

The weak design resulted in an overly narrow, technical focus; and PEACH II has not been able to respond to the full scope and scale of socialisation, dissemination and training needs indicated by the Papua PEA. Socialisation and training activities were not timely and did not reach a wide enough or sufficiently senior audience to give PEACH II the ‘critical mass’ that it needs to advance public financial management reforms in Papua.

The Review finds that the design efficiency and implementation efficiency has been low for PEACH II. Consequently, the Review considers that PEACH II will not achieve the stated outputs. However, it has stimulated an appetite for better public financial management in Papua. The Review recommends that some PEACH activities continue in Papua beyond the proposed extension to September 2009 if greater impact is to be realised, but a new vehicle now needs to be found to deliver these activities.

The overall impact of PEACH II has been limited, but needs to be seen alongside the realities of trying to implement whole-of-province financial management reforms in a Provincial Civil Service that has few skills and tools. A series of follow up activities that reinforce the modest gains made by PEACH II and results in higher impact and sustainability is recommended by this Review.

### **Future prospects for PEACH**

The PEACH engagement process and capacity building approach supports the formation of political will alongside the use of simple management tools so that provinces can adopt international good practice in public financial management; and improve services delivery. This objective is recognised by GoI and reflected in the revised decentralisation Laws<sup>1</sup>.

The Review considers that there is a PEACH ‘franchise’ that has the following milestones:

- Effective initial engagement with senior provincial figures around the PEA process;
- Sustained engagement with whole-of-province actors to create wide-spread political will for an agreed provincial public financial management reform agenda;
- A well-designed and resourced capacity building program that delivers training and systems to the province over a 5 year timeframe, while building the capacity of the University Network to become a long-term partner in this role;
- Annually prepared and updated MKPPs to evidence progress with the reforms;
- A functional University Network that supports provincial financial management reforms and capacity building under a long-term contract; and
- Periodic tracking and other surveys by the World Bank to measure public finance developments alongside actual services delivery and public perception.

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<sup>1</sup> Law on State Finance (17/2003) introduces performance based budgeting, a shift to expenditure classifications based on government financial statistics (GFS), and a medium-term expenditure framework (MTEF). These are international best practices endorsed by the IMF and World Bank.

The Review considers that various implementation methods can be used to implement the PEACH franchise, provided that the key milestones are attained and QA processes are observed and provide a quality outcome for the province.

For AusAID, the most efficient way of implementing further PEACH pilots will be to use a form of aid that delivers resident technical assistance to support the Province to attain the milestones noted above. The key features of AusAID-funded PEACH initiatives will need to be strong design, provincially-based TA and regular monitoring against milestones. PEACH pilots can be delivered as stand-alone bilateral activities, or as a discrete component of bilateral governance activities, such as ANTARA; or multilateral governance programs such as DIALOG.

As an option, AusAID could fund the World Bank DSF to sub-contract delivery of PEACH pilot activities through appropriately qualified partners. This will have a higher financial cost to AusAID, but a lower portfolio management burden.

Taking the recent Papua experience into consideration, the Review does not recommend funding DSF to employ more PEACH Team staff to implement PEACH pilots.

The Review considers that it is more difficult to incorporate PEACH initiatives into AusAID sectoral programs, e.g. Health, Education, Infrastructure. This is because of the need for PEACH to have a broad, whole-of-government reach, rather than a more defined sectoral focus. PEACH pilots and the MKPP can benefit sectoral programs, such as the Maternal & Neonatal Health Program in NTT, by improving gender and poverty sensitivities in planning and budgeting through the MKPP and then monitoring resources allocation and utilisation each six months. Sectoral activities can in turn monitor the impact of PEACH.

In the case of follow-on PEACH activities in Papua, the Review considers that DIALOG has the advantage of incorporating incentives for good performance, which is an option that Bappenas supports as a limited trial. Accordingly, the Review proposes that follow on PEACH activities in Papua be located in Component A of DIALOG.

## Recommendations

- **The Review recommends** that AusAID extend the PEACH II funding agreement with DSF to September 2009, subject to satisfactory reconciliation of DSF Trust Funds used to date, a costing of the new activities proposed by this Review and a formal submission to AusAID in early 2009 for further funding to complete PEACH II.
- **The Review recommends** that in addition to completion of original PEACH activities, Papua MKPPs (province and district level) be updated for 2007 and 2008 during the proposed extension to September 2009; and the results analysed by the PEACH Team alongside the PEACH Monitoring and Evaluation Framework. This Papua PEACH analysis can then be submitted for review and possible endorsement by Bappenas to establish MKPP as a recognised provincial planning and management tool.
- **The Review recommends** that Papua PEACH and the Provincial Government of Papua use the proposed extension to September 2009 to lobby MOF/ MOHA to have SIPKD introduced in Papua as another pilot province for the mid-2009 roll-out of software. This would provide an early opportunity to test methods for integrating the use of MKPP and SIPKD in Papua. Such collaboration could be promoted through the strategic use of incentives in future, as is possible under DIALOG.

- **The Review recommends** a series of PEACH follow-on activities be implemented after the September 2009 to sharpen the impact of Papua PEACH and engender sustainability in public financial management reforms in the province. These follow on activities can best be incorporated in Component A of DIALOG.
- **The Review recommends** that future PEACH pilots have two full-time, in-province TA to support technical and policy harmonisation activities.
- **The Review recommends** that AusAID immediately seek opportunities to play a significant national-level role into the medium-term in (i) realising donor coordination across all PEACH pilots; (ii) reaching agreement with Bappenas and Development Partners on milestones that allow for an “open architecture” for future PEACH pilots to encourage multiple actors to engage with other provinces using their own forms of aid; (iii) linking PEACH more effectively with related provincial activities, such as LGF, SIMDA and other public finance management activities being implemented by other donors or institutions; and (iv) engaging GoI on which additional PEACH pilot provinces would constitute a representative sample to guide future GoI policy debate on support for strengthened financial management across all 33 provinces.

## **2.0 Independent Review of Papua PEACH**

### **2.1 Background**

1. This Independent Review (Review) of the Papua Public Expenditure Analysis & Capacity Enhancement <sup>2</sup> (PEACH) initiative was conducted over the period 10 November 2008 to 14 January 2009. The in-Indonesia assignment was conducted in Jakarta, Makassar, Jayapura and Kupang over the period 16 November to 4 December 2008. Terms of Reference are attached as Appendix 1.
2. This report follows the format of an AusAID Evaluation/ Review. Where appropriate, additional headings have been added to link the report more directly to the Terms of Reference in the relevant section.
3. The Review was supported by a comprehensive timetable of meetings with key stakeholders. This was prepared by AusAID Jakarta and supplemented by the Review Team, as needed. The Itinerary and list of Persons Met is attached as Appendix 2.
4. An Aide Memoire was presented to AusAID Jakarta on 3 December 2008. This brief document set out the initial findings of the Review Team and is considered an internal document due to the preliminary nature of some of the proposals.
5. There are no divergent views between members of the Review Team on the findings of this report.

#### **2.1.1 Introduction**

6. The first pilot PEACH program, Papua PEACH, has its origins in the 1999 fiscal decentralisation decision; and Papua's special autonomy status that results in large fiscal transfers to the province. A World Bank rapid analysis of public expenditure in 2004 noted that weak public financial management was the main factor behind ineffective resource application to meet Papua's social welfare needs, despite large fiscal flows to the Province.
7. A two-stage "pilot-program" was determined to address this problem. First, there was a 2005 'Public Expenditure Analysis' (PEA) based on available financial data. This was funded by the World Bank and Government of the Netherlands; and produced the 2005 Papua Public Expenditure Analysis Report between December 2004 and October 2005. This report described capacity enhancement needs in the area of public financial management.
8. Second, a 'Capacity Harmonisation' (CH) program was designed to strengthen key aspects of public financial management. This latter component is known as PEACH II; and is funded by AusAID and implemented by the World Bank PEACH Team in Makassar with support from WB Jakarta, University of Cendrawasih (UNCEN) and other implementation partners such as the Indonesia Australia Specialised Training Project (IASTP) and Universitas Gadjah Mada.

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<sup>2</sup> Phase I of Papua PEACH was known as "Public Expenditure Analysis & Capacity Enhancement". This name was adopted by AusAID for Phase II, but changed during DSF implementation of Phase II to become "Public Expenditure Analysis & Capacity Harmonisation". This report uses "PEACH II" to cover both name forms.

9. Under the terms of a MoU signed on February 14, 2006, the Government of Australia granted \$1.0m to the Indonesia Decentralised Support Facility (DSF) Trust Fund for the purpose of financing the Papua PEACH II. Monitoring and Evaluation has been supported by AusAID at an additional cost of \$300,000.
10. The initial PEACH II period was for 18-months from June 2006 to December 2007. This was extended to December 2008 due to delays in implementation as a result of the first gubernatorial elections in Papua and significant changes in activity design and priority that resulted. A second extension to September 2009 has recently been proposed to AusAID to allow all activities to be completed. If approved, this second extension takes the total period for PEACH II to 39 months, or longer than three years.
11. Papua PEACH is managed from the Decentralisation Support Facility – Eastern Indonesia (SOEI). SOEI has been operational since April 2005 and has been used by a number of donors including AusAID, as well as government and civil society groups. Papua and Gorontalo PEACH are both directly managed by a three-person World Bank appointed PEACH Team based in the SOEI offices in Makassar; and back-stopped by the three-person World Bank Poverty Reduction and Economic Management (PREM) Team in Jakarta. There are two part-time coordinators based in Jayapura to support PEACH II activities. Whilst both are active, neither is a public financial management specialist and is not a position to lead this technical program; this is done from Makassar.
12. At this time, there are a number of PEACH pilots being proposed for support by other donors in the following provinces:
  - Gorontalo - PEACH Team (World Bank);
  - Aceh - PEACH Team (World Bank);
  - NTT - ANTARA (AusAID);
  - NTB - ANTARA (AusAID to be approved);
  - Southeast Sulawesi - BASICS (CIDA to be approved);
  - South Sulawesi - BASICS (CIDA to be approved);
  - North Sulawesi - BASICS (CIDA to be approved); and
  - Maluku - Netherlands (to be approved).
13. This wide-spread support for PEACH pilots amongst Development Partners is based on their understanding that development resources and responsibilities are now mostly in the provinces, but national-level support for stronger provincial services delivery has been limited since decentralisation began, as was confirmed in consultation with Bappenas; and evident from meetings with MoHA and MoF. This is explored further in the policy section below.

### **2.1.2 Policy Setting**

14. The policy settings around PEACH are not clear, which reflects the complex and challenging nature of implementing decentralisation in a large, unreformed Civil Service. Timing is also important. Decentralisation in Indonesia has only been under way for the past eight years and the real pace at which reforms can be implemented needs to be recalled.

15. Decentralisation policy is influenced by the Laws passed as well as the Decrees and activities of Provinces and various Ministries. This section looks at some of the more specific policy influences that are currently shaping the context in which PEACH II and the other proposed PEACH pilots will implement; and the impact that PEACH can have on shaping this policy framework for itself.
16. The PEACH program has focussed on provincial engagement up to now; and policy dimensions at that level of government. However, with the number and value of PEACH pilots set to grow substantially, creating opportunities to initiate, engage and inform a national-level policy debate on how GoI can best support decentralised public financial management across all 33 provinces becomes an important activity.
17. It appears to the Review that the Development Partner perspective on support for decentralised financial management is ahead of the GoI position on this issue. Development Partners have had first hand experience of the real benefits that arise from systematically linked planning, budget and public accounting systems that are transparent to the individual program managers. GoI is now beginning to introduce similar systems; however, prior to the recent ADB initiative in public budgeting and accounting, the planning, budget and accounting systems in GoI have been in independent systems and managed by separate organisations. Links between these related functions and organisations have been weak and PEACH pilots will need to work to raise awareness of the potential benefits with many key stakeholders in the pilot Provinces. All stakeholders need to share the same viewpoint about the potential benefits of improved public financial management, or the PEACH pilots risk losing impact as a donor-led initiative with limited provincial sustainability.
18. Government of Indonesia (GoI) has more recently enacted six Laws in connection with streamlining and harmonising the original legislative framework around decentralisation. However, the Review is advised that further refinements to these Laws will be needed to achieve a comprehensive integration.
19. One area of tensions between these Laws is explored in Appendix 4, which highlights the six Laws that govern preparing and passing plans and budgets at the sub-national level; and the differing approaches that can be taken in provinces, depending on individual sub-national agency interpretations of the Law. These Laws are:
  - Law No1/2004 on State Treasury;
  - Law No.17/2003, on State Finance;
  - Law No.15/2004 on Supervisory (Control) of the State Financial Management and Responsibility;
  - Law No.25/2004 on National Development Planning System;
  - Law No.32/2004 on Regional Autonomy; and
  - Law No.33/2004 on Fiscal Balance between National and Sub-National Government.
20. This proliferation of Laws and Amended Laws leads to confusion between agencies as to which Law applies and can slow implementation of decentralisation reforms in public financial management. This effect has been a factor in Papua that has impacted on PEACH II.

21. The Review's consultations with the State Ministry for National Development Planning, Bappenas, indicated that three central agencies have agreed to separately support development of sub-national planning, budgeting and financial management. The decentralisation responsibilities are allocated as follows:
  - Bappenas – sub-national planning;
  - Ministry of Home Affairs (MOHA) – sub-national budgeting; and
  - Ministry of Finance (MOF) – sub-national financial management.
22. However, Bappenas advises that since 2000 there has been no progress amongst these three agencies on developing a joint policy framework on how best to support implementation of these partially-shared responsibilities in Provinces. It is up to each province to determine its own financial management strengthening initiatives; and any national-level support will need to wait until such time as a policy and resources framework can be agreed in Jakarta. This delay is partly due to the following factors:
  - National-level respect for the principles of provincial autonomy that are enshrined in the decentralisation legislation and a reluctance from the Jakarta to “push”; and
  - Ministry traditions of developing “silos” of activity, which have minimal interaction with other agency roles in the same area.
23. These factors are referred to as “political” issues; and will need to be overcome most especially at the provincial level if better services delivery is to be found through more effective public financial management.
24. The Review concludes that in the eight years since decentralisation commenced, no clear leader has emerged from amongst these three central agencies on the issue of sub-national services delivery and improved financial management. Further, it points to the importance of merging both the ‘political’ and technical interests of the provincial representatives of these three agencies at the sub-national level, so that a better integration between planning, budgeting and financial management can be fostered in the provinces. This objective is supported by technical analyses in the World Bank.
25. The World Bank Public Expenditure Diagnostic toolkit indicates that a lack of effective links between planning, budgeting and financial management is an underlying reason for (i) the budget not being a credible signal of its policy intentions towards sectoral funding; and (ii) ineffective services delivery.<sup>3</sup> It is this linkage that the amended GoI decentralisation legal framework is advocating as the means to improve services delivery; however, the sub-national mechanisms to support this process are yet to be built. Papua PEACH is one of the first initiatives to actively build such linkages, reflecting its origins in the World Bank Public Expenditure Review process.

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<sup>3</sup> Internet reference: <http://go.worldbank.org/C6MQ6T7QV0>. Accessed 17 December 2008.

26. Key lessons learnt by the World Bank in ensuring that public expenditure reviews, such as the PEA, have more impact on services delivery also underscores the importance of both political and technical readiness for improved services delivery within an appropriate time-frame. These lessons have partly been built into PEACH, but can be reinforced going forward:
- Follow-up how many review recommendations have been implemented using client surveys to track actual expenditure to sectoral programs;
  - Provincial ownership needs to be ensured, *“participation of those who wield power in politics and in the civil service will likely enhance the chances of success”*<sup>4</sup> as this makes the review relevant and its replication more likely out of local resources in the future; and
  - Emphasis two themes in the analysis *“getting policies right”* and *“building well-functioning institutions”*<sup>5</sup>, although this takes time and depends on technical capacity and political readiness.
27. In the case of Bappenas, the national agency advised the Review that it welcomes initiatives such as PEACH. Firstly, because the PEA provides immediate *“feedback on quality of spending and allocation of resources from the provinces”*<sup>6</sup>, something that the provincial reporting system does not currently provide. Bappenas also informed the Review that the simple PEACH planning tool, MKPP (Budgeting and Planning Consolidated Matrix), is clearly within Bappenas’ area of sub-national responsibility; and could be endorsed by that agency to give it national-level recognition and status as an official provincial planning and management tool; and so remove reservations that some agencies may have about its appropriateness. Bappenas indicated it was willing to consider this endorsement process, if requested by PEACH.
28. Secondly, Bappenas advised the Review that the PEACH pilots can inform the on-going development of a joint policy framework on how GoI will resource and offer incentives for better provincial services delivery through improved public financial management. However, Bappenas notes that to do this effectively, PEACH will need to demonstrate that it has pilots in *“each typology of province in Indonesia”*<sup>7</sup>. Typology is the classification of things according to their characteristics, so this would mean grouping provinces according to their main features as determined by Bappenas.
29. The Review understands this to mean that Bappenas is seeking a representative sample of PEACH pilot provinces, based on a GoI assessment of the various typologies that are understood to exist. Exactly what traits GoI and Bappenas have used to determine five or six typologies of Indonesian Province needs to be clarified by the Development Partners supporting PEACH pilots in consultation with Bappenas. This is an important clarification as it will assist to ensure the relevance of the PEACH pilots to the GoI policy debate around decentralisation going forward; and can inform any future investment decisions in PEACH pilots.

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<sup>4</sup> Page 2, Public expenditure reviews: progress and potential, PREM Notes Number 20. World Bank, April 1999.

<sup>5</sup> Page 3, *ibid*.

<sup>6</sup> Review meeting with Bappenas – Directorate of Regional Autonomy, 6:00pm 2 December 2008.

<sup>7</sup> *Ibid*



30. The Review was advised by Bappenas that the group of nine provinces noted above is not considered as a representative sample; and that the addition of four to five GoI agreed provinces would make the PEACH pilots a representative sample. The Review regards this as a significant observation, because a non-representative sample may not effectively inform GoI policy, albeit improving public financial management in the target provinces; and the impact of current and future PEACH investments could be blunted.
31. Bappenas indicated to the Review that one trait that could contribute to a provincial typology was a strong university network with effective links to local government; and proposed implementing PEACH in a province with such a University network. No other details of the five or six provincial typologies envisioned by Bappenas were made available to the Review; and a proxy for the typologies cannot be formulated by this Review. The traits of each of the typologies need to be defined in consultations between Bappenas and the PEACH pilot Development Partners; and any additional PEACH pilot provinces considered.
32. The Review also met with the technical departments responsible for provincial public financial management processes in MOH and MOF. These agencies were largely neutral regarding PEACH as a process, noting that they have had a large ODA program to support their decentralisation policies in the area of automated systems for budgeting and financial management since 2005. This technical program is the US\$330m ADB loan-funded Local Government Finance and Governance Reform Sector Development Program (LGF). Further detail on this program is attached in Appendix 4.
33. The Review does not take this position by to mean there is a lack of support for PEACH from MOHA and MOF, but notes their focus is in their immediate technical areas rather than on the wider issue of improved services delivery through stronger public financial management. The importance of adding public financial management elements into the current PEACH approach is clear, as it will allow for regular analysis of sectoral resourcing to compare with customer survey details, something which is currently missing in PEACH II due to limited data availability. This feature warrants all PEACH pilots forging a better understanding of and closer relations with LGF.
34. LGF includes the design and implementation of a provincial and Regional Public Expenditure Management System (SIPKD-US\$22.7m). This tool is standardised to enable nation-wide training and implementation; offers the benefits of a uniform system supported by Jakarta to all provinces; and enables the timely transfer of electronic budget and accounting data from Provinces and Regions to MOHA and MOF.
35. When introduced, SIPKD can offer considerable data collection advantages for PEACH activities in the provinces. SIPKD will be implemented in Gorontalo and South Sulawesi in the second half of 2009<sup>8</sup>, so there may be opportunities for some PEACH pilot to interact and assess its potential benefits to the Province alongside PEACH activities.
36. The US\$330m. value of LGF is a clear indicator of the scope and scale of the task that MOH and MOF see ahead of them in reforming the narrower areas of public budgeting

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<sup>8</sup> Confirmed by Head, Portfolio Management, Indonesia Resident Mission, Asian Development Bank. Email, 16 December 2008.

and accounting at the sub-national level. This needs to be recalled when considering the wider ambitions of PEACH II and the proposed PEACH pilots to link planning to budgeting and accounting; and then track outcomes alongside resource flows in the form of a survey series.

37. The Review considers that this lack of clear legislative and policy direction at the national-level may take many years to address, if progress in the past eight years is indicative of the real pace of national support for decentralisation. This signals that progress in the area of strengthened sub-national financial management will need to be Province-based. However, if there is not an effective engagement with these three central agencies around the findings from the PEACH pilots and their relevance to GoI policy determination; there is the risk that future GoI decentralisation support policies could make aspects of PEACH redundant and the existing and future investments could be diminished.
38. As PEACH has strong multi-donor support, a collective approach to GoI policy engagement and provincial implementation is likely to be most effective; and is consistent with both GoI and Australian policy<sup>9</sup> for enhancing donor harmonisation and improving aid effectiveness in line with Paris Declaration principles. A common vehicle supported by multiple donors with an interest in sub-national financial management may be most appropriate way to formulate, coordinate and then quality assure a larger number of PEACH pilots. The World Bank DSF, a multi-donor trust fund providing support for decentralisation, may be the most appropriate vehicle for such a harmonised effort.
39. However, underneath such a vehicle there is space for multiple actors in implementation. Provided there is consistency in how good practice principles are applied and quality outcomes are achieved, the PEACH approach could be delivered by different actors and still effectively strengthen sub-national public finances and inform GoI policy debate. Future PEACH pilots could be delivered using an “open architecture”, built around an agreed framework for applying and then independently quality assuring the PEACH approach as it is implemented. This leaves the way open to match the particular needs of a PEACH pilot with the best service provider model, offering flexibility in implementation to bilateral donors such as AusAID.
40. The Review concludes that the lack of clear GoI policy on how to support decentralisation initiatives, alongside the clear case for strengthening sub-national public financial management to better deliver services, points to the need for PEACH to have a two-pronged strategy over the longer-term, say five years:
  - Effectively engage with and inform the GoI decentralisation policy debate on how best to support improved services delivery in all 33 provinces. Donors alone will not have the resources to extent the PEACH pilots to cover all provinces, nor is this desirable from a sustainability perspective; and
  - Demonstrate how improved public financial management supports better services delivery in a “typologically representative sample” of provinces.

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<sup>9</sup> Page 20, Australia Indonesia Partnership Country Strategy 2008–13. AusAID, 2008.

41. The Australia Indonesia Partnership Country Strategy 2008–13 supports this two-pronged approach on page 6 *“The AIP initiatives will work at both the national and local (provincial and district) levels of government.... Under decentralisation, increased responsibility for planning, developing budgets and delivering services rests with district-level governments. National activities will inform work at provincial and district levels, and practical support at these levels will feed into national-level engagement.”*
42. It needs to be recalled that the nine PEACH pilots are a multi-donor initiative, with Australia supporting three provinces to date. The other six provinces, and any others added to make the pilots typographically representative, are likely to be delivered through other Development Partners. The Review is not proposing that Australia take up all, or a major share, of these future PEACH pilots.
43. **The Review recommends**, based on its PEACH experience, AusAID find opportunities to play a significant role at the national-level in:
  - establishing a recognised donor coordination vehicle for all PEACH pilots (possibly DSF);
  - supporting the design of an “open architecture” for future PEACH pilots to encourage multiple actors to implement activities within a quality assured framework;
  - linking PEACH more effectively with related provincial activities, such as LGF; and
  - engaging with GoI as to which provinces would constitute a representative sample that can guide future policy debate on the incentives needed to support strengthened public financial management across all 33 provinces and the resource envelope needed to achieve this. The goal for this engagement will be a national-level support policy for decentralisation in all provinces.

AusAID support for any additional provincial PEACH pilots is seen to be a matter for the AusAID Country Program and its priorities.

### 2.1.3 Formulation and Design

44. PEACH II was not subject to Peer Review when the activity was designed in late 2005. AusAID policy is not to apply this process where an activity’s total value is below \$3m. The Review is advised that PEACH II was approved on the basis of a Concept Note with four Annexes – an Activity Chart, Logframe, Workplan and Budget – all dated 20 December 2005.
45. This approach has resulted in a number of design issues that have been identified by the Monitoring & Evaluation (M&E) Advisor during the course of five site visits (February, May and November 2006; and May and June 2008) and are confirmed by the Review:
  - The Activity Chart has Outcomes that are overly ambitious and are inconsistent with the timeline for PEACH II and the Budget of US\$770,000.
  - The Logframe for PEACH II sighted by the Review is not consistent with similar AusAID documents of its type. There are no ‘Indicators’ or ‘Means of Verification’ identified, nor is there detail of ‘Dependencies’ that lead to a risk analysis.

- There is no structured Risk Matrix for PEACH II. There is a section on ‘Risk and Safeguards’ in the Concept Note; however, this does not elaborate on risk treatment, responsibility and timing to respond to and ameliorate the identified risks. The Review considers that a more structured risk analysis would have highlighted some of the political and resourcing risks that PEACH II has faced.
  - The Workplan for PEACH II sighted by the Review was designed to be completed in 276 days, which appears too short a time-frame for these capacity building activities.
  - The budget of US\$770,000 is too limited for the scope and scale of capacity building that the Concept Note indicates is needed in Papua with its rugged topography, scattered population, and low general education standard that affect all civil service activities. An interesting comparison is the USD10.0m per province that LGF is funding.
  - The Concept Note did not include a management model that provided a clear structure for decision making by the Province. This was remedied on 13 November 2006, when the Program Management Committee (PMC) headed by Provincial Government of Papua officials was convened on the recommendation of the M&E Advisor. However, the authority levels of these officials are not high enough to gather support and mobilise provincial resources for PEACH II in a meaningful way.
  - The Concept Note does not include a detailed Monitoring and Evaluation Framework (MEF), this was finalised in June 2008 with the assistance of the M&E Advisor, but has yet to be applied. Further, the M&E budget appears modest at \$71,500, but this can be supplemented by the AusAID M&E fund of \$300,000.
46. The Review concludes that the PEACH II design was outside the parameters of an AusAID design approach; and that additional resources have been expended to tighten up aspects of the design with support from the AusAID-funded M&E Advisor. However, the fundamental design flaws of overly ambitious objectives, under-resourced activities and contracted timeframe cannot be overcome without a major re-organisation of the initiative going forward.

#### **2.1.4 Objectives and Scope at Design**

47. The Review finds that PEACH II had very ambitious objectives, too many to be realistically monitored and evaluated within the scope of resources and time designed.

##### **Objectives**

The main objectives are to:

- Gain a better understanding of Papua provincial and kabupaten/kota revenues and expenditures, in particular with regards to management of revenues from natural resources and the Special Autonomy Fund.
- Gain a better understanding of the broader issues in the implementation of special autonomy.
- Develop strategies for provincial and kabupaten/kota governments to improve management of public revenue and expenditure.
- Enhance and harmonize local capacity to manage public expenditures, and to conduct routine expenditure analyses.

PEACH aims to achieve these objectives by focusing on two types of activities:

1. Analytical Activities (Public Expenditure Analysis): preparation of a report by qualified and experienced local partners, with WB assistance and oversight by a committee of stakeholders.
  2. Capacity Harmonization/Strengthening: follow-up workshops focusing on key public finance issues identified during the preparation of the report, targeted at regional government officials as executors of the budget, and other stakeholders as monitors of the budget.
48. The unrealistic natures of the objectives are reinforced by the high-level outcomes that were assigned to PEACH II activities. These are also overly ambitious and could not realistically be achieved.

#### **Expected Outcomes of PEACH II:**

This program is intended to support significant changes in public financial management in Papua including:

- Enhanced public awareness on public finance;
  - Enhanced public participation on budget planning and monitoring;
  - Enhanced capacity of Papua university lecturers and government officials in public finance management;
  - Better coordination between dinas, badan and lembaga at province and kabupaten level;
  - Public participation in development planning and monitoring of budget implementation;
  - Equitable distribution of development funds, in particular, Special Autonomy funds (dana Otsus);
  - Effective and efficient government allocation of development funds;
  - Enhanced accountability and transparency in government finances;
  - Better quality of public services;
  - Availability of knowledge assets on Public Finance Management for replicating the program.
49. The Review considers that any future Capacity Harmonisation activity designed for a PEACH pilot will need to be pragmatic and realistic when setting goals and outcomes; and supported by structured risk analyses and effective management arrangements. PEACH II did not have these characteristics and its implementation has been adversely affected as a result.
50. However, valuable lessons have been learnt in the process and more accurate designs can be anticipated where these lessons are taken into account. One key lesson is the value of flexibility and the advantages that this brings to a design. The gubernatorial elections brought with them not only some delays in PEACH II implementation, but also a pressure for the newly appointed Governor of Papua to formulate a five-year development strategy (RPJMD). This pressure created a request to PEACH II to provide a simple, consolidated planning tool that would allow the Governor to see his five-year development priorities reflected alongside Agency five-year plans

(RENSTRA) and the annual resources allocation in Agency budgets. This would go part way to ensuring that provincial resources were aligned with development priorities, provided that actual expenditure performance is monitored and can be corrected.

51. This tool was developed, and is known as the MKPP. It links plans, budgets and actual expenditures in a simple Excel spreadsheet; and was first applied in 2007. This tool provides an opportunity for provinces to effectively link planning budgeting and financial management into a single framework; and has become the central focus of PEACH capacity building efforts because of its immediate relevance in a province; and the strong technical integrity of this approach.
52. The Review sees a need for strong links between the comprehensive provincial planning aspects of MKPP and the LGF Budget and Financial Management system in a province in future. There is no duplication between these tools; and strong synergies can be created to strengthen sectoral resource and service delivery analyses where the relationship between these activities can be strengthened and information directly shared.
53. **The Review recommends** that Papua lobby the MOF to have SIPKD introduced into Papua as another pilot province for the mid-2009 roll-out of software. This would provide an early opportunity to test methods for integrating the use of MKPP and SIPKD in Papua to periodically update the MKPP using internal resources, such as the Tim Klinik MKPP (MKPP Clinic Team) in Bappeda (Regional Development Planning Agency) and Biro Keuangan Daerah (Regional Finance Office). Such future collaboration could be promoted through the strategic use of incentives, as is possible under the AusAID Delivery Improvement and Local Governance Project (DIALOG) program in Papua.

#### 2.1.5 Implementation Arrangements

54. There has been considerable analysis of PEACH II implementation through regular reporting by the PEACH Team, Makassar and the five M&E Advisor visits. In summary, PEACH II implementation has been delayed by a combination of political events, design changes and an inability by PEACH Team Makassar to mobilise technical resources in support of activities.
55. The Review considers that PEACH II activities are likely to be completed, including those additional activities proposed by this Review, provided that AusAID agrees to extend and possibly increase the funding agreement with DSF to September 2009.
56. The Review finds that the restrictive timeframe and resources of the design have resulted in the PEACH Team, Makassar taking an overly narrow, technical focus in its response to Papua public financial management development. In fact, the PEACH Team notes its preference for technical analyses, such as the PEA exercises, in preference to capacity building activities where it does not have a strong comparative advantage. This has meant that PEACH II has not responded effectively to the full scope and scale of socialisation, dissemination and training needs indicated by the Papua PEA analysis; nor has it been able to mobilise support within the Papua Provincial Government to replicate the PEACH II activities on a wider scale.
57. It is commendable PEACH II has attracted strong support from the Papua Governor as the senior-most political leader. However, it is important to note that provinces are not homogeneous entities and wider political support from the many influential agencies is

needed to secure sustainable support for fundamental reforms like PEACH II. Political differences can and do exist between the Papua Governor and other agencies; and these have a real impact on PEACH II.

58. The Review concludes that the PEACH Team Makassar lacks the overall experience and technical presence in-Jayapura to fully appreciate the importance of wide-spread political buy-in to sustain reforms; and has relied too much on the Governors Decree to bring the other provincial agencies along. This strategy has not worked, as is evidenced by the fact that only 10 out of 100+ Dinas have prepared a RENSTRA as their foundation document for completing an MKPP in 2007 and 2008; and the full value of the Papua MKPP as a planning and resource allocation tool is not yet realised.
59. Further, PEACH Team Makassar has not engaged effectively with the Biro Keuangan Daerah and built-up the relationship to the point where it can access manually-prepared budget and expenditure data to update the MKPP in 2007 and 2008 every six-months. Instead, PEACH II needs to wait up to six months after fiscal year-end until manual accounting records from all Papua Dinas and Kota/ Kabupaten (121) have been keyed into MOF-SIKD in Jakarta; and can then be re-keyed and analysed for input errors by the PEACH Team Makassar. This is at best an interim solution, but is not an efficient, systemic or sustainable approach to data gathering and analysis in the Papua. Access to electronic data needs to be resolved to address this delayed and costly process. Good working linkages to a functional SIPKD will benefit this process in future.
60. This is a critical technical short-coming in PEACH II implementation because follow up of planning activities with analysis of budget and actual expenditure outcomes is one of the key World Bank lessons learnt in strengthening the impact of PEA-type activities. This point underscores the very limited whole-of-province political alignment and harmonisation effort that has been made during PEACH II, compared to the positive work done on political engagement during the PEA process.
61. Further, the Review considers that the PEACH Team, Makassar and Papua PEACH in Jayapura are significantly under-resourced. This is due to difficulties in recruitment into regional towns, but also a reflection of World Bank Jakarta policy that the PEACH Team will not be expanded. This constraint has meant that some of the lessons learnt by the World Bank around giving public expenditure reviews more impact, such as regular updates through expenditure tracking surveys, have not been fully incorporated into PEACH II implementation.
62. Development partners will need to ensure that future PEACH pilots are adequately resourced with experienced technical staff, selected on merit through competitive processes. The recent PEACH Retreat in November 2008 also recognises the requirement for future PEACH pilots to have two full-time, in-province TA to support technical and policy harmonisation activities.
63. **The Review recommends** that future PEACH pilots have two full-time, in-province TA to support technical and policy harmonisation activities.
64. **The Review recommends** that Papua MKPP be updated for 2007 and 2008 and analysed by the PEACH Team; and this work be submitted for review and possible endorsement by Bappenas to build MKPP as a recognised planning and management tool for decentralised public financial management going forward.

### 2.1.6 Implementation Arrangements for the 'PEA'

65. The Public Expenditure Analysis 'PEA' has been an effective tool in making a relevant and effective engagement with senior political leadership of the Papua. The positive lessons to come from this process is that by making the PEA relevant, non-threatening (i.e. not audit oriented) and in an accessible format, there has been clear early support from two successive Papua Governors in Papua province for the ideals of improved services delivery through strengthened public financial management.
66. The Review considers that the PEA is an effective early engagement tool in the provinces; and needs to be continued in other PEACH pilots as it has the dual benefit of providing quality information on provincial activity that is valuable to all stakeholders, while being very relevant to the Province itself and guiding future public financial management strengthening initiatives.
67. The Review notes the difficulty in accessing provincial financial data<sup>10</sup> and the additional cost that this has imposed on the PEA exercise, but supports the strategy of preparing the PEA from APBD reporting that has been thoroughly vetted for data-entry errors by University Partners. This ensures quality of the data and provides the University Partner with a learning opportunity that can be replicated when they are engaged to undertake subsequent PEA updates. This can be simplified and less costly where automated data is available from SIPKD, emphasising the need to build relations with LGF in the PEACH pilot provinces.
68. The Papua PEA update is long delayed and has only recently been requested of UNCEN by PEACH II. However, UNCEN does not have a contract and more time and money will be needed to complete the task. The Review is not clear on what the PEA update will involve in technical terms and costs. The only schedule available indicates that this activity it is likely to be completed by June 2009; and will involve more Districts than the initial PEA in 2005. This needs to be clarified as part of the AusAID extension of the DSF Trust Fund Agreement, so that its impact can be assessed at end of project in September 2009.
69. PEACH II has contracted individual UNCEN staff and is paying a management fee to the Economics Faculty of UNCEN to mobilise support from this University Partner. This is due to concerns about the reliability of payments to staff through the University system. This is not a sustainable institutional arrangement and the University's corporate capacity needs to be strengthened to become an effective longer-term partner to improved provincial financial management under sub-contracting arrangements. This can be done by entering into a formal agreement with a recognised Indonesian consulting organisation, or by partnering with regional consulting universities who can guide and support the development of this capacity in UNCEN and other Provincial University Networks.

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<sup>10</sup> World Bank – Jakarta advises that the APBD electronic data sets prepared by MOF-SIKD may contain material data entry errors when compared to the original manual APBD reports provided by the Province, Dinas and Kota/ Kabupaten (121 in the case of Papua). This is especially the case when APBD formats differ between Dinas and Kota/ Kabupaten, limiting meaningful analyses to only the highest levels of data aggregation. However the quality of these data sets is reported to have improved from 2006 onwards with World Bank assistance.



## 2.1.7 Implementation Arrangements for the 'CH'

70. The capacity-harmonisation programme 'CH' (PEACH II) was ambitious and relied on support from both PEACH Team Makassar and UNCEN. A brief summary of the status of each Component is made below:

No.	Date	Component	Responsible	Status at Review
1	5/06	TA Legal drafting of regional financial regulations	WB-PREM	AusAID advises this was discontinued in December 2008. Replaced with No.5 below.
2	5/06	TOT training on wide range of FM issues	UNCEN, IASTP & others	One TOT to be conducted in 2/2009. Mostly to technical staff. Lacks M&E process and was not always appropriate in design or delivery method.
3	5/06	Socialisation & dissemination of finance regulations and information	UNCEN	Limited scope, mainly to technical staff not leaders. Is well regarded. To be completed by 3/2009.
4	5/06	Establish Papua University Network	UNCEN	An agreement has been signed. No clear plans to implement, will not be operational in any practical sense by 9/2009.
5	6/07	Implement MKPP ( <i>designed and added at new Governor's request</i> )	WB-PREM	Limited scope of implementation, mainly to technical staff. Needs to be updated for budget and actual expenditure in 2007 & 2008 to have its impact assessed.

71. Governor's elections delayed the start of PEACH II from August 2006 until November 2006. Further, implementation of Activities 1 - 4 was deferred until May 2007, with the focus on Activity 5 from November 2006 onwards to deliver the new Governor's planning and budgeting agenda.
72. Further, there was no agreed Public Finance reform agenda and objectives in Papua until the new Governor's Decree to use MKPP in late 2007. This joined four other pieces of recent law/ regulation on decentralized financial management; and each SKPD has to determine which one applies to them. The result is some SKPD do not support PEACH Initiatives; and just 10 of ~100 Dinas/ SKPD have completed the preparations (e.g. Renstra) needed to build up MKPP data sets. Given the more junior officials on the Program Management Committee (PMC), Papua PEACH has limited leverage in the Province to drive preparation of RENSTRA to support the use of MKPP across the whole of Papua. This lack of leverage is a major reason for the loss of impact of PEACH II, alongside limited engagement by PEACH Team Makassar.
73. The Review was informed by IASTP III that the use of university staff may not be the most effective approach to capacity building, as few in Papua had the capacity or experience as adult as trainers to develop a tailored provincial training package based on identified needs. IASTP noted that UNCHEN was asked by PEACH Team Makassar to modify and deliver existing World Bank training modules e.g. a PC-based course Statistics, at too high a level. This was ineffective and not sustainable in either the province or UNCHEN. Strong adult training concepts need to be developed by any Provincial University Network supporting PEACH if it is to be sustainable and support improved provincial financial management into the long term.

74. There has been limited PEACH Team Makassar and UNCEN human resources to deliver PEACH II and MKPP. Training of 30 persons in TOT subjects and 300 persons in MKPP socialization in 2 cycles (July 2007 and July 2008) did not cover enough SKPD and Kota/ Kabupaten; and was found to be concentrated on technical staff. Further, there was no pre and post training assessment to determine impact of training. The result is that Seniors Officials are not socialized to support the technical staff who have received PEACH II training. The benefits and impact of PEACH II training are currently isolated at lower technical levels of the Papua Civil Service.
75. Papua will benefit from follow-on activities to more widely socialise the finance regulations, PEACH and MKPP concepts amongst more senior officers in the Provincial Government. The PEACH II design was not comprehensive enough in this area; and without this follow-on activity the benefits of the capacity building amongst technical officers in Papua will be lost. This recognises that PEACH capacity building requires a longer-term time frame of five years.
76. **The Review recommends** that AusAID agree to extend the PEACH II funding agreement with DSF to September 2009 to allow both the original activities to be completed and the PEA and MKPP updates proposed by this Review to be performed. The full impact of PEACH II can then be appraised through the preparation of an AusAID Activity Completion Report. DSF will need to support this extension with a satisfactory reconciliation of DSF Trust Funds used to date; a costing of the PEA and MKPP activities proposed by this Review; and a formal submission to AusAID for further funding to complete PEACH II. This will need to be completed by late 2008, early 2009.

#### **2.1.8 Financing**

77. PEACH II is funded through a \$1m (US\$0.77m) accountable cash grant made to the DSF Trust Fund. As at June 2008, all but approximately US\$70,000 of these funds likely to be spent on completing existing PEACH II activity. This means that any extension of PEACH II activities, such as the PEA and MKPP updates proposed by this Review, will require additional funding into the DSF Trust Account.
78. AusAID officers responsible for internally monitoring the DSF Trust Account have found the quality of financial reporting to be unsatisfactory. Full disclosure of expenditure of AusAID funds in the DSF Trust Account would need to be included in any final reconciliation of PEACH II Trust Funds that accompanies a request to AusAID for further PEACH II funding in the extension period of January to September 2009.

### **2.2 Relevance, Efficiency and Effectiveness**

#### **2.2.1 Objectives and activities**

79. The Review finds that the objectives and activities of PEACH II are relevant, but too ambitious for the activities as designed and resourced; and are not supported by widespread political support under an agreed local financial management reform agenda.
80. Consequently, the Review considers that PEACH II will not achieve the stated outputs. However, it has stimulated an appetite for better public financial management in the province, especially amongst technical staff of Kabupaten consulted by the Review. This indicates to the Review that PEACH activities need to continue in Papua beyond

the proposed extension to September 2009 if greater impact is to be realised, but the Review considers that the management model needs to be strengthened if whole-of-province policy agreement is to be reached on annual use and updating of the MKPP.

81. For example, socialisation of senior officers in all Dinas and Kota/ Kabupaten will be needed to elevate the PEACH II training benefits to a level where it begins to be supported and feeds into the periodic use and updating of the MKPP. This activity cannot be practically addressed within the extended term of PEACH II, but some of this and other activities could be picked up under follow-on initiatives. This is needed to build on the momentum and positive feedback from Focus Group discussions in Papua regarding the PEACH II training on a wide range of public financial management issues<sup>11</sup>. A common theme in all groups was the need to bring senior officer along in the socialisation process.
82. **The Review recommends** that these follow-on activities be implemented after the September 2009 to sharpen the impact of Papua PEACH and engender sustainability in public financial management reforms in the province:
  - Support the Bappeda MKPP Klinik Tim to continue to apply and update the MKPP annually. Where completed this will improve the flow of data to the Governor about resources allocation to provincial priorities in the budget and program implementation;
  - Socialisation and dissemination of public finance regulations and information to senior officers to build further support for decentralised financial management and the annual use of MKPP in Papua;
  - Introduce gender, environment and anti-corruption (improved procurement management) perspectives into the Papua planning and budgeting process; and
  - Strengthen the commercial arm of UNCEN to enable it to become a viable partner for future PFM capacity building in Papua. Options include a commercial arrangement with a credible consulting organisation; recruiting and experienced consulting manager on UNCEN staff to lead the program internally; and linking to other consulting universities in the region.
83. The Review sees the comparatively junior level of the PEACH II PMC Chair as a structural constraint to its effectiveness. This cannot effectively or practically be resolved during the proposed PEACH II extension; and leaves AusAID with three possible options to support follow-on PEACH activities needed in Papua:
  - Design a PEACH III with a new PMC chaired by SEKDA<sup>12</sup> and delivered through DSF by a reinforced PEACH Team Makassar with a clear mandate to recruit and post two full-time TA to Papua;

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<sup>11</sup> Kota/ Kabupaten participants made the following responses to PEACH II TOT training. Pason - "Enjoyed the adult training methodology; and feel I could teach it"; Simon - "Training was effective even though 2 weeks long, materials useful and important"; Eddie - "Knowledge improved and reported this to head of Bappeda as directly relevant. Activity will be implemented in Kota. Some resistance by senior staff, needs to involve higher ranks in socialization".

<sup>12</sup> This was the strongly positive lesson learnt from ANTARA PEACH in NTT.

- Design a Peach III sub-component to Component A of DIALOG, to be implemented by two in-Papua TA dedicated to supporting PEACH activities; or
  - Design a Papua PEACH III component as an extension of bilateral activities, such as ANTARA, to be delivered by a service provider that can deliver experienced and two qualified full-time TA who are based in Papua.
84. DIALOG may be managed by a Provincial Program Management Committee (PPMC), chaired by the Head of Provincial Planning Board (Bappeda). This is a more senior official than the Chair of the PEACH II PMC, but the lesson learnt from PEACH NTT was that having SEKDA (Provincial Secretary) as the coordinator for a whole-of-province activity like Component A of DIALOG or PEACH II assures a higher level of inter-agency cooperation for that reform agenda.
85. The Review considers that the second option allows for most effective Provincial coordination between PEACH and DIALOG governance activities, including the opportunity to trial the use of incentives to promote sound provincial financial management, but proposes that SEKDA Chair the PPMC to give both activities the benefit of the whole-of-province influence this office has.

### **2.2.2 Timeliness and appropriateness**

86. PEACH II has struggled to deliver its activities on time for the reasons noted. Further, the scope and reach of most activities has been limited by design and resourcing; and has not reached a wide enough or sufficiently senior audience to give PEACH II the ‘critical mass’ that it needs to further public financial management reforms in Papua into the longer term.
87. The Review finds that the design efficiency and implementation efficiency has been lower than expected for PEACH II.

### **2.2.3 Benefits to the target population**

88. PEACH II has not yet analysed either the PEA, through an updating exercise, or completed the MKPP in 2007 and 2008. Consequently, determining the potential impact on services and the population as a result of PEACH II activities is not possible. Further, the Community Knowledge, Attitude and Practices Surveys required by the Monitoring and Evaluation Framework have not yet been conducted, so the actual impact on community perceptions is not known.
89. It is expected that these activities will be completed before the end of the extension of PEACH II to September 2009; and the Activity Completion report will document the impact on the target population.
90. Another potential area for delivering future benefits to Papua was the replication model designed for PEACH II capacity building activities. This model is centred on the contracting and development of UNCEN as the University Partner for Papua Province. UNCEN and a network of other provincial universities are intended to be capable of supporting both PEA and CH activities at the conclusion of PEACH II.
91. PEACH Team Makassar confirm that this will not be the case; and that UNCEN is unlikely to be able to undertake the Papua PEA update or completion of Papua MKPP 2007 and 2008 without significant technical support and inputs from themselves. This is partly due to the limited use that PEACH II has made of UNCEN resources, but also

the limited support that UNCEN has received under PEACH II in building up its institutional and operational capacities to become a sustainable partner to support better sub-national public financial management.

92. This component that has not been well-developed by PEACH II; and needs to be further supported by follow-on activities under a PEACH III project or component if provincial capacity to support public financial management reforms is to be built for the longer term benefit of Papua.

## **2.3 Impact**

93. The overall impact of PEACH II has been limited for the reasons identified, but it is clear to the Review that some momentum has been created through the PEA, the MKPP and training programs that can be incrementally built on through an extension of PEACH II; and the inclusion of follow-on activities from PEACH II after that date.
94. The impact that has been achieved by PEACH II needs to be seen alongside the realities of trying to implement whole-of-province financial management reforms in a Provincial Civil Service that has few skills and tools to work with. PEACH II engaged senior political figures effectively in its initial stages and the PEA was well executed and received; however, there were not the resources in PEACH II to deliver the designed outcomes and considerable momentum was lost through delays. The impact of the program has been blunted by design deficiencies, weak implementation and limited efforts at policy harmonisation in the latter stages of PEACH II, which reduced the visibility and apparent relevance of the initiative to the provincial leadership.
95. The realities of decentralisation in a changing political context are that momentum will be lost from time to time as events change; and the time needed to make gains will be longer as a result. However, some loss of momentum in PEACH II is due to weak design and under-resourcing of implementation, which can be addressed in any follow-on activities and so sharpen the impact that PEACH II activities can ultimately have.
96. The investment made to date is not large and has pointed the way to real potential benefits where the use of MKPP can be mainstreamed across whole-of-province. A series of follow up activities that reinforce these modest gains can result in more tangible impacts and is supported by this Review.

## **2.4 Sustainability**

### **2.4.1 Institutional capacity**

97. There is little evidence of institutional capacity having been created as a result of PEACH II within Provincial Government of Papua or the University Network. Accordingly, at this time there appears to be little sustainability for the PEACH II activities.

### **2.4.2 Recurrent costs**

98. There is potential for the APBD to fund some aspects of PEACH II, such as the completion of annual MKPP with Budget and Actual Expenditure data; and possibly updates of the PEA. This would require a contractual relationship to be built between Provincial Government of Papua and the University Network to support these activities on an on-going basis, say for three years.

99. This relationship has not been built during PEACH II, but can be reinforced through well-designed follow-on activities.
100. The Review finds that there is no existing relationship between PEACH II activities and recurrent costing in APBD; and no sustainability of these activities beyond donor funding at this time.

## **2.5 Cross-cutting issues**

101. The Review finds that PEACH II was weak in all areas of cross-cutting issues.

### **2.5.1 Gender**

102. Gender considerations were introduced into the Monitoring and Evaluation Framework when surveying the impact of PEACH II, but the Review could find no consideration of gender issues in the original Concept Note. This is another significant design oversight.
103. The Review acknowledges that there are difficulties in analysing gender impacts through data sets, as there is no gender disaggregated data available. However, this provides a strong rationale for addressing the need for gender based indicators and data when training officials and strengthening the sub-national planning and public financial management systems.
104. Gender issues are not highlighted in the PEACH II reporting, so it is not clear to the Review that it was a priority for TOT Training programs delivered or any other PEACH II activities.

### **2.5.2 Environment**

105. Environment is not highlighted in the Concept Note or PEACH II reporting, so it is not clear to the Review that it was a priority for PEACH II activities.

### **2.5.3 Anti-corruption**

106. Anti-corruption is not highlighted in the Concept Note or subsequent PEACH II reporting, so it is not clear to the Review that it was a priority for PEACH II activities.

## **2.6 Conclusions and recommendations**

### **2.6.1 Conclusions and Overall Assessment**

107. The Review concludes that Papua PEACH was an important first step in the longer-term process of building stronger decentralised financial management systems in Indonesia. It has signalled these reforms are welcome and can capture the attention of political and public service power brokers, but any capacity building initiative has to be well-designed and resourced to sustain that level of relevance and interest beyond the initial PEA stages.
108. One strategy for maintaining longer term focus on strengthening of decentralised financial management systems would be financial incentives in the form of performance grants from the centre to well-performing provincial governments. However, the absence of a clear national legislative and policy framework, with associated resources, to support improved provincial financial management does not offer any short-term potential for an incentives approach to be adopted.
109. There is a legal framework for making use of incentives under Government Regulations No.6/2008, A Guide/Manual on Evaluation of the Regional Governmental Operations

referring to Law No.32/2004, Regional Autonomy. However, an agreed set of performance indicators would be needed to evaluate the eligibility of provinces; and there is not yet the required level of policy agreement between Bappenas, MOHA and MOF on decentralisation matters to develop these. Bappenas agrees with the concept of using the incentives option under DIALOG as a way of testing provincial responses to incentives; and is willing to be informed by this trial and carry this into future GoI policy debates on how best to support decentralisation.

110. The absence of a clear national legislative and policy framework can also provide opportunity for those in the province who are reluctant to reform to side-step even the most useful initiatives. Accordingly the Review considers that the PEACH pilots need to be effective both the national level and the provincial level:
  - **National-level** – as a relevant source of working experience to inform and engage in the GoI policy debate between Bappenas, MOHA and MOF on how best to strengthen public financial management across all 33 provinces; and
  - **Provincial-level** – as an effective process for leading and promoting sustainable whole-of-province reforms that result in better services delivery through strengthened public financial management systems.
111. Papua PEACH did not have a strong design and implementation for its capacity building activities; and the impact and sustainability of the work done to date has been limited as a result. The PEACH II impacts can be reinforced through follow-on activities, but the most effective management model for these activities needs to be determined by AusAID.
112. The Review recommends that PEACH II be extended as requested, which will allow enough time to consider and design any follow-on activities.

## 2.6.2 Lessons Learned

113. **Operate under a clear and agreed framework of Law/Regulation to make the decentralised public financial management reform agenda clear to all stakeholders in the Province.**

There is no such agreed framework to support Papua PEACH; and Papua SKPD are “cherry-picking” which of six<sup>13</sup> pieces of legislation they decide to follow. This ambiguity needs to be eliminated through a whole-of-province agreement on which legislation will apply to the implementation of reforms. This is essentially a policy harmonisation process that needs to be lead by the Governors office, but can be supported by the PEA analysis as part of the debate on provincial financial management reforms.

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<sup>13</sup> Law No1/2004 on State Treasury;  
Law No.17/2003, on State Finance;  
Law No.15/2004 on Supervisory (Control) of the State Financial Management and Responsibility;  
Law No.25/2004 on National Development Planning System;  
Law No.32/2004 on Regional Autonomy; and  
Law No.33/2004 on Fiscal Balance between National and Sub-National Government.

In future, decentralisation reforms may be informed by a GoI support policy that includes incentives. However, there will need to be a significant level of engagement with and effective informing of the policy debate by AusAID and other Development Partners before a policy could be expected. The effectiveness of this engagement will in part be determined by whether PEACH pilot provinces are typographically representative, or not.

**114. Operate under a formally agreed Provincial PFM reform agenda and timeline.**

Papua does not have a formal Public Financial Management reform agenda, with an agreed timeline. This is crucial to inter-agency cooperation and data exchanges. The agenda is likely to be an outcome of the PEA process, but needs to precede implementation of the capacity building component to ensure these processes are supported by all participants. The best time to initiate the public financial management reform agenda is immediately after a new Governor is elected and there is momentum for change that can be documented in the 5-year RPJM (Medium-Term Development Plan). This sets a timetable for any expansion into new provincial PEACH activities, based around gubernatorial election schedules.

**115. Lead by a strong Management Committee to coordinate reforms.**

ANTARA PEACH has this; Papua PEACH does not. The ideal Chair for the Management Committee is SEKDA, as is the case in NTT. This officer leads all provincial agencies and reports directly to the Governor; and can coordinate the high-level cooperation that will be needed to initiate and monitor reform implementation.

**116. Implemented by a Project Manager with clear responsibility and accountability.**

The advantage of a Project Manager is seen in NTT, where the ANTARA Program Director acts as a defacto Program Manager for PEACH; and the program has strong focus. Papua PEACH is remotely managed by PEACH Team Makassar, with local part-time liaison capacity only; and the program focus is diffuse and its impact is diminished. The appointment should be made directly by SEKDA and have a formal delegation of authority. The Project Manager needs to report direct to the Management Committee.

**117. Monitored using performance indicators based on financial information flows**

Current financial management practices in Provinces require that Managers at all levels make formal requests for financial information, which can be denied. There is no regular flow of financial data to these officers. Provincial public financial management reforms, including the PEACH pilots, seek to ensure that financial systems make periodic reporting direct to the Managers. This represents a major change in attitudes and behaviour; and needs sufficient time to be implemented fully. The most effective monitoring approach will be to measure the frequency and accuracy of financial reporting provided to Managers at all levels. This is an evidence-based approach to M&E which can be jointly assessed.

**2.6.3 Recommendations**

118. The Review has a series of recommendations for Papua PEACH, both for the term of the proposed extension; and then beyond September 2009. There is also a recommendation to AusAID concerning its role in national-level policy engagement in



support of the broader PEACH pilot initiatives, in which AusAID has a direct interest in three provinces.

***Papua PEACH recommendations***

119. **The Review recommends** that AusAID extend the PEACH II funding agreement with DSF to September 2009 to allow the original, and proposed additional activities, to be completed and the full impact of PEACH II to be appraised through the preparation of both an AusAID Activity Completion report and an AusAID Independent Completion Report. This will require a satisfactory reconciliation of DSF Trust Funds used to date, a costing of the new activities proposed by this Review and a formal submission to AusAID for further funding to complete PEACH II by late 2008, early 2009 to support this proposed extension.
120. **The Review recommends** that Papua MKPP be updated for 2007 and 2008 during the proposed extension to September 2009; and the results analysed by the PEACH Team. This Papua PEACH analysis can then be submitted for review and possible endorsement by Bappenas to establish MKPP as a recognised working tool for decentralised public financial management going forward.
121. **The Review recommends** that Papua PEACH and the Provincial Government of Papua use the proposed extension to September 2009 to lobby MOF to have SIPKD introduced in Papua as another pilot province for the mid-2009 roll-out of software. This would provide an early opportunity to test methods for integrating the use of MKPP and SIPKD in Papua to periodically update the MKPP using internal resources, such as the Tim Klinik MKPP (MKPP Clinic Team) in Bappeda (Regional Development Planning Agency) and Biro Keuangan Daerah (Regional Finance Office). Such future collaboration could be promoted through the strategic use of incentives, as is possible under the AusAID Delivery Improvement and Local Governance Project (DIALOG) program in Papua.
122. **The Review recommends** that these follow-on activities be implemented after the September 2009 to sharpen the impact of Papua PEACH and engender sustainability in public financial management reforms in the province:
  - Support the Bappeda MKPP Klinik Tim to continue to apply and update the MKPP annually. Where completed this will improve the flow of data to the Governor about program implementation;
  - Socialisation and dissemination of public finance regulations and information to senior officers to build further support for decentralised financial management and the annual use of MKPP in Papua;
  - Introduce gender, environment and anti-corruption (improved procurement management) perspectives into the Papua planning and budgeting process; and
  - Strengthen the commercial arm of UNCEN to enable it to become a viable partner for future PFM capacity building in Papua.

***AusAID recommendation***

123. **The Review recommends** that future PEACH pilots have two full-time, in-province TA to support technical and policy harmonisation activities.
124. **The Review recommends** that AusAID immediately seek opportunities to play a significant national-level role into the medium-term in:
- establishing a recognised donor coordination vehicle for all PEACH pilots (possibly DSF);
  - supporting the design of an “open architecture” for future PEACH pilots to encourage multiple actors to implement activities within a quality assured framework;
  - linking PEACH more effectively with related provincial activities, such as LGF, SIMDA and other public finance management activities being implemented by other donors or institutions.
  - engaging with GoI as to which provinces would constitute a representative sample to guide future policy debate on the incentives needed to support strengthened public financial management across all 33 provinces; and the resource envelope needed to achieve this. The goal for this engagement will be a national-level support policy for decentralisation in all provinces.

### 3.0 Future prospects for PEACH

#### 3.1 *Is there an overarching PEACH development objective?*

125. Given that 9 out of 33, or 27%, of Indonesian provinces may have PEACH pilots supported by Development Partners; the Review considers that there are several crucial questions that arise concerning the development objectives of PEACH. These are:
- Is there a common development objective for PEACH, supported by an agreed “architecture” of activities that constitute a PEACH pilot; and how can Development Partners assure the quality of their initiative?
  - How will implementation of the proposed PEACH pilots be resourced, given the current shortage of personnel; and the difficulties in recruiting into regional centres?
  - Is PEACH a formally recognised initiative within GoI, that can effectively inform national-level policy on the best way to support strengthened public financial management across all 33 provinces, or is there a risk that a subsequent policy determination by central government could render it redundant?
126. The worst-case scenario for the PEACH pilots is that they do not inform GoI policy and the value of this investment is diminished where future GoI policy makes PEACH partially redundant; however the public financial management and service delivery capacity of at least nine provinces will have been strengthened as a result.
127. The best-case scenario is that the PEACH pilots effectively inform GoI decentralisation support policy for all 33 provinces; and that better sub-national financial management leads to improved services delivery across the country.
128. The time-frame for the nine-pilots is seen to be between five to seven years as various donor activities are launched and then completed. The Review considers this is enough time over the next 12 to 24 months for a coordinated approach between Development Partners to determine a common development objective and an agreed architecture of activities for PEACH, including links to LGF. This objective can be used as the basis for initiating national-level policy dialogue with Bappenas, MOHA and MOF on how GoI resources could be mobilised to broaden and deepen sub-national financial management reforms across all provinces. Issues to be addressed include cost-sharing with provinces and the use of incentives to stimulate and sustain behavioural change in sub-national public financial management.
129. The Review sees this as a viable approach to building sustainability around the Development Partners’ investments into the proposed PEACH pilots. This is needed in an environment where GoI has yet to develop a collective view towards supporting decentralisation; and Development Partners cannot sustainably support the current pilots beyond the long-term.

### **3.2 Is there a PEACH ‘franchise’?**

130. PEACH is a process that supports the development of political will alongside simple technical tools so that provinces can use their own resources to adopt international good practice<sup>14</sup> in public financial management; and improve services delivery. This is an objective already recognised by GoI and reflected in the revised decentralisation Laws.
131. To date, the various PEACH stakeholders have not set out an “architecture” of activities that best support this process. Accordingly, there is not yet a “franchise” for PEACH pilot programs to buy-into. However, the Review considers that PEACH experience to date and the lessons learnt do provide an outline for a PEACH “franchise”. This is set out below.
132. This process begins by creating an environment and supplying the tools to link planning, budgeting and financial management in such a way that resource allocation and public expenditure achieve provincial government goals.
133. This concept has greatest appeal to newly elected Governors, which is the key to timing the entry of a PEACH initiative in a province. The Papua PEACH experience indicates that the 12-month PEA process tends to be supported by strong political engagement around the enthusiasm that follows an electoral victory. During and after this process, all provincial agencies need to be actively engaged by PEACH so that whole-of-province alignment is achieved around improved public financial management.
134. The provincial PEA establishes a baseline for this process, by providing a good quality analysis of public expenditure alongside resource flows. Actively engaging the key provincial agencies in the preparation of the PEA is central to the case for provincial public financial management reform. The difficulty and cost of accessing data, the time needed to re-analyse available data and the advantages of inter-agency cooperation in acquiring the needed data all become obvious during this technical activity, which reinforces the need for reforms to streamline these processes.
135. The Review proposes that the development of a formal provincial financial management reform agenda be used as the vehicle to drive and sustain this whole-of-province policy engagement. This can be followed by the formal launch of the provincial reform agenda; and the associated PEACH capacity harmonisation program to support implementation of that agenda.
136. Key features of a provincial financial management reform agenda would include:
  - formal agreement on how the Laws on decentralisation will be applied;
  - a specific timeframe for implementing key reforms;
  - formal agreement to prepare and share information freely to enable the MKPP to be implemented and updated annually;
  - appointment of the Program Management Committee (PMC) with SEKDA as Chair to guide, monitor and report to the Governor on progress with the reforms,

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<sup>14</sup> Law on State Finance (17/2003) introduces performance based budgeting, a shift to expenditure classifications based on government financial statistics (GFS), and a medium-term expenditure framework (MTEF). These are international best practices endorsed by the IMF and World Bank.

- PMC to appoint a dedicated Program Manager to be supported by two full-time TA and having the PMC's delegated authority and responsibility to report directly to PMC;
  - direct access to and links with SIPKD, if applicable;
  - formal agreement to provide all activity managers with periodic financial reports on their budgets and funds available as part of the regular course of provincial financial management; and
  - formal agreement to provide access to agency staff and records to enable the University Network Partners to conduct more detailed analyses, such as updates of the PEA.
137. This process may appear slow and will vary according to the province. However, without whole-of-province engagement in the reform, the early political momentum attaching to the PEA may leach away during the capacity building phase as Dinas either cannot see the relevance of capacity harmonisation to themselves, or seek opportunities to by-pass PEACH initiatives for other reasons. This was the experience in Papua PEACH.
138. The capacity building program needs to have a realistic timeframe; report to the Provincial Program manager; be adequately resourced with at least two full-time, in-province TA to build effective relationships with the stakeholders; and have clear links to providing skills that enable preparation and updating of the MKPP and its supporting documentation. This will require an assessment of the skills gaps in the province and careful socialisation of all stakeholders. Iterative training will be needed to address staff turnover.
139. Access to long-term training and re-training capacity in the Province can only come about by setting up the University Network as long-term contractual partners to the PEACH pilot and provincial and district governments. This requires an incubation period during which the University needs to develop the institutional capacity to manage and resource a long-term contractual obligation; as well as the technical documentation and skills to conduct iterative training programs to various participants to a high and consistent quality. This was not achieved in Papua PEACH.
140. Underpinning this entire set of activities is the need for various PEACH milestones to be quality assured. This will have the effect of making PEACH outputs subject to the real pace of provincial reforms, rather than a fixed or contract timeline. Development partners will need to be flexible in their resourcing of PEACH pilots, perhaps mobilising a mix of full-time and part-time resources to implement activities that have an uncertain timeframe. This will present real challenges to contracting and delivering a PEACH pilot.
141. The World Bank has indicated that it has the technical standards and can develop sufficient capacity to undertake periodic quality assurance functions across nine PEACH pilots; and needs to be directly reimbursed for the cost of providing this service. The key milestones, each with varying quality assurance costs attached are:
- The provincial PEA (6 months QA input);
  - The provincial financial management reform agenda (1 months QA input);

- The capacity harmonisation design, resources framework and timetable (1 month input);
  - Annual MKPP development and update (1 month QA inputs annually);
  - The institutional capacity and contract management skills of the University Network (1 month QA inputs annually); and
  - Periodic tracking and other surveys to measure public finance gains alongside actual services delivery and public perception (1 month QA inputs annually).
142. The implications of this approach are that the World Bank would need to resource up to 10 months of QA input during the first 12 months of a PEACH pilot, followed by 2 months of QA input annually in subsequent years. This is consistent with the high loading of costs incurred by the start-up of any development activity; and supports sound quality at entry principles.
143. The Review considers that there is a PEACH franchise and it is made up of:
- Effective initial engagement with high-level political actors to create a strong political will for improved services delivery around the PEA process with significant World Bank QA (months 1 to 12, with ongoing inputs to month 60);
  - Sustained engagement with whole-of-province actors to create wide-spread political will for an agreed provincial public financial management reform agenda with World Bank QA (months 1 to 18);
  - A well-designed and resourced capacity building program that delivers training and systems to the province, while simultaneously building the capacity of the University Network to become a long-term partner to the province in this role with World Bank QA (months 12 to 60);
  - Annually prepared and updated MKPP with World Bank QA (months 24 to 60 and beyond); and
  - Establishment of a functional University Network to support provincial financial management reforms around a long-term contract with PEACH and the provincial and district governments with World Bank QA (months 12 to 60 and beyond); and
  - Periodic tracking and other surveys by the World Bank to measure public finance developments alongside actual services delivery and public perception.
144. A more direct role for each Development Partner agency that funds a PEACH “franchise” is that of advocate for national-level support policy for decentralised financial management. This can best be achieved through the regular Development Partner reporting and meetings with Bappenas, MOHA and MOF on how the PEACH pilots are improving financial management and services delivery in the pilot provinces.

### **3.3 *Is an “open architecture” possible for implementing PEACH***

145. The Review considers that various implementation methods can be used to implement the PEACH franchise, provided that the key milestones and QA processes are observed and provide a quality outcome for the province.
146. It is not clear to the Review that consolidating all funds through the DSF and using DSF to source implementation agents is the best way to resource multiple PEACH pilots running simultaneously. The capacity of the World Bank will be stretched to meet the

QA responsibilities outlined above; and the Papua PEACH experience indicates that short-term, technical assignments are where the Bank has a comparative advantage.

147. By allowing the various Development Partners to call on their respective talent pools and Indonesia's consulting capacity, it is likely that more long-term TA can be mobilised to support provincial reforms from regional centres than if all recruitment is run through the DSF procurement mechanisms.
148. The Review considers that this is the strongest case for an open architecture for PEACH pilots, but this would need to be agreed between GoI, the Development Partners and DSF to avoid any tension over the use of the multi-donor trust fund.

### **3.4 Conclusions and recommendations**

149. The Review was asked to *recommend reform and changes in the overall PEACH initiative should AusAID decide to replicate the initiative in other districts/provinces, including a recommendation on the most appropriate PEACH delivery approach and mechanism (from TOR).*
150. The Review considers that agreeing a PEACH "architecture" that has a five-year time frame and takes the form of attainment of key milestones outlined above is the design change that is needed to make a PEACH pilot a more substantive development activity. This agreement would have to be reached with other development Partners and Bappenas. This approach will set the pace for PEACH around the attainment of milestones, rather than a forecast timeframe. This will make contracting more difficult to manage; and will demand additional flexibility from AusAID's implementation partners and internal forward planning processes. This will especially be the case where there are delays or interruptions to the delivery of the PEACH initiative in a province.
151. The Review considers that developing and funding PEACH pilots under the milestones approach could be done as a stand-alone initiative, either bilaterally or through multilateral vehicles such as DSF. Further, PEACH pilots can be incorporated as a component of bilateral (ANTARA, BASICS) or multilateral (DIALOG) governance programs. The method that will most effectively support the attainment of PEACH milestones should be selected; there is no preferred form of aid that the Review could identify. About the only form of aid that is unlikely to work is building a PEACH initiative into a sectoral program, due to the need for PEACH to have a broad whole-of-government scope and reach.
152. As an option, DSF could be funded by AusAID to sub-contract the PEACH activity to a service provider using its own procurement mechanisms. The latter has a higher financial cost to AusAID, but a lower portfolio management burden for much the same implementation quality provided that AusAID is able to participate in the evaluation of proposals.
153. The alternative of funding DSF to recruit and resource implementation of future PEACH pilots is not as attractive, given the experience on Papua PEACH and the perception within the Bank<sup>15</sup> that longer-term capacity building activities are not an area where it has a comparative advantage.

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<sup>15</sup> Advised to the Review during consultations with World Bank PREM and PEACH Team Makassar at 4:00pm on 1 December 2008.

## 4.0 Appendices



## **4.1 Appendix 1: Terms of Reference - Independent review of Papua Public Expenditure Analysis and Capacity Enhancement (PEACH) Program**

### **1. Introduction**

This Terms of Reference has been prepared for an independent review of Papua Public Expenditure Analysis and Capacity Enhancement (PEACH) Program.

Papua PEACH is an initiative designed by the World Bank/Decentralisation Support Facility Eastern Indonesia office (DSF Eastern Indonesia)<sup>16</sup>. It consists of two program components: (1) public expenditure analysis at provincial and district levels; and (2) capacity enhancement activities aiming to enhance local government capacity in public financial management. The first component of Papua PEACH was conducted in 2005 with funding support from the Dutch government. AusAID is currently supporting the second component of Papua PEACH.

The review will focus on identifying and addressing challenges the Papua PEACH encountered in the delivery of capacity enhancement activities, including the public expenditure analysis exercises to date. The review will provide a recommendation on how to refine the program implementation in the remaining timeframe in order to achieve its objectives.

In alignment with Australia's commitment to increase its aid in both Papua and West Papua provinces, and given the strategic value of Papua PEACH in supporting the province's development, the replication potential of PEACH more widely in Papua provinces becomes the framework of thoughts of the review. The review will therefore identify the relevancy of the Papua PEACH activities to address Papua public fund management capacity gap. It will also deliver a recommendation for AusAID on reform and changes in the overall PEACH initiative should AusAID decide to replicate it in other districts/provinces, including a recommendation on the most appropriate delivery approach and mechanism.

### **2. Background**

Papua, along with West Papua, are two of the five priority provinces recognised in the AIP Country Strategy 2008-2013 as amongst the poorest in Indonesia. About 40% of the population live below the poverty line (more than double the national average). The Governor of Papua Province, Barnabas Suebu, refers the situation as a paradox, as both provinces with their special autonomy status are the top 3 provinces in Indonesia in terms of balancing fund amount per capita transferred from the Central Government<sup>17</sup>, yet both provinces lag behind on many non-economic indicators of poverty, including those measured by the MDGs. The provinces are amongst the bottom 3 provinces in Indonesia in terms of the human development index achievement<sup>18</sup>.

In 2005 the Dutch government supported PEACH in the conduct of public expenditure case studies in the Papuan districts (Kota Jayapura, Kabupaten Biak Numfor, Mimika and Pegunungan Bintang) and for Papua Province overall. The work highlighted weaknesses in managing public funds and providing

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<sup>16</sup> Previously known as SOFEL.

<sup>17</sup> This refers to the amount of development fund transfers from the national government to support the implementation of decentralisation. In Papua and West Papua cases, as of 2001, the transfers include fund to support special autonomy. (Sources: MoF Directorate General for Balancing Fund web on actual provincial budget 2006, and BPS Social Economic Indicators, March 2008).

<sup>18</sup> Source: BPS Social Economic Indicators, March 2008.

quality public services and identified the need for significant capacity development in public financial management (PFM) in the Province.

As a response to the needs identified in the first phase of the program Papua PEACH was designed by the DSF Eastern Indonesia. By design Papua PEACH is a participatory and demand driven initiative, and owned by the provincial government. Purpose of Papua PEACH is to provide some of the underpinning necessary to ensure that future development planning and expenditure is more equitable and more successful.

DSF Eastern Indonesia<sup>19</sup> will disseminate PEACH lessons learned and best practices to other provinces in the eastern part of Indonesia.

### **3. Papua PEACH Background**

Papua PEACH commenced in February 2006 with initial completion date end of December 2007. The program period however has been extended for another year to complete in end December 2008. DSF Eastern Indonesia is preparing a proposal requesting extension of Papua PEACH to enable them to complete its activities. It is not known yet how long the extension will be for, and whether the extension would involve additional funding.

Value of the program is \$1,300,000, with \$1,000,000 channelled through the World Bank Trust Fund for Decentralised Support Facility (DSF) I to support implementation of activities. The remaining \$300,000 is managed by AusAID for the engagement of an independent M& E specialist to ensure quality of the program activities.

Since Papua PEACH value is under \$3 million, the concept did not go through AusAID peer review process. The concept however was sufficiently reviewed by AusAID desk and post staff. Most were concerned with the ambitious proposed program activities, given the short initial timeframe, as to whether those activities can provide effective and sustainable outcomes. In line with the concern, it was agreed that AusAID leads on the M&E component of PEACH partly to ensure effectiveness and sustainability of the proposed interventions. The M&E consultants in some ways also provide capacity building advices to DSF Eastern Indonesia and its implementing agencies. In the initial stage of PEACH, the consultants in consultation with the provincial government and DSF Eastern Indonesia helped the design of the M&E Framework for the program<sup>20</sup>.

Through the M&E consultations, major additions or variations were made on the original concept note: (1) the pilot project for information dissemination, (2) the community surveys to monitor progress near to the ends of the communication chains, and (3) the establishment of a formal Program Management Committee (PMC) with shared responsibilities for ensuring that everything happens as planned.

The Papua PEACH purpose is *to improve the effectiveness, efficiency, accountability and transparency of public funds management*. Papua PEACH focuses on:

- Strengthening the PFM regulatory framework and management systems at provincial and district levels;

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<sup>19</sup> SOfEI manages a knowledge exchange facility for eastern Indonesia provinces called BaKTI. BaKTI facilitates the Eastern Indonesia Forum that is responsible to conduct dialogues with local stakeholders on the local perspectives to improve regional autonomy implementation. Improved public finance management is a priority sector identified by the forum.

<sup>20</sup> The consultations took place in Jakarta, February 2006 and in Makassar, May 2006.

- Improving the capacity of provincial and district government staff to properly manage public funds within the new regulatory framework;
- Improving public understanding of public finance planning and management and the incentive for people to participate in development planning processes.

The main counterpart agency involved in the implementation of Papua PEACH is the provincial Development Planning Agency (BAPPEDA). BAPPEDA and DSF Eastern Indonesia are co-chairs to the Papua PEACH PMC. The PMC includes representation from *Biro Keuangan* (Regional Government Functional Office for Finance); *Biro Hukum* (Regional Government Functional Office for Law); *Bawasda* (Regional Audit Agency); *Dispenda* (Regional Revenue Collection Agency); and provincial parliament. Main responsibility of the PMC is day-to-day coordination and implementation management including coordination of monitoring data collection. The provincial government allocates partnering budget to support implementation of activities.

DSF Eastern Indonesia is responsible for the overall management and implementation of Papua PEACH including the recruitment and contracting technical assistance input into the Program. DSF Eastern Indonesia is also responsible to support implementation of the Monitoring & Evaluation tasks.

Public finance management (PFM) and services to support Papua PEACH are contracted mainly from the Papua University Network (PUN). Proposed members of the PUN are tertiary education institutions in Papua and West Papua provinces that have a development economic study department. University of Cendrawasih leads the network.

Papua PEACH program issues is described in Annex 1.

#### **4. Replication of PEACH Initiative**

There are currently two AusAID program that are developed based on PEACH: DIALOG and ANTARA.

DIALOG (Delivery Improvement and Local Governance Project) is an incentive-based program. It works in Papua and Gorontalo and in another province that will be selected in the future. The conduct of the public expenditure analysis in the selected provinces was one of the location selection criteria. DIALOG is implemented by the World Bank. It aims to improve the quality of public service delivery and public financial management in participating regions. This will be achieved through: (i) piloting an incentive system for local governments based on their performance improvements, congruent to the tasks and responsibilities of each level of government; and (ii) operationalising LG's performance monitoring and evaluation system (M&E) system, based one existing framework, for the Central and Provincial Governments to use. DIALOG will provide direct facilitation, capacity building, technical assistance and incentives provision to the local governments to ensure that reforms are institutionalised and sustainable. DIALOG includes plans to undertake public financial management related capacity building activities, developed by Papua PEACH, and using the Papua PEACH facilitated university network.

ANTARA (Australia Nusa Tenggara Assistance for Regional Autonomy Program) is a responsive-approached program with strong linkages to local government and civil society partners. It has recently gone through a mid-term review (MTR) which recommends continuation of ANTARA for a further five years in both Nusa Tenggara Timur (NTT) and Nusa Tenggara Barat (NTB)<sup>21</sup> from May 2010. The MTR also recommends that ANTARA focuses on two development objectives: (1)

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<sup>21</sup> ANTARA in the past years have worked only in the NTT.

improved provision of services through efficient sub-national financial and economic governance; (2) improved incomes for women and men through sustainable rural development activities.

The first objective draws heavily on results from the Papua Public Expenditure Analysis, with a strong focus on building civil service capacity and strengthening government systems to deliver basic services, especially in the health, education and infrastructure sectors. ANTARA has recently completed the public expenditure analysis exercise in the NTT with the DSF Eastern Indonesia support. Plans of capacity development will be developed and implemented to assist districts develop their planning and budgeting capacity.

The MTR indicated that despite the positive comments from the participating governments on the usefulness of PEACH, the officials have had very little involvement during the initial data collection phase, resulting in low LG ownership. The officials also indicated lack of clarity about the design of the next phase of PEACH.

ANTARA is commissioning a mini review of NTT PEACH process to recommend improvements for NTB PEACH implementation. The review report will be available in end October 2008.

AusAID will investigate the potential for the expanding ANTARA into Papua and West Papua, with an immediate responsibility for managing flexible assistance to support the strategic priorities of the central and provincial governments, and to strengthen central and provincial government architecture for Development Partner programming.

With its replication as described above, the overall value of the PEACH initiative supported by AusAID has actually achieved at least \$3 million. There is potential that AusAID's investment for the initiative increases given PEACH's strategic value for local government's public financial management capacity development.

The DSF Eastern Indonesia itself has continued to replicate the initiative in other provinces outside Papua such as Gorontalo and Maluku. It should be noted however that it is only Papua PEACH that has started with the capacity enhancement component. Lessons learned from its implementation therefore would be of benefit for PEACH in other provinces.

## ***5. Objectives of the Assignment***

The purpose of the independent review is:

- (a) To identify and address challenges the Papua PEACH encountered in the delivery of capacity enhancement activities, including the public expenditure analysis (PEA) exercises.
- (b) To recommend refinement in the Papua PEACH implementation in order to achieve its objectives in the additional implementation time (if AusAID approves its extension beyond December 2008).
- (c) To identify the relevancy of the Papua PEACH activities, designed based on the public expenditure analysis results, to address the Papua public fund management capacity gap.
- (d) To recommend reform and changes in the overall PEACH initiative should AusAID decide to replicate the initiative in other districts/provinces, including a recommendation on the most appropriate PEACH delivery approach and mechanism.

## ***6. Scope of the Assignment***

- (a) The contractor will conduct a review of Papua PEACH in order to prepare the Review Report for the program. The contractor will report to AusAID on the outcomes of the process taking into account the review objectives outlined above.
- (b) The review should assess the value of Papua PEACH in the context of AusAID's framework of assistance to Indonesia, including its draft Papua framework. It should specifically identify lessons to be drawn from the program which are relevant to AusAID's programs in Indonesia, particularly in Papua provinces.
- (c) The review should also examine and compare the relative effectiveness of Papua PEACH and NTT PEACH given AusAID's stated framework of assistance, and outline the contrasting options and a preferred mechanism to implement similar program in the Papua provinces.
- (d) In relation to the current Papua PEACH implementation, the review will response to the questions as outlined below. It will thereafter provide recommendation on the necessary reform and changes in the current Papua PEACH implementation to ensure achievement of its objectives.
  - Whether inputs as planned and allocated would likely support Papua PEACH to meet its objectives in the agreed timeframe.
  - Whether the institutional and organisational arrangements, particularly in relation to the Papua PEACH PMC role, are appropriate and how the arrangements could be strengthened.
  - Whether the local higher education institutions, sub-contracted by the DSF Eastern Indonesia, have the capacity to support in implementation of Papua PEACH activities (ie the design, implementation and evaluation).
  - Whether the program management, reporting and monitoring arrangements are appropriate.
  - Whether the risk identification and management arrangements are appropriate.
  - Whether the capacity enhancement activities could effectively improve capacity of beneficiaries in a sustainable way.
  - Whether the Papua PEACH exit strategy could ensure the benefits of Papua PEACH after AusAID funding ceased.
- (e) In relation to the possible replication of PEACH initiative, the review will response to the questions as outlined below. It will thereafter provide recommendation on the necessary reform and changes in the design of PEACH activities in order to achieve more sustainable outcomes.
  - Whether the original objectives and design of the activity are still relevant (e.g. in the light of changes that may have taken place within the public expenditure management sector area) for replication.
  - What would be the best way to integrate lessons learned from Papua PEACH and NTT PEACH into the future AusAID's programs in Papua provinces?

- Drawing from the comparison between Papua PEACH and NTT PEACH, identify what would be the best approaches and mechanisms used to replicate the initiative.
- How could the initiative address cross cutting issues such as the gender equality and HIV prevention in the implementation?

## 7. *Phasing*

The Review Team will:

### *Prior to the in-country mission*

- Undertake initial planning and review of relevant documents as outlined below and provide comments on the ToR whether it needs refining to guide the evaluation appropriately.
- Provide feedback/input for proposed itinerary and meetings schedule.
- Consult and liaise with Papua PEACH M&E consultant, David Farrow.
- Consult and liaise with relevant sections in AusAID.

### *In-Indonesia*

- Attend initial Post briefing.
- Consult with relevant AusAID managers.
- Consult with key stakeholders including relevant ministries and government agencies; DSF Eastern Indonesia staff responsible for Papua PEACH; World Bank PEACH team; donors; IASTP program, and other key stakeholders as identified at central level, and in Papua and NTT provinces.
- Prior to leaving Indonesia prepare and present an Aide-Memoire for AusAID.

### *Post-Mission*

- Provide a Draft Review Report to AusAID within 10 days of return from the mission.
- Provide a Final Review Report taking into account AusAID's and other stakeholders' comments on the Draft Report, within two weeks of receiving comments.

## 8. *Duration*

Review of documentation	3 days for all team members
Consultations with in-Australia stakeholders (via phone):	1 day for all team members
Travel Australia - Indonesia vv	2 days for the Team Leader
Indonesia mission including travel:	16 days for all team members
Draft Report writing	3 days for all team members
Final Report writing	3 days for all team members, additional 3 days for the TL to incorporate contribution from other member.
Total:	26 days for team members and 31 days for the Team Leader.

## 9. *Timing*

It is proposed that this mission take place in Australia and Indonesia commencing no later than mid November and completed by mid December 2008.

## ***10. Specification of the Study Team***

The Review Team will comprise of 2 consultants; a Team Leader/M&E Specialist and a Sub-National Governance Specialist.

Collectively qualifications and experience of the team should include:

- A sound understanding of development needs and priorities, particularly in the area of capacity building/human resource development particularly in public finance management, organisational development, decentralisation particularly in relation to Papua provinces special autonomy status.
- Familiarity and ability to quickly grasp the aims and key delivery mechanisms including principles, guidelines and requirements of AusAID's program with Indonesia and its operational context.
- Experience with or knowledge of Indonesia's government institutions and systems is highly desirable.
- Experience in the design and conduct of project reviews. This includes the capacity to develop and deliver a sound methodology for the mission that reflects acceptable practice standards, and the time and resources available for the mission.

Each team member should also have:

- Strong interpersonal skills and ability to work in a team
- Ability to liaise effectively with key stakeholders and consider views
- Highly developed conceptual and analytical skills
- Effective report writing skills
- Experience in evaluation of program effectiveness
- Clear presentation skills
- Cultural sensitivity/awareness
- Ability to meet deadlines
- Ability to facilitate sessions with the implementation team to identify, extract and analyse important issues
- Ability to create a mission environment that balances validation of claims of achievement with collegiate analysis and learning.

The team may include a representative from AusAID Jakarta, and observers from other donors that have interests in the PEACH initiative.

## ***11. Duty Statement***

The Team Leader/M&E Specialist will be responsible for:

- Submitting a methodology prior to the in-country mission that describe clearly the approach and includes the full list of review questions, the methods and which respondents will be interviewed and what documents will be required for document review and request additional information if needed.
- Designing and supervising the methodology for information collection for the mission. The methodology will reflect acceptable practice standards, and ensure that the conclusions in the final review report are supported with credible evidence based on a sound methodology.

- Providing advice on M&E aspects of the project and other policy and implementation issues.
- Overall management and direction of the team, with responsibility for report delivery and for taking a lead in consultations with key stakeholders.
- Formulating recommendations for each of the review objectives.
- Oversight of report preparation and drafting of reports where appropriate, including the Aide Memoire, Draft Report and Final Report.
- Lead the preparation of an Aide Memoire following the mission and prior to leaving Indonesia, for consideration by AusAID and for a possible wider presentation within AusAID and/or other interested donors ensuring AusAID quality standards are met in relation to all review outputs.
- The submission of documentation and reports to AusAID with the agreed time frame.

The Sub-National Governance Specialist will be responsible for:

- Providing advice on sub-national governance, particularly in Papua context, and other policy and implementation issues, including input for the methodology of the project.
- Providing assistance in managing resources for the overall logistical planning of the team's activities and travel arrangements in liaison with AusAID Jakarta.
- Contributing to report delivery, providing input as directed by the Team Leader
- Contributing to the presentation of the Aide Memoire
- Formulating recommendations for the Review objectives
- Participating in consultations with GoI and other stakeholders

## **12. Reporting Requirements**

The team will produce the following documents or reports:

- **An Aide Memoire** (maximum 5 pages), summarising initial findings and recommendations. This will be produced prior to departure from Indonesia. It may be presented for discussion and comment to AusAID staff, other donors, and possibly appropriate GoI officials.
- **Draft Report** (20 pages maximum plus annexes) outlining the findings and recommendations of the mission. The Draft Report will be submitted to AusAID within 10 days of the team's return to Australia.
- **A Final Report** (20 pages maximum plus annexes) is due no later than two weeks after receiving feedback from AusAID and GoI, and should take into account the comments received.

All outputs will be provided in both electronic copy form and should be emailed to [patricia.bachtiar@ausaid.gov.au](mailto:patricia.bachtiar@ausaid.gov.au). The review report should conform to AusGuide recommended format (AusGUIDELines No. 4.6 – undertaking an implementation review) unless otherwise directed by AusAID.



### ***13. Key Documents***

The key documents to be provided to the review team include the following:

- Papua PEACH initial concept note (dated 12 January 2006)
- Papua PEACH schedules (initial and revisions)
- Papua PEACH monitoring & evaluation framework
- Papua PEACH progress reports (March and June 2008)
- Papua PEACH extension proposal
- Other relevant reports on PEACH II capacity enhancement activity implementation, including M&E related reports
- PEACH I public expenditure analysis reports (Papua province and 3 districts)
- Regional Finance and Service Delivery in Indonesia's Most Remote Region (PEACH report)
- ANTARA concept paper
- ANTARA strategic framework
- ANTARA mid-term review report
- NTT PEACH review report

## **Annex 1: Papua PEACH Program Issues**

### *Implementation Progress*

As of 30 June 2008, PEACH managed to disburse 35% of the \$1 million contribution of AusAID. Additional 19% is committed for disbursement by end December 2008. About 45% may not be disbursed by that timeframe.

Since Papua PEACH started there was only one person (i.e. DSF coordinator for Governance Unit) that was tasked to be responsible for Papua PEACH implementation. Papua PEACH however was not the Governance Unit coordinator's responsibilities. In June 2008, DSF Eastern Indonesia finally was able to secure a Papua Coordinator whose main responsibility to support the PMC to fulfil their M&E duties by assisting them to collect data.

PEACH has been receiving much recognition from the Papua province governor, Barnabas Suebu. The governor even sought for PEACH support in improving his staff capacity in preparing a performance-based budget. PEACH accommodated this request by revising its workplan by including trainings & workshops for provincial and district staff on budget preparation, known as MKPP training/workshop.

The need to accommodate the province's requests, given its government-driven nature and so forth, and other issues, had substantively caused delays in the implementation of PEACH planned activities. In the remaining 3 months, although all sub-contracts have been activated, quite a number of planned activities have not been implemented. The provincial and districts' PEA update is proposed to be implemented beyond the current timeframe.

With AusAID facilitation, PEACH obtained support from AusAID funded IASTP project in the implementation of two trainings in August 2008.

Given the sensitivity of Australia – Indonesia relationship with regard to Papua, maintaining a low profile was AusAID's initial strategy with regard to PEACH implementation. Over the last year, however, improved relationship of the two countries has led to Australia's need for recognitions from both national and provincial governments of its contribution towards Papua development.

AusAID's contribution of \$1.3 million (including the M&E component) was considered of low risks and therefore initially regular reporting was not much required from DSF Eastern Indonesia. However, in alignment with AusAID's increased emphasis on aid effectiveness, as of 2008 DSF Eastern Indonesia is required to provide a progress report on quarterly basis (see Appendices 5 and 6).

### *Objectives Achievement*

At this point there is no sufficient evidence available to justify PEACH outcomes achievement. Apart from the trainings/workshops on MKPP, implementation of the other planned activities was delayed until first quarter of 2008.

Particularly on MKPP, the provincial level agencies/departments (SKPD) have now utilised MKPP to ensure alignment of their respective development plans and budgets. A provincial level MKPP clinic is established to help the SKPD staff in the process. PEACH PMC has submitted a proposal to the Governor to issue a decree on utilisation of MKPP by each SKPD at both province and district levels.

### *Monitoring & Evaluation*

PEACH MEF has been revised and updated as required to reflect the changes in program activities. In order to strengthen Papua province M&E capacity, the MEF places PMC in key position to monitor PEACH activity implementation. The PMC however has not been able to effectively undertake the

role. For example: the PMC is required to meet monthly to obtain data required to assess program progress. Until end of March 2008, the PMC only met five times.

### *Sustainability*

As outlined above, PEACH is placed strategically to support the current provincial government's budget reform policy. The provincial government's sense of ownership towards PEACH is quite significant, which is evident in the allocation of partnering fund in the annual provincial budget to support PEACH implementation. From this point of view, PEACH has the potentials to produce sustainable outcomes.

There is question on how to ensure the capacity enhancement activities could provide sustainable outcomes.

### *Gender Equality and Cross-cutting Issues*

The design of PEACH did not specifically address gender equality and other cross-cutting issues in relation to Public Finance Management. No progress towards these aid policy commitments that can be reported at this point.

### *Risk Management*

Although PEACH may be able to complete all, but one, activities within the current timeframe, the timeframe will not be sufficient to undertake all the monitoring and evaluation required to determine effectiveness and efficiency of the implemented interventions.

PMC's participation in monitoring & evaluation of activities implemented during the PEACH life would have been very useful to develop skills the PMC members in ensuring effectiveness of a capacity building activity. However, during the PEACH life PMC did not have much opportunity to exercise this role.

## 4.2 Appendix 2: Itinerary and Persons Met

### DRAFT ITINERARY - PAPUA PUBLIC EXPENDITURE ANALYSIS AND CAPACITY ENHANCEMENT (PEACH) INDEPENDENT REVIEW November 17 - December 3, 2008

Date and time	Place	Activities	Remarks
November 16, 2008 Sunday			
?	Jakarta	Arrival of review team leader in Jakarta	
November 17, 2008 Monday			
09.00 - 10.30	Australia Indonesia Partnership (AIP) office, Menara Kebon Sirih Fl. 26, Jalan Kebon Sirih No. 17-19, Jakarta Pusat	Meeting with Papua unit	CONFIRMED
10.30 - 11.30		Meeting with Robin Taylor (Counsellor, Infrastructure, Regional Development & Climate Change)	
11.30 - 12.30		Meeting with Tryadi/ANTARA	
12.30 - 13.00		Travel to Embassy & lunch	
13.00 - 14.30	Kebon Sirih	Meeting with Rochelle White and Niken Wardhani (DIALOG)	
November 18, 2008 Tuesday			
09.00 - 10.30	Dutch Embassy, Jl. HR Rasuna Said	Meeting with Said Fazily of Dutch Embassy	CONFIRMED. Call Said's HP 0811 886017 or 524 1055 (Ms. Bayke)
11.00 - 12.00	Stock Exchange Building (Bursa Efek Jakarta) Tower 2	Meeting with the World Bank (PEACH Factory) Wolfgang, Petra, Bastian	Confirm with Petra, Call Sylvia Njotomihardjo (Wolfgang's Assistant): 5299 3186
13.00 - 14.00		Meeting with Jana Hertz, DSF	Jana helped with PEACH I and initial discussion on PEACH II
14.30 - 15.30	Embassy of Canada, WTC, Floor 6	Meeting with CIDA (Jane Fuller)	
		Depart for Makasar GA 612 ETD 2035 ETA 2355, stay at Horison Hotel Makassar (ph. 62 411 311555)	Airport pick up by Horison Hotel
November 19, 2008 Wednesday			
13.00-14.00	SoFEI Office	Meeting with Papua PEACH team	Change the meeting time with Diane
Evening		Depart for Jayapura by GA 650 ETD 01.10 ETA 06.50	Accommodation: Hotel Horison
November 20, 2008 Thursday			

Papua Public Expenditure Analysis & Capacity Enhancement (PEACH)  
Independent Review – Final Report

09.00 - 14.00		Arrival in Papua, travel to Hotel (Swiss-Belhotel Jayapura, ph 62 967 551888) and rest	Coordinate with Erryl Davi of SoFEI for meetings in Papua
14.30 - 15.30	At hotel	DSF Eastern Indonesia Papua office (Jan Rumbrar, Erryl Davi, Pak Inaury)	
15.30 - 16.30	At hotel	Rodney - Papua Governor Advisor for Public Finance	
		Peter Wrathall and Agus Rumansara, Papua Governor Advisor for RESPEK	
<b>November 21, 2008 Friday</b>			
09.00 - 10.00	UNDP	Meeting with Paul Suttmuller	
10.00 - 11.00	BAPPEDA	Meeting with PEACH PMC and MKPP Clinic	
11.00 - 14.00		Travel to University Cendrawasih and lunch	
14.00 - 16.00	UNCEN	Meeting University of Cendrawasih & University Network	
<b>November 22, 2008 Saturday</b>			
09.00 - 12.00	HOTEL	Focus Group discussion (beneficiaries from SKPD provincial level (4 persons)	
12.00		Lunch with FGD participants	
13:00 -16:00	HOTEL	Focus Groups Discussion with beneficiaries from Kabupaten & Kota Jayapura plus Biak) - 6 persons	
<b>November 23, 2008 Sunday</b>			
Morning	?	Travel to Jakarta GA 653 ETD 09:40 ETA15:15	
		Stay overnight at Quality Hotel at the airport (ph. 62 21 559 0008)	
<b>November 24, 2008 Monday</b>			
		Travel to Kupang by Mandala RI 280 ETD 07:45 ETA 12:25	Transportation?

Papua Public Expenditure Analysis & Capacity Enhancement (PEACH)  
Independent Review – Final Report

15.00 - 16.00	AusAID Office Kupang	Meeting with AusAID Kupang staff including the Maternal & Neonatal Health team	Liaise with Kate Shanahan of AusAID MNH team in Kupang. Location: ANTARA Office
19.00 - 21.00	Ulla's House	Dinner invited by Ulla Keech-Marx (AusAID officer in Kupang)	
		Stay at Kristal Hotel (Ph. 62 380 825 100)	
<b>November 25, 2008 Tuesday</b>			
09.00 - 11.00	AusAID Office Kupang	Meeting with ANTARA team (John Schottler, Eripto)	Liaise with Eripto of ANTARA for meetings in Kupang
13.00 - 14.00		Meeting with Pak Jamin, Chair of PMC	Call Pak Doni (Pak Jamin's Secretary): 0813 393 22726
14.30 - 15.30		Meeting with Bappeda	Call Ibu Eva
<b>November 26, 2008 Wednesday</b>			
08.30 - 09.00		Meeting with Sekber (Pak Onmy)	Call Pak Herry Balo Ph/Fax: 0380-831712, 0852 39030090 OR Pak Onmy 0813 3949757
10.30 - 11.30		Meeting with Universitas Cendana	Pak Jeny Eoh (hp. 081 138 1209) confirmed
11.30 - 14.00		Lunch	
15:00		Flight to Jakarta by Sriwijaya Air, SJ255 ETD 15.40 ETA 18.45	
<b>November 27, 2008 Thursday</b>			
08.30 - 09.30	KS	Bron Nicholas, AusAID Manager (NTT Maternal & Neonatal Health)	TBC
09.30 - 10.30	KS	Scott Guggenheim, AusAID Social Policy Advisor (also concepter of PEACH when he was still with the World Bank)	TBC
11.00 - 12.00	TAMF, Plaza Mutiara Lt. 17, Jl. Lingkar Mega Kuningan.	Bernie Carmodie, Project Director, AusAID funded Technical Assistance Management Facility (TAMF) on fiscal transfers	CONFIRMED, Ms. Eri 576-4125
14.00 - 15.00	MOHA, GD blkg, MEDAN MERDEKA UTARA	Dr. Bambang Pamungkas, Director of Regional Finance Accountability Facilitation and Supervision, Directorate General of Regional Finance Administration	CONFIRMED, Mr. Otto, 0816-1935054, 350-1282/352-4675
<b>November 28, 2008 Friday</b>			
08:00 - 09:00	Bappenas	Director for Special and Disadvantaged Area (Pak Hariyoga, Pak Syamsul Widodo)	CONFIRMED Mbak Ratri/Ade 310 1984; 392 6249
09:00 - 10:00	Bappenas	Director for Regional Autonomy (Pak Himawan, Pak Anton)	CONFIRMED Mbak Yuli 3193 5289
10.30 - 11.30	AusAID, Kebon Sirih Fl. 26	Phone hook up with David Farrow, PEACH M&E Advisor	CONFIRMED David Farrow, Home: 61-3-54721596, Cellphone: 61-431-998078

Papua Public Expenditure Analysis & Capacity Enhancement (PEACH)  
Independent Review – Final Report

13.30 - 14.30	MOHA, Biro Kepegawaian	Mr. Gensly, program manager Sustainable Capacity Building for Decentralisation	CONFIRMED Ms. Milka, 351-9173
16.00 - 17.00	MOF, Jl. Dr. Wahidin depan MOF lt. 19, Gedung Danapala.	Mr. Yusrizal Ilyas, Director of Funding Evaluation and Regional Finance Information, Directorate General of Balancing Fund	CONFIRMED, Ms. Lena 384-9689/386-6120
<b>November 29, 2008 Saturday</b>			
	KS	Aide memoire preparation	
<b>November 30, 2008 Sunday</b>			
	KS	Aide memoire preparation	
<b>December 1, 2008 Monday</b>			
08.30 - 09.30	LASTP, Wisma Wirausaha, Lantai 5, Jl. H.R. Rasuna Said Kav. C-5	Michael Halse and Caroline Lasambouw, Indonesia Australia Specialised Training Program (LASTP) - supported Papua PEACH in the implementation of 2 ToT's (District & Provincial Financial Reporting, Budget Reporting)	CONFIRMED, Ms. Bhavanti (5229030, 5229031, 5229032)
10.00 - 11.00		Scott Guggenheim	TBC
13.00 - 14.00	BEJ Tower I, Lt. 29	USAID Local Governance Support Program (Mr. Irianto & Mr. Geoffrey Swenson) - budget tracking and capacity enhancement for local government program (including in West Papua)	CONFIRMED, Irianto 515-1755
14.00 - 15.00	BEJ	Jessica Ludwig of World Bank	CONFIRMED. Check address
15.30 -	KS	Diane Zhang (PEACH) with Ted Weohau on line	CONFIRMED
<b>December 2, 2008 Tuesday</b>			
10.00 - 11.00	Bappenas	Director for Regional Autonomy (Pak Himawan, Pak Anton)	CONFIRMED Mbak Yuli 3193 5289
11.00 - 12.00	Bappenas, main building, floor 2 1/2	Meeting with Director for Development Performance Evaluation (Pak Dadang Solihin)	CONFIRMED, Ibu Dona/Umi 392 6248, 0815 8384882 or Pak Dadang 0812 932 2202
13.00 - 14.00	BEJ Tower A, Fl. 17	Peter Blun, DSF	CONFIRMED Mbak Yuli 3193 5289
14.30 - finish	KS	AusAID (Robin Taylor, Rochelle White, Niken Wardhani, Patricia Bachtiar, Santi Handayani) aide memoire	
<b>December 3, 2008 Wednesday</b>			
9.00 - 13.00		Aide memoire revision	
13.30 - 14.30	KS	AusAID wide presentation	
Evening		Depart for Sydney	

#### **4.3 Appendix 3 - Some critical notes on the sub national /local PFM (Public Financial Management), with special reference to planning and budgeting policies and regulations and institutions<sup>22</sup>**

The Overall Sub National/Local Development Plan is stipulated by Law No.**25/2004** on National **Development Planning** System (SPPN-Sistem Perencanaan Pembangunan Nasional), in which it manages planning from the Long-Range of Sub National Government Development Plan ( RPJP-Rencana Pembangunan Jangka Panjang Daerah), Intermediate Range of The Sub-National/Local Government Development Plan ( RJPM-Rencana Pembangunan Jangka Menengah-Daerah), Strategic Plan of the Sub-National/Local Government Working Unit (RenStra-Rencana Strategis of SKPD-Satuan Kerja Pemerintah Daerah), the Sub National/Local Government Work Plan ( RKPD-Rencana Kegiatan Pemerintah Daerah) and the Work Plan of the Sub-National/local Government Working Unit, ( Renja SKPD-Rencana Kerja Satuan Kerja Pemerintah Daerah).

The Law No.**32/2004** on **Regional Autonomy** (/Pemerintahan Daerah), also regulates the Sub-National/Local Development Planning system which have been previously ruled by Law No. 25/2004, and at the same time regulates the process of budgeting. Although the Law No. 32/2004 does not provide details as Law No. 25/2004 does, especially on the process of planning and as well as the process of budgeting as these are already detailed in **Law No. 17/2003, State Finance** and **Law No.33/2004, Fiscal Balance**, but this re-regulating (overlapping) articles generates confusion around interpretation.

The four Laws<sup>23</sup> stipulated as mentioned above, which regulate the sub national/local planning and budgeting process, could not avoid the possibility of differences of interpretations depending on which law is used. Some to the most important of the crucial issues are as follows:

1. Under Law No. 17/2003 and Law No. 33/2004, Renja SKPD use performance based budgeting, while Law No. 25/2004 and Law No. 32/2004 do not command/stipulate this. Further, Law No. 32/2004 states the RKA SKPD is compiled based on the performance based budgeting (Is Renja SKPD similar to RKA SKPD?)
2. According to Law No. 25/2004, the setting-up of Renja SKPD is guided by Renstra SKPD and refers to RKPD; while according to Law No. 32/2004, Renja SKPD is formulated from Renstra SKPD, without referring to RKPD. While Law No. 33/2004, states Renja SKPD is formulated from RKPD without referring to the Renstra SKPD.

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<sup>22</sup> Source : Indra Bastian, PhD, MBA, Akt, "Tinjauan Kebijakan Perencanaan dan Penganggaran Daerah (Review on the Regional Planning and Budgeting Policies)" in "Sistem Perencanaan dan Penganggaran Pemerintah Daerah di Indonesia, Salemba Empat, 2006, Jakarta.

<sup>23</sup> These Four Laws include Law No.1/2004-State Treasury and their derivative government regulations and ministerial decrees, also reforming all aspects of PFM ( Public Financial management) such as planning and budgeting, cash management, procurement and asset management –at the sub national levels.



3. At Law No. 32/2004, the Governor (KDH-Kepala Daerah Harian) settles priority and plafond, while at the Law No. 17/2003 and Law No. 33/2004, priority and plafond is studied/discussed together by Local Parliament and Local Government.

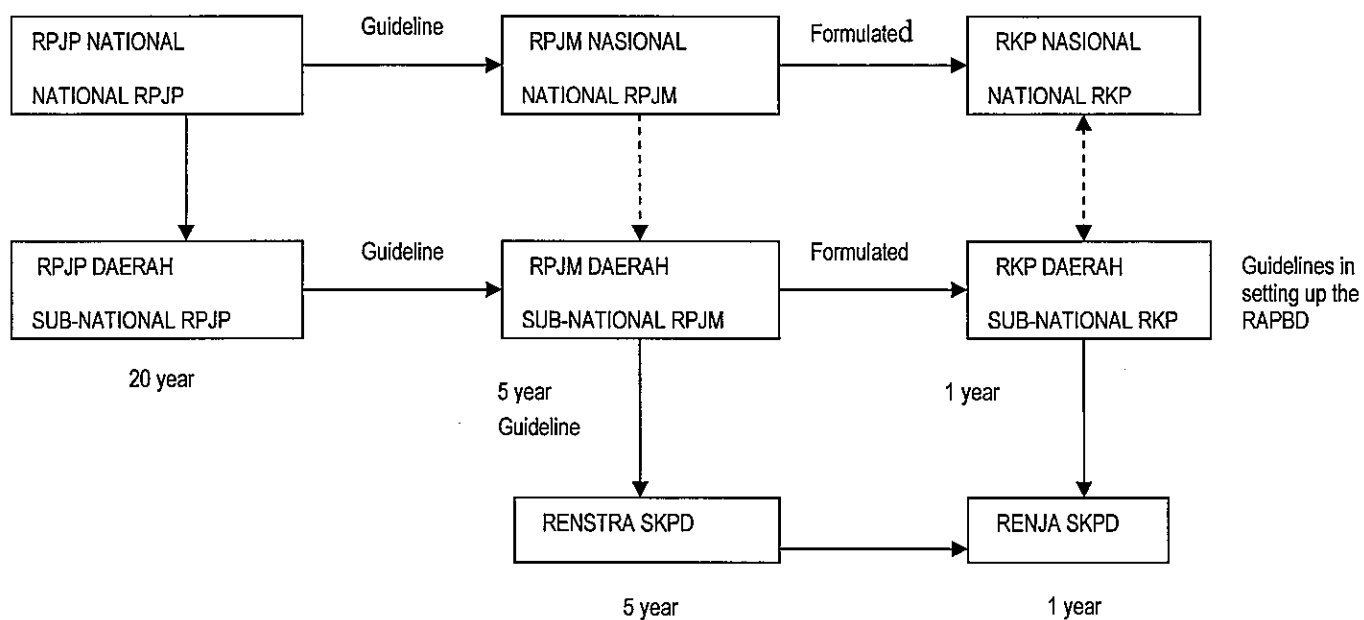
4 At the Law No. 32/2004, priority and plafond which have been decided by the KDH (Governor) become the basis in setting up the RKA SKPD, while Law No. 17/2003 and Law No. 33/2004, priority and plafond are temporarily discussed/ studied by Local Parliament and Local Government is taken as reference for the compilation of RKA SKPD.

5. Under Law No. 32/2004, RKA SKPD is sent to PPKD-Pelaksana Pengelola Keuangan Daerah (The Sub-National Finance Management Executive Officer) as the basis of the compilation of the RAPBD. While Law No. 17/2003 and Law No. 33/2004 RKA SKPD is sent to and to be discussed by the Local Parliament; and then it will be given to the PPKD.

6. Under Law No. 17/2003, the Local Parliament has the right to propose change of the Budget, amount of revenue and expenditure and the anticipating action if RAPBD was not approved; while Law No. 33/2004 and Law No. 32/2004 do not rule this thing.

From problems of the legislation mentioned above, the party who becomes first victim from this policy is Sub National/Local government experiencing confusions which regulations will be made as reference in planning and budgeting. As a result, it can cause ineffectiveness and inefficiency in planning process and budgeting; and in the implementation of development at Sub National/Local Level.

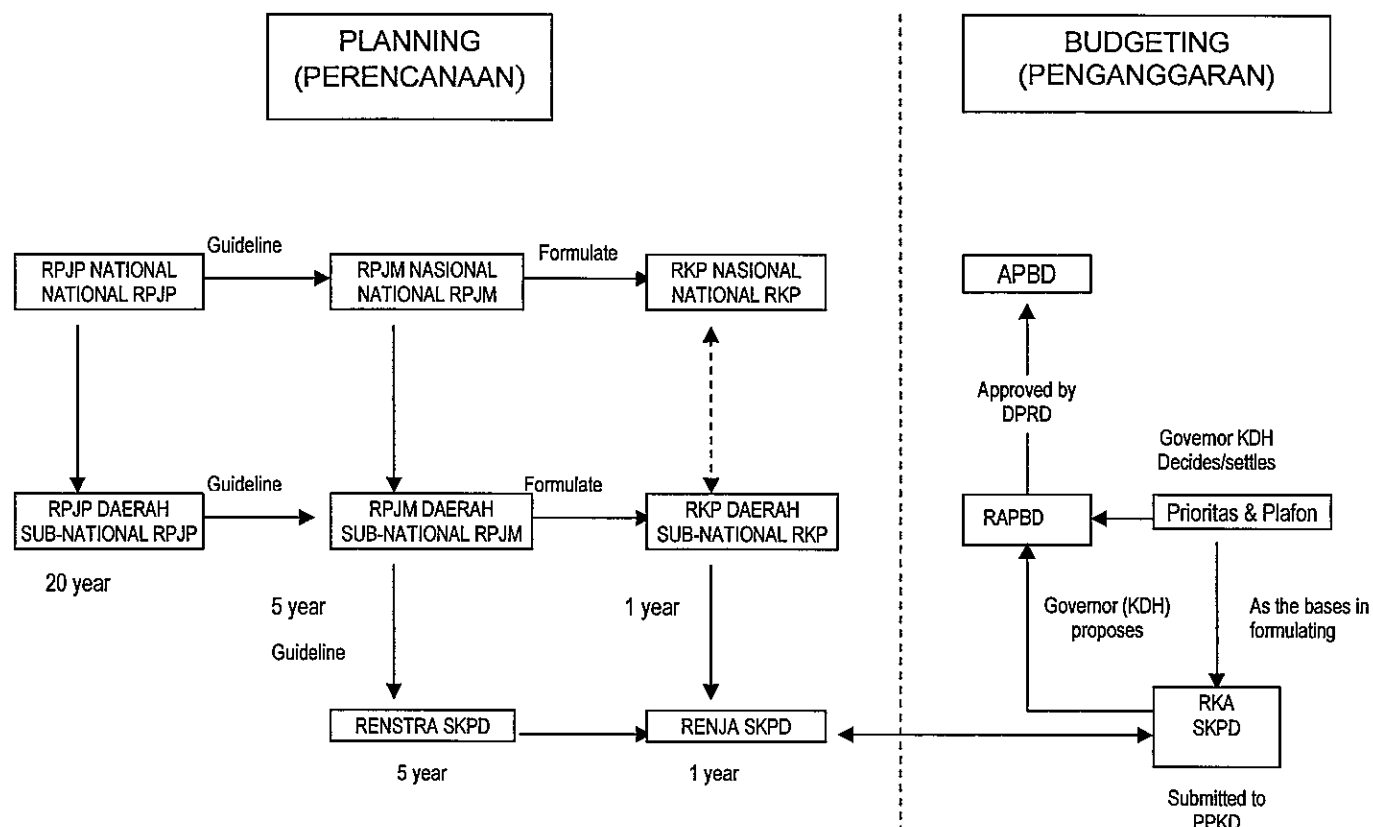
Table 1  
Diagram of the Sub-National Development Planning Cycle,  
According to Law No. 25/2004



Within This Law No. 25/2004, it can be described that the planning and the budgeting processes are relatively integrated

Table 2

Diagram of the Sub-National Development Planning Cycle,  
According to Law No. 32/2004



#### **4.4 Appendix 4 – Links between PEACH and the ADB Local Government Finance and Governance Reform Sector Development program (LGF)**

The LGF reflects efforts by MOF to implement national policy for decentralisation, consistent with the original Law on Fiscal Balance. This requires the national Government to set up and manage the regional financial information system (SIKD). The LGF notes that:

*“Regional governments are required to provide the national Government with reliable information through the gradual setting up of regional financial management information systems (SIPKD). Information to be provided to national Government includes (i) budget, (ii) budget realization, (iii) balance sheet, (iv) cash flows, (v) financial notes, (vi) de-concentrated expenditures, (vii) co-administered expenditures, (viii) regional public enterprises, and (ix) data on fiscal needs and fiscal capacities. Information in relation to points (i) to (iv) should be in line with Government accounting standards. MOF can sanction non-cooperating regional governments by delaying DAU payments. Information collected is to be open to the public.”*

*“Based on recommendations made by ADB, the World Bank and the International Monetary Fund (IMF), reorganization of MOF has been underway since 2003. The aim of the reorganization has been to establish a modern budget and treasury management system. Although MOF has a regional financial information system (SIKD), this system does not reflect recent reforms in the legal and regulatory framework. Moreover, only 19 out of 473 local governments have been provided with support to enable them to submit required financial reports to SIKD through a computerized financial reporting and transmission system. The majority of local governments submit required financial reports manually”<sup>24</sup>.*

Under the Program, MOHA has also developed and adopted a plan for the SIPKD to be implemented in 71 local governments (12 provinces and 59 districts in four of these provinces, chosen by MOHA). The plan, backed by technical proposals and costing, was developed in close coordination with ADB, and local governments were selected according to objective criteria agreed upon with ADB, including their fiscal and financial management capacities. The 12 provinces are: West Sumatra, Lampung, West Java, Yogyakarta, East Java, East Kalimantan, South Sulawesi, Bali, North Maluku, Gorontalo, North Sumatra, and Central Java. MOHA agreed to cluster the participating districts in West Java, West Sumatra, Yogyakarta and Lampung.

The LGF recognises the complexity of decentralisation in its Loan Report:

*“Decentralization has the potential to deliver significant welfare benefits...However, these benefits presuppose that local governments have the capacity to meet their mandates, sufficient resources are available to fund services, and accountability mechanisms exist. Indonesia decentralized rapidly and many of these preconditions are not yet in place. The original 1999 laws governing decentralization (i) devolved broad areas of responsibility for services to local governments without assessing their capacity to fulfil them or clearly specifying obligatory functions within those*

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<sup>24</sup> Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grant to the Republic Of Indonesia for the Local Government Finance and Governance Reform Sector Development Program (RRP:INO 36541). Asian Development Bank, October 2005.

*areas...Although these laws were recently revised, reforms in certain areas need to be formulated and implemented in a gradual manner over the medium-term. New laws have also been adopted that lay down the principles and clarify responsibilities for budgeting and financial management in government in line with international best practices and standards. The new framework is a radical departure from the current way of doing business in the Indonesian public service, in that there is greater integration between planning and budgeting, with the latter being done along functional rather than sectoral responsibilities. Implementation of these reforms at the national and local government levels will require considerable institutional development in cross-cutting functions such as planning, budgeting, and financial management. Most local governments have limited training and experience in these areas.*"<sup>25</sup>

It is clear to the Review that there is common ground between the LGF and PEACH, in that the MKPP developed under PEACH brings planning and the opportunity for gender and poverty sensitivities to be introduced into provincial resources allocation; and LGF provides the automated mechanism to reflect these priorities in provincial budgets and financial management reporting.

The combined efforts of LGF and PEACH will better inform the provincial administration development planning and enable the data needed for the next cycle of planning analysis to be collated automatically. This is a significant advantage when compared to the manual data capture exercises being undertaken by Papua PEACH, with its high time and cost penalties.

Accordingly, the Review strongly recommends the establishment of stronger working level relations between LGF and PEACH pilot provinces, wherever possible.

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<sup>25</sup> Ibid.

