

## ADB Support for Decentralization in Indonesia

*This special evaluation study assesses the strategic positioning, relevance, efficiency, effectiveness, sustainability, and impact of ADB's completed and continuing decentralization support program and operations in Indonesia from 1998 to 2009. It also aims to derive lessons, good practices and recommendations to guide future ADB decentralization support. In addition, the performance of ADB in designing and implementing assistance to decentralization is assessed.*

**D**ecentralization is the process of dispersing decision-making governance closer to the people and/or citizen. This study focuses on ADB support for facilitating the decentralization process, as well as support intended to strengthen regional (provincial, district and municipal) governments and institutions in Indonesia.

ADB has supported the decentralization process in Indonesia since 1998 at the center and in the specific areas of basic social services, development administration, and environmental management. Initial support was in response to the Asian financial crisis and the need for community development following the "big bang." Later support focused more on the challenges facing public financial management and fiscal decentralization. The decentralization-focused program loans began with the Local Government Financial Governance Reform (LGFR) Sector Development Program, which was designed to enable more effective local government public services through an improved fiscal, budgetary, and financial management framework. In addition, ADB assumed a responsive stance to government needs, particularly as the scope of the challenges became apparent. Support was provided to rearrange strategies and practices to conform with decentralized forms of governance through separate advisory technical assistance (TA) projects for (i) onlending, (ii) environmental impact assessment process, (iii) urban infrastructure, and (iv) minimum service standards.



Local government officials distribute relief goods to earthquake affected communities in the island of Java in Indonesia.

### Key Findings

Irrespective of the urgent need for assistance, interventions taking place during periods of rapid economic, political, and administrative transitions face the risk of becoming irrelevant and ineffective, with short-lived outputs and unsustainable outcomes. In terms of ADB performance, this has meant finding a difficult balance between the need to ensure the effectiveness and efficacy of deploying scarce TA resources, and the need to support important policy processes during a period characterized by risk and uncertainty. ADB responded promptly to a rapidly changing situation, but the very nature of the situation precluded detailed analyses and programming. Subsequent support has attempted, with some success, to provide a sound policy framework for decentralization. This support might have been more effective and sustainable if backed by more TA designed to develop the capacity of decentralized institutions to improve systems and procedures, rather than TA focused on the training of individuals. The overall rating is *partly satisfactory*.

ADB performance has been affected by the lack of staff at the Indonesia Resident Mission with deep knowledge of decentralization. Additional capacity is needed to design and guide the various loans and TA provided. Although the resident mission is actively involved in decentralization projects from the design of

### QUICK LINKS

#### ADB Support for Decentralization in Indonesia

[www.adb.org/Documents/SES/INO/SES-INO-2010-15.asp](http://www.adb.org/Documents/SES/INO/SES-INO-2010-15.asp)

#### ADB Management Response

[www.adb.org/Documents/Evaluation/Management-Response/SES/MR-SES-INO-2010-15.pdf](http://www.adb.org/Documents/Evaluation/Management-Response/SES/MR-SES-INO-2010-15.pdf)

#### Chair's Summary of the Development Effectiveness Committee (DEC)

[www.adb.org/BOD/dec/DEC-ChairSum-SES-2010-15.pdf](http://www.adb.org/BOD/dec/DEC-ChairSum-SES-2010-15.pdf)

the terms of reference to implementation, the perception of some senior government officials is that the resident mission is a conduit to ADB headquarters, with key decisions being taken in Manila. This perception could be addressed if capacity were to be increased. ADB and other agencies have invested heavily in capacity development, but results have sometimes been disappointing. A less ambitious approach could have been adopted given the complexities of the decentralization program. Performance has also been affected by poor disbursement as a result of serious procurement issues in the case of some loans.

## Lessons

Key lessons identified include the need for:

- increasing the number of professional staff based in the resident mission for the analysis and management of projects and programs;
- being consistent in terms of substantive focus (which should be agreed with government) and delivery instruments;
- speeding up the process from the identification of a defined need to project implementation;
- prioritizing efforts to optimize coordination and policy dialogue with government and other development partners; and
- ensuring that sufficient resources are committed to the analysis and dialogue required for project design and preparation.

## Key Issues

Key agencies have different agendas, and it is widely believed that the government agency theoretically responsible to bring more coordination to the process, the *Dewan Pertimbangan Otonomi* (Regional Autonomy Advisory Council) under the Ministry of Home Affairs, needs to strengthen its coordination role. The absence of an operational champion or coordinator for the process of decentralization renders it difficult for ADB to effect lasting change. In the past, this issue, coupled with the lack of strong coordination between development partners, has not seriously impacted on ADB interventions as there has been such a broad decentralization canvas.

Indonesia has adopted a “*learning by doing*” approach to decentralization, citing the unique geography of the country as a reason. Perhaps, more could be done to highlight to the government the successes and failures elsewhere so that lessons can be learned from where programs have failed or succeeded.

Moreover, Indonesia’s local governments do not currently have the established governance systems required. In Indonesia, some sections of the government need to focus assistance toward the regions as well as to the center.

## Feedback

The study was completed in July 2010. ADB Management Response appreciates and agrees with the overall recommendation of the study. Management noted that while ADB’s core decentralization loans and technical assistance have been effective in supporting necessary policy reforms, they have been less effective in developing institutions and processes required to implement the policies. ADB support would have, in hindsight, been more effective if it had been backed by more appropriately designed technical assistance to develop the capacity of decentralized institutions.

The Chair’s Summary of the Development Effectiveness Committee (DEC) commended the study and complimented ADB for having remained engaged in Indonesia. DEC members noted that there is a considerable scope for improving technical assistance, improving donor coordination, increasing the speed of intervention particularly through augmenting resources at the resident mission level, and also emphasizing the importance of revenue mobilization by local governments. DEC members hoped that the valuable findings from the study will be duly incorporated in the next country partnership strategy for Indonesia.

## Recommendations

- *Continue support for developing the policy framework for decentralization with project- and program-based support, complemented by more decentralized assistance, such as support for institution building, at local levels*
- *Continue addressing government priorities for decentralization by focusing ADB’s interventions on past successes (in public financial management reform and capacity development) and support further improvement of the coordinated decentralization framework*
- *Further deepen coordination with other development partners (including the donor working group and other forums) in supporting government decentralization activities*

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