

**Ministry of
Home Affairs and
Regional Autonomy**



**National Development
Planning Agency
(BAPPENAS)**

Capacity Building for Local Governance

A Framework for Government Action and Donor Support

**Final Report of the
GTZ/USAID-CLEAN Urban Capacity Building
Needs Assessment for Local Governments and Legislatures**



**German Technical
Cooperation**



**CLEAN
Urban Project**

**Jakarta
January 2001**

Decentralisation has come into effect in January 2001, as decreed by the August 2000 Annual Session of the People's Consultative Assembly (MPR). During the next months, there will be a huge need for capacity building initiatives to ensure that the new framework for regional governance will achieve its expected objectives. Regional governments will have to learn how to plan and manage their functions and responsibilities. The local parliaments have to find their role in determining local policies, and in ensuring that they represent the aspirations and priorities of their constituents. At the same time, central government departments and agencies will have to adjust their working procedures so that they are able to provide more support and facilitation to regional governments.

Capacity building in the context of implementing regional autonomy is a medium term task involving many different actors from the public but also from the private sector. The conditions and needs of each region are different, therefore capacity building initiatives must be flexible, take into account the specific conditions of each location, and must be based on the demands of the regions. There is need for a wide range of tools and instruments, which can be offered by central government agencies, regional government associations, professional associations, universities and private sector providers to regions seeking assistance and support.

The GTZ/CLEAN Urban study "Capacity Building Needs Assessment for Local Governments and Local Legislatures" is the most comprehensive analysis yet of the

existing needs for capacity building in the context of decentralisation. Its findings and recommendations should be reviewed, and taken into account, by the departments and central government agencies concerned with the various themes and subjects covered by the study team. It will constitute a very important input for the formulation of a capacity building strategy of the Government, and will be discussed further in the interministerial working group on capacity building to be established under Presidential Decree No. 157/2000.

Jakarta, January 2001

Dr. Ir. Sudarsono Hardjosoekarto, MA.
Director-General for General Regional
Administration
Ministry of Home Affairs and Regional
Autonomy

Herman Haeruman Js.
Deputy Chairman for Regional
and Natural Resources
National Development
Planning Agency (BAPPENAS)

The Capacity Building Needs Assessment for Local Governments and Legislatures has been implemented between November 1999 and October 2000 by a team of consultants from the GTZ (German Technical Cooperation) and USAID/ CLEAN Urban. Consultants from the ADB-TA 3177-INO (*Capacity Building to Support Decentralised Administrative Systems – CB-SDAS*) and from the CIDA-supported *Development Planning Assistance* project also provided inputs to the study. Findings and recommendations were presented to the Government on 28 November 2000 in a meeting chaired by the Chairman of BAPPENAS, Dr. Djunaedi Hadisumarto.

Implementing the study involved numerous meetings and discussions with central and regional government officials, representatives of private sector organisations, and members of civil society groups. The study team conducted field assessments in five local government areas in Indonesia, which included a wide range of interactions with local officials, members of the local parliaments, and local community groups.

The study team benefited tremendously from open and constructive working contacts with the government institutions relevant for the study themes. This involved among others BAPPENAS, the Ministry of Home Affairs and Regional Autonomy, the former State Ministry for Regional Autonomy, the Ministry of Finance, LAN, BKN, the Department for Settlements and Regional Development, the Department for Education and the Department for Health. We would like to thank all officials, resource persons and respondents who shared their time with the members of the study team and gave inputs to the results of the study. Needless to say that findings and recommendations are the sole responsibility of the study team.

The study was cross-sectoral in nature, and so are its results. There is no one government agency that can claim sole responsibility for building up capacity in the regions to fully implement the decentralisation policy. Co-ordination and cooperation across institutional borders are key elements for a successful capacity-building strategy. We hope that the results of the study will help both the Government and the donor community to share a common vision on capacity-building, and to develop a medium-term framework for building capacity in the regions.

Jakarta, January 2001

Rainer Rohdewohld

Team Leader (GTZ)
Capacity Building Needs Assessment for
Local Governments and Legislatures

Capacity is the ability of an individual, and organisation or a system to perform functions and to meet objectives effectively and efficiently, based on a continuing review of framework conditions and on a dynamic adjustment of functions and objectives. Capacity building is, in principle, dynamic because public organisation face new conditions at any point in time. It is more than training and human resource development. Modifying the system's design and institutional landscapes, reforming procedures and working mechanisms, formulating new policies - all these elements can become part of a capacity building strategy (Chapter 1).

A capacity building strategy to implement the current decentralisation policy in Indonesia should start with seven major elements (Chapter 2):

1. Improvement of the central government's information and dissemination strategy
2. Preparation of a non-prescriptive "positive list" of local government functions
3. Preparation of model Regional Regulations in key policy areas to ease the burden of the regions to put in place a multitude of new regulations within a very short period of time
4. Review of sectoral regulations to ensure that the sectoral regulatory framework is in accordance with Laws No. 22/1999 and No. 25/1999 and their implementing regulations
5. Clarification of the mechanism of transferring central government civil servants to the regions and of the arrangements to merge central government institutions with regional government institutions
6. Improvement of coordination between the central government agencies involved in the decentralisation policy
7. Focus on demand-driven capacity-building programmes which central government agencies can support with a mix of appropriate tools and instruments.

Based on the findings of the study, 12 policy clusters are suggested which should constitute the main programme areas where government action and donor support is required (Chapter 3). These policy clusters are:

- Regulatory Framework
- Managing the Transition
- Local Government Budget and Finance Reform
- Civil Service Issues
- Training and Skills Development

- Performance Monitoring
- Planning
- Interregional Cooperation
- Sectoral Issues
- Supervisory Role of the Central Government
- Institutional Reforms, and
- Local Policy Arrangements.

These programme clusters require a different intensity of action during the next few years, with the highest priority for immediate action being on finalising the regulatory framework (both on the national and on the regional level), managing the transition period, putting in place the new local government budget and finance system, clarifying civil service issues (transfer of central government staff), and merging central government institutions with their regional counterparts. Other capacity-building activities to implement decentralised local governance are required for a medium-term period and can be planned around the mentioned programme clusters. The present situation of donor activities is compared against the mentioned programme clusters.

Finally, the main findings from the thematic reports are summarised providing detailed findings for capacity building needs and recommendations for Government – donor cooperation in each of the six themes covered by the study team (chapter 4).

Abbreviations and Glossary

ADB	Asian Development Bank
APBD	Regional Budget
APBN	National Budget
AusAid	Australian Aid Agency
Bagian	Section
BAPPEDA	Badan Perencanaan Pembangunan Daerah, Regional Development Planning Board
BAPPENAS	Badan Perencanaan Pembangunan Nasional, National Development Planning Agency
BKD	Badan Kepegawaian Daerah. Regional Civil Service Agency
BKN	Badan Kepegawaian Negara National Civil Service Board
BPKP	Badan Pengawasan Keuangan Pembangunan, Development Finance Audit Agency.
BUMD	Badan Usaha Milik Daerah, public enterprise owned by autonomous regional government
BUILD	Breakthrough Urban Initiatives for Local Development, a UNDP supported project starting in 1998.
CIDA	Canadian International Development Agency
CLEAN Urban	US AID-funded project providing various forms of support to regional governments and central government to support decentralisation.
DAK	Dana Alokasi Khusus. Special Purpose Grant
DAU	Dana Alokasi Umum. Block Grant.
DFID	Department for International Development (UK).
Diklat Prop	Pendidikan dan Latihan Propinsi Provincial education and training unit
Dinas	Service operation division of regional government
DPA	Development Planning Assistance. CIDA funded support to BAPPENAS.
DPOD	Dewan Pertimbangan Otonomi Daerah, Regional Autonomy Advisory Council
DPRD	Dewan Perwakilan Rakyat Daerah. Regional people's representative council
GOI	Government of Indonesia
GTZ	German Technical Cooperation (Deutsche Gesellschaft für Technische Zusammenarbeit)
HRM	Human Resource Management
IBRD	International Bank for Reconstruction and Development (World Bank)
Jabatan fungsional	Functional position, the professional and trade classification system
Jabatan struktural	Structural position, management positions defined by organization structure
JICA	Japanese International Cooperation Agency

Kabupaten	Regency or autonomous district under Law No. 22/1999
Kandep	Kantor Departemen, office of a central department in a Kabupaten or Kota
Kantor	Office
Kanwil	Kantor Wilayah, provincial office of a central department
Kecamatan	Sub-district under Kabupaten or Kota
Kelurahan	Village-level sub-district of cities and towns, where traditional autonomous status no longer applies.
Kepmen	Keputusan Menteri, Ministerial decree
KEPPRES	Keputusan Presiden, Presidential decree
LAN	Lembaga Administrasi Negara, National Institute of Administration
Meneg OD or Meneg Otda or MNOD	Menteri Negara Otonomi Daerah, State Minister for Regional Autonomy in the first Abdurrahman Wahid cabinet, October 1999-August 2000.
Meneg PAN or MENPAN	Menteri Negara Pendayagunaan Aparatur Negara, literally State Minister for Increasing the Performance of the National Apparatus, known as the State Minister for Administrative Reform
Ortala	Organisasi dan Tata Laksana, referring to the section of the regional secretariat for organization and procedures (now named just organization)
P3KT	Program Pembangunan Prasarana Kota Terpadu, Indonesian for Integrated Urban Infrastructure Development Project (IUIDP)
PDAM	Perusahaan Daerah Air Minum, Regional water enterprise
Perda	Peraturan Daerah. Regional Regulation.
PERPAMSI	Indonesian Association of Water Enterprises.
PNS	Pegawai Negeri Sipil. Civil servant.
PP	Peraturan Pemerintah, Government Regulation
PPP	Public-Private Partnership
Pusdiklat	Pusat pendidikan dan latihan, Centre for Education and Development, usually one connected to each ministry. Unless otherwise stated, refers either to all Pusdiklat, or to the Badan Diklat of Home Affairs
SDC	Swiss Development Cooperation
SDO	Subsidi Daerah Otonom. Central government grant to the regions covering civil servants salaries.
RPP	Rancangan Peraturan Pemerintah, draft Government Regulation
SfDM	Support for decentralisation measures, GTZ TA from 1992 to present
UNICEF	United Nations Children Fund
UNDP	United Nations Development Programme

Table of Contents

Preface	2
Foreword	4
Executive Summary	5
Abbreviations and Glossary	7
Table of Contents	9
1. Introduction	10
<i>1.1 Background of the study</i>	<i>10</i>
<i>1.2 Understanding of “Capacity” and general approach</i>	<i>11</i>
<i>1.3 The implementation of the study</i>	<i>14</i>
2. General Findings and Recommendations	16
3. Capacity Building and Donor Support	20
<i>3.1 Programme Clusters for Capacity Building</i>	<i>20</i>
<i>3.2 Capacity Building and Donor Support – The Present Situation</i>	<i>27</i>
<i>3.3 Capacity Building and Local Governance – The Agenda for the Future</i>	<i>30</i>
4. Main findings in the themes and recommendations for donor support	33
<u><i>4.1 Role and Functions of the Regional Parliaments</i></u>	<i>33</i>
<u><i>4.2 Urban Services</i></u>	<i>41</i>
<u><i>4.3 Local Development Planning</i></u>	<i>45</i>
<u><i>4.4 Regional Finance</i></u>	<i>50</i>
<u><i>4.5 Organisational Development for Regional Governments</i></u>	<i>53</i>
<u><i>4.6 Human Resources Management</i></u>	<i>55</i>
Annex 1 List of Reports and Working Papers	62
Annex 2 Members of the Study Team	64

1.1 Background of the study

Following a request from the National Planning Board (BAPPENAS), the German Government commissioned the *Deutsche Gesellschaft für Technische Zusammenarbeit* (GTZ) to conduct a study to assess the need for capacity building for local governments and local legislatures following the approval of Law No. 22 (1999) on Local Governance and Law No. 25 (1999) on the Fiscal Balance between the Central Government and the Regions. GTZ in cooperation with the USAID funded CLEAN Urban project conducted the study between November 1999 and August 2000. Other donor-funded projects contributed to the study: the CIDA funded Development Planning Assistance (DPA) project worked with the study team in designing a data base for donor activities related to decentralisation. The ADB-TA No. 3177-INO (Capacity Building to Support the Development of Decentralised Administrative Systems) joined the assessment in June 2000 focusing on organisational development for regional governments (theme B7).

In a donor coordination meeting on governance chaired by BAPPENAS on 17 September 1999, the purpose of the study was presented as follows:

- “ To produce a comprehensive study which assesses the needs of local government for capacity building
- The study results should serve as a reference framework to prepare program and projects proposals related to capacity building for local government, for both the Indonesian government and the donor community”.

From the very beginning, the focus of the study was envisaged to be cross-sectoral rather than sectoral. Although citizen satisfaction with sectoral service delivery will ultimately determine the success or failure of the decentralisation policy, cross-cutting management issues were generally seen as the weakest areas of local governance and as the areas where the departure from old practices and procedures will be felt most severe by the local decision-makers and officials. Underlying the conceptualising of the study approach was therefore the assumption that capacity-building initiatives addressing these cross-cutting issues are more important than sectoral initiatives.

Another key feature of the study concept was the inclusion of the local parliaments and local community groups as future key stakeholders for developing local policies and supervising/ overseeing the local executive. It was also determined that the focus of the study would be on the *kabupaten/kota* level, with limited coverage of the provincial level and no coverage of the *kecamatan* or *desa* level.

Six areas were covered as the priority core themes of the study

- ◆ Role and Functions of Regional Parliaments (DPRD) (theme B1)
- ◆ Public Services (theme B3)
- ◆ Local Development Planning (theme B4)

- ◆ Regional Finance (theme B5)
- ◆ Organisational Development (theme B7)
- ◆ Human Resource Management (theme B8)

In the field of Public Services, the following sectors were selected for a more detailed analysis: Urban Services, Health and Education, and Agriculture.

Because of time and resource constraints, three other themes identified in the original ToR - Supervisory Mechanisms (theme B2), Local Economic Development (theme B6) and Interregional Cooperation (theme B9) - were not covered in the implementation of the study. Annex 1 lists the main reports and working documents which were produced by the study team as of 31 September 2000.¹

It was understood that the study team itself would not engage in actual capacity **building** activities. The task of the study team was limited to analyse and document existing capacity gaps in the thematic areas mentioned, to identify suitable GOI and donor-funded activities intending to fill these gaps, and to highlight the areas and issues where additional capacity needs assessment and capacity building activities (both from the GOI side and from the donor community) are required.

It was also not intended to assess the capacity-building needs for specific local governments. The study team used field assessments as a method to gather data and information from the local level in order to formulate general recommendations regarding needed capacity-building initiatives. For initiatives targeting specific locations more detailed needs assessments will have to be carried out in order to design and plan appropriate capacity-building activities.

1.2 Understanding of “Capacity” and general approach

One of the first tasks of the study team was to establish its own understanding of capacity, to review and select methods and approaches to assess capacity and capacity building needs, and to plan an assessment schedule. During an internal workshop in November 1999, the following definition of “capacity” was adopted by the team:

“Capacity is the ability of an individual, an organisation or a system to perform functions and to meet objectives effectively and efficiently. This should be based on a continuing review of the framework conditions, and on a dynamic adjustment of functions and objectives”.

¹ For details of the implementation, see the Implementation Report November 1999 – October 2000 (Report No. WD06).

Capacity must be seen as the ability to achieve performance, to produce outputs and outcomes. Capacity can not be seen as something static, but must be placed in a dynamic context of changing framework conditions. Because capacity is a dynamic dimension, the need for capacity-building has to be redefined and reassessed continuously. The intensity of capacity-building needs is a function of the changes in the framework conditions. Gradual changes require a more gradual approach to capacity-building. Substantial shifts in the framework conditions (as for instance effected by the decentralisation policy) require substantial capacity-building efforts and a high degree of attention by the decision-makers.

Based on a review of existing papers, reports and documents regarding capacity and capacity assessment, the team adopted the following main principles for carrying out the study:

a) Capacity assessment and needs assessment for capacity building initiatives would focus on three interrelated levels (see Fig. 1):

- the **systems level** which sets enabling or constraining frame conditions for local governments, and where various systems' components interact with each other
- the institutional or **entity level**, i.e. the level of the technical agency or of the service delivery institution with its specific organisational structure, work processes, and work culture
- the **individual level**, i.e. the level of individual skills and qualifications, of job descriptions, motivations and work attitudes.

Such an understanding of capacity is both in accordance with international experiences² and with the ToR for the study.

For each of these levels, different dimensions of capacity can be identified and analysed as shown in Table 1.

Table 1 Levels and Dimensions of Capacity

Levels	Systems	Entity	Individual
Dimensions	<ul style="list-style-type: none"> • Policy • Legal/Regulatory • Management & Accountability • Resources • Processes 	<ul style="list-style-type: none"> • Mission & Strategy • Culture, Structures and Competencies • Processes • Human Resources • Financial Resources • Information Resources • Infrastructure 	<ul style="list-style-type: none"> • General (e.g. Initiative, Judgement, Values & Ethics) • Specific (e.g. Skills according to functions and tasks)

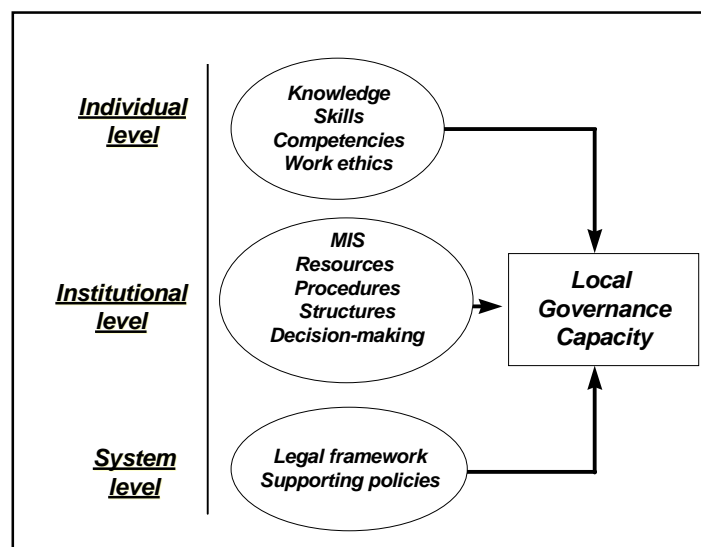
Source: UNDP 1998

² See UNDP (Management Development and Governance Division). Technical Advisory Paper No. 3: Capacity Assessment and Development in a Systems and Strategic Management Context. New York 1998.

b) Based on this understanding of capacity, the team’s understanding of “capacity building” would have to be much wider than a narrow focus on training and human resource development, and would include initiatives to modify framework conditions (like legal regulations, resource endowment, institutional landscapes) and to change structures and working procedures of institutions.

c) The assessment approach would focus on a qualitative analysis based on discussions, interviews, data collection and on the critical review of existing legal and political frameworks. The study team was not supposed to undertake a large-scale manpower survey using methods of empirical research (like a previous Manpower Survey undertaken by the ADB/Urban Infrastructure Management Development Study - UIMDS).

Fig. 1 - Three Dimensions of Capacity



d) The assessment approach would combine inputs from the central government level (meetings and discussions with GOI officials) with field assessments in selected local governments in Indonesia aiming at getting the perception on capacity-building needs from local government officials, DPRD members and members of the local communities. These field assessments included meetings and discussions with related provincial officials.

e) Such field assessments would be based on a standard format envisaging a week-long stay in the region to conduct a mixture of activities: workshops, individual meetings and interviews, discussion groups, and fact finding visits to local government facilities.

f) For each of the themes and for each of the activities planned during the field assessments, the team members would design and document the tools and instruments to be applied (like questionnaires, list of guiding questions for interviews, formats for workshops and discussion groups with the materials and inputs to be used) in order to

make these tools and instruments available for other parties planning to conduct capacity needs assessments.

g) In the absence of more clarity regarding the key tasks and functions of the local governments at the early stages of the study³, the team developed the Normative Frameworks for each theme as guidance for its assessment. The purpose of the Normative Framework was twofold: first it documented the basis from which the team started to undertake its capacity assessment. It summarised leading assumptions which the team applied in defining key local government responsibilities and the competencies needed for them. The second purpose of the Normative Framework was the stimulation of debate in the formulation process of implementing regulations for Law No. 22/1999. Since many stipulations of the law are vague and open for interpretation, applying general principles can help to guide the formulation process of implementing regulations in such a way that the spirit of the decentralisation policy is captured properly, and that the experience of decentralisation initiatives elsewhere can be taken into account.

h) The team also discussed whether to use capacity indicators or performance benchmarks as an additional empirical input for its assessment. However, in the end it decided against such indicators because of the complexity to collect the necessary information and because of doubts regarding the reliability of available data.

1.3 The implementation of the study

Implementation of the study took place in three phases: between November 1999 and March 2000 the consulting team was mobilised, the concept and the instruments for the assessment were developed, discussions and interviews took place with central government officials, and a first field trial was conducted in Kota Bengkulu. During April/May 2000 the study approach was socialised with related central government agencies and a number of Interim Reports were formulated. Field assessments in four local governments (Kota Makassar, Kabupaten Bima, Kota Malang, Kabupaten Kutai) took place in June/July, while final reports and documentation were prepared until the end of September 2000. Details of the activities undertaken, and of the central and local government agencies involved can be found in the Implementation Report (Report No. WD06, forthcoming).

As of 31 September, thematic final reports⁴ have been prepared covering

- ◆ Role and Functions of Regional Parliaments (B1)
- ◆ Urban Services (B3.1)
- ◆ Local Development Planning (B4)
- ◆ Regional Finance (B5)
- ◆ Organisational Development (B7)
- ◆ Human Resources Management (B8).

³ Only in May 2000 the Government Regulation PP 25/2000 clarified in more detail provincial and central government functions.

⁴ All reports can be downloaded as pdf files at www.gtzsfdm.or.id

Each report provides findings and recommendations for the particular subject based on the above-mentioned analytical concept, distinguishing between capacity-building needs on the systems level, the entity (institutional) level, and the individual level. Recommendations were grouped according to their priorities of implementation. All reports furthermore provide suggestions and proposals for donor support in designing and implementing capacity-building initiatives.

This Final Report summarises the main findings and recommendations and develops an overall framework for government action and donor support regarding capacity-building to implement local governance based on the decentralisation laws of 1999. In the team's conceptual approach local governments capacities depend not least on the framework conditions and the regulatory framework. The immediate priorities for capacity-building initiatives therefore focus extensively on the urgent need for the central government to clarify key parameters of the decentralisation policy in the areas of finance and personnel, and to socialise/disseminate these key parameters and regulations to the regional governments and the society at large. Once these systems level parameters are set by the central government, medium-term initiatives for capacity building can commence in a meaningful way.

In the following, we will present findings and recommendations as follows:

- ◆ Chapter 2 presents several findings and recommendations which are common to all the themes covered by the study team and which in most cases are also of highest priority. This refers generally to the urgency for political decisions in order to put in place the necessary regulatory framework for local governance, and to disseminate/ socialise policy decisions and their implications to the regional governments.
- ◆ Chapter 3 develops a framework for donor support based on the findings and recommendations in each theme and suggests 12 programme clusters around which government action and donor support can be organised.
- ◆ Chapter 4 summarises main findings and recommendations from the thematic final reports, and provides in more detail suggestions where donor agencies can support efforts of the central and of regional governments in each theme.

2. General Findings and Recommendations

Apart from findings and recommendations for the individual themes, we found a number of key issues which relate to all the themes, and which in our perspective require immediate attention from the central government. We summarise these observations here, although they will appear again – in one form or the other – in the thematic findings and recommendations.

1. In all themes covered by the study team, a recurrent observation related to lack of knowledge by local government officials how the new system of local governance will look like. Apart from the texts of Laws No. 22 and 25 (1999), limited information was available, and the understanding of the implications of the forthcoming changes was rather moderate. Socialisation exercises of the central government – if undertaken at all⁵ - clearly were not effective in increasing the level of understanding of the local government officials. In certain subject areas (like Human Resource Management) officials were not familiar at all with certain key legislation. This leads to one of the major recommendations for capacity-building:

Main Recommendation 1:

Information and dissemination strategies of the central government have to be improved substantially to ensure that policy decisions and their implications reach all stakeholders in the regions.

This refers to both the Ministry of Home Affairs and Regional Autonomy (which will have to shoulder the brunt of information and dissemination tasks), but also to the Ministry of Finance, sector departments and central government agencies like BKN. Extensive use of electronic media (like email, internet) and the preparation of standard presentation materials for central government teams going to the regions should complement the preparation of information kits and the use of the mass media (press, radio, TV). The initiative of the former State Ministry of Regional Autonomy to use its website as a depository e.g. for new regulations should be continued by the Ministry of Home Affairs and Regional Autonomy.⁶ Information sharing has to include new stakeholders on the local level, like members of the DPRD, party executives and other representatives of the local community.

2. With the exception of few areas (like education and urban services), many local officials were still confused about the exact scope of local government authorities under Law No. 22 (1999). While PP 25/2000 helped to clarify some issues, it left

⁵ To our knowledge, two main socialisation exercises took place in June/July 2000, one by the former State Ministry for Regional Autonomy (focusing on the draft PP 25/2000), and one by the Ministry of Finance (focusing on the RPPs dealing with finance issues).

⁶ While local government offices in many cases do not yet have access to email and internet, one should not underestimate the extent to which local officials use such facilities outside the offices. Even in more remote areas, more and more *Warung Internet* are being established providing access to the new technology.

nevertheless many officials wondering what the implications are for their local governments. While we support the approach of Law No. 22 (1999) not to provide a binding stipulation regarding regional governments' authorities (*kewenangan*), we feel that a non-prescriptive "positive list" of authorities of local government will increase the understanding at the local level. This leads to our second main recommendation:

Main Recommendation 2:

Central government should prepare and disseminate a non-binding "positive list" of local government functions (*kewenangan*) as a guidance to the local governments. In the dissemination process it should be made clear that this list gives guidance only, and that local governments can opt for other authorities as long as they don't contradict provincial and central government authorities as stipulated in PP 25/2000.

3. Once the central government has made the political decisions for key issues of decentralisation (like finance, budget management, personnel) and has approved the respective Government Regulations (PP), regional government will have to formulate and approve a substantial number of Regional Regulations (*Peraturan Daerah* – *Perda*) in order to codify the new system on the local level. This will overburden the capacities of both the regional executive and the regional legislative. Providing model *Perdas* to the regions will facilitate the regional legislative process, and will also ease the central government's burden to screen and review Regional Regulations. This leads to our third main recommendations:

Main Recommendation 3:

Central Government should prepare a number of model Regional Regulations (*Perda*) in key areas of finance, organisation and personnel in order to provide guidance to the regions how their regulations could look like. Again, these model *Perda* should have the character of guidance only, and in the dissemination process it should be clarified that regions can modify the examples as long as they don't contradict existing laws and regulations.

4. Decentralisation and regional autonomy will only start in January 2001. Until the full scope of decentralisation can be felt in the regions, numerous systems and procedures have to be adjusted. Regional governments have to substitute hitherto binding central government regulations by regional regulations, and central government agencies have to develop a facilitating style of providing guidance and consultancy services to the regions. This leads to our fourth main recommendation:

Main Recommendation 4:

In order to fully implement regional autonomy, the central government has to set into motion a review process of existing laws (UU), Government Regulations (PP), Presidential Decrees (KEPPRES) and ministerial decrees and decisions (like KepMen, Instruksi Menteri, Peraturan Menteri etc.) to check whether such regulations are still in line with the changed framework for local governance. Certain regulations (like the P5D/Rakorbang Ministerial Decree) should be officially revoked with immediate effect. Such a review should not only cover regulations from the Ministry of Home Affairs, but also regulations from the sectoral ministries and other central government agencies.

5. Regional governments were seriously concerned about the impact of merging central government institutions in the regions (*Kandep* and *Kanwil*) with their own institutions. Funding of the increased payroll of regional governments was one issue mentioned. Another main concern was the question of the *eselon* structure of the new regional organisations, and whether central government personnel coming from the dissolved *Kandep* and *Kanwil* would have a better position for filling the management position because of their generally higher *eselon*. This leads to our next main recommendation:

Main Recommendation 5:

Central government has to clarify immediately the mechanisms of transferring PNS Pusat to the regions and the funding mechanisms for them. Central government agencies (Ministry of Home Affairs and Regional Autonomy, Ministry of Finance, BKN, MENPAN) should increase their cooperation to clarify issues of filling the management positions of regional governments, and provide guidance and technical support to regions in redesigning organisations.

6. The level of coordination between central government agencies in the implementation of Laws No. 22 and 25 (1999) up to now has been less than optimal. KEPPRES No. 52/2000 established a *Tim Koordinasi* with four working groups, bringing together the main central government stakeholders. However, the *Tim Koordinasi* was less effective than expected, and the working groups did not produce coherent policy approaches in their subject areas. Regions were repeatedly confused by receiving conflicting statements and circular letters from different central government agencies. This leads to our next general recommendation:

Main Recommendation 6:

Central government should put in place an effective coordination mechanisms for implementing Laws No. 22 and 25 (1999). A successor arrangement to KEPPRES No. 52/2000 has to include all major stakeholders. The coordinating team on the central government level has to ensure that new regulations from central government agencies are in accordance with the decentralisation laws, and do not contradict each other.

7. During our field assessment we found a wide variety of local conditions, needs and potentials. While certain capacity building needs are uniform throughout the sample of local governments covered by the study, we strongly feel that capacity-building programmes have to be tailor-made to suit the locally-specific needs and conditions. This does not exclude the development of standardised tools and instruments for capacity-building by central government agencies, local government associations and others (the “tool kit”), however it calls for the selective combination of such tools and instruments in the individual region. What is needed is not the least a capacity of central government agencies, local government associations and others to develop and apply appropriate capacity building instruments (like training programmes, manuals, information kits, consultancy services, pool of trainers and advisers) which can be utilised **if** and **when** requested by a certain region.

Main Recommendation 7:

While there is a need for central government agencies and others to develop a set of tools and instruments for capacity building (like training programmes, consultancy services, the provision of advisers and trainers, information kits, guidelines and manuals) and to keep them available to requesting regions, the central government should refrain from developing comprehensive and standardised capacity building programmes which are not demand driven and which do not reflect the specific conditions on the respective region.

3. Capacity Building and Donor Support

3.1 Programme Clusters for Capacity Building

The thematic reports provide a rich basis of information and recommendations in their subject areas. Clustering these themes and priority areas by focusing on key policy areas across the themes which need attention from both the government and the donors, we can identify 12 policy clusters for capacity-building in local governance as follows:

- **Regulatory Framework**
- **Managing the Transition**
- **Local Government Budget and Finance Reform**
- **Civil Service Issues**
- **Training and Skills Development**
- **Performance Monitoring**
- **Planning**
- **Interregional Cooperation**
- **Sectoral Issues**
- **Supervisory Role of Central Government**
- **Institutional Reforms**
- **Local Policy Arrangements.**

These policy clusters constitute the main programme areas where government action and donor support is required to implement regional autonomy and to build capacity for local governance. What are the main elements of each policy cluster?

1. Regulatory Framework

This refers to the need to make political decisions in key areas of the decentralisation policy (like the DAU formulae, mechanisms for DAK transfers, local government budget management, transfer of central government civil servants to the regions and mechanisms to ensure payment of their salaries, clarification of accountability mechanisms for Heads of Regions). It also includes the need to provide guidance to the regions regarding their authorities (*kewenangan*), for instance by preparing a non-prescriptive “positive list” and by creating mechanisms to moderate conflicting interpretations between levels of government. Part of establishing the regulatory framework for decentralisation are the required Regional Regulations (*Perda*) codifying systems and procedures on the regional level.

2. Managing the Transition

Managing the transition period requires a high degree of attention from political decision-makers at the central and regional level of government. Dissemination and socialisation of new regulations and policies, the preparation and dissemination of non-prescriptive guidelines, establishment of an Information and Service Centre at the central level to support regional efforts, the development of manuals, information kits, presentation and training material are part of the needed policy management. Regions

have to be informed and guided regarding the transfer of staff and regarding the organisational merger of *Kandep/Kanwil* with their own institutions. Central government has to ensure that there is a policy consensus between sectoral and non-sectoral stakeholders on the central level. Appropriate management and coordination mechanisms have to be installed. Strengthening the DPOD and its secretariat is one aspect of managing the transition since the DPOD plays a key role in moderating policy formulation conflicts between the central government and the regions.

3. Local Government Budget and Finance Reform

As soon as the decisions regarding DAU and DAK are taken and the PPs regarding regional budget management are approved, regions need support to implement the new financial systems. This is not only a short-term adaptation to new frameworks, but requires a medium-term effort to enable regional officials to understand and operationalise new budget management principles like performance-based budgeting and reporting, output-based budgeting, accrual accounting and double entry book keeping, performance measurement, managing a transparent budget process involving the legislative (DPRD) and local communities. Linking annual budgets with medium term/ multi-year development policies is another important feature. Making budget and financial data transparent and available should be a key aspect of budget and finance reform; this includes creating a two-way flow of financial data between the regions and the central government.

4. Civil Service Issues

The immediate need is for managing the transfer of staff from central government institutions to the regions, their integration in the regional structure and the clarification of the related eselon-issue. In the medium-term, our findings point to the need to strengthen HRM systems on central and regional level (recruitment, performance appraisal, promotion systems, personnel development), to review the system of civil service positions (distinction between functional and structural positions) and create a better match between professional expertise and managerial authority, to create better career paths in certain local government functions (like financial management) and to review the remuneration and reward system in the civil service. The Civil Service Commission should be established and made operational as soon as possible in order to provide policy leadership in civil service issues and in order to ensure proper coordination between BKN, MENPAN and LAN. The institutional landscape for civil service training will experience a major transformation, and regions will have to be made capable of managing their training needs independently

5. Training and Skills Development

In all areas of regional governance, decentralisation and regional autonomy will increase substantially the need for training and skills development. Government officials, local parliamentarians and local communities have to understand the new framework for local governance and become able to fulfil their respective roles. In key areas (planning, finance management, urban management) existing government training programmes have to be updated and adjusted. The role of professional

associations (like the Planners Association, Association of Financial Officers) in training and skills development has to be increased. Regional governments have to learn to buy-in required training services from a deregulated training market. They need to become capable of assessing training needs, of evaluating the quality of training providers, and of evaluating the efficiency of training programmes. As mentioned above, a better link between training and career development has to be effected to ensure that individual capacity-building (increasing one's own knowledge and competencies) results in capacity-building on the institutional and systems level. Institutionally, the role of central government training institutions (like LAN, *Badan Diklat* of the Ministry of Home Affairs and Regional Autonomy, the training centres of the sector ministries) have to be reviewed. The provincial training centres (*Diklat Prop*) will assume a major role in providing training for local government officials, and need technical and institutional capacity for training needs assessment, curriculum formulation and training management.

6. Performance Monitoring

Under the decentralised system of government, the role of the central government should focus on policy and on monitoring the performance of regional governments in order to ensure that public services are delivered with the appropriate quantity and quality. The formulation of minimal service standards in the various sectors would permit such monitoring of regional governments' performance. Benchmarks, performance indicators for selected regional government institutions and DPRDs would enable the comparison of performance between regional governments. The role of regional government associations will become crucial in implementing such performance monitoring systems. Information exchange systems, data bases and other means of information sharing are needed so that local governments can assess for themselves their performance compared to other local governments. The long-term effects of decentralisation need also be studied so that negative effects can be identified and corrected.⁷

7. Planning

In the new decentralised system, each level of government will have the responsibility to plan for its own range of functions and authorities. Local governments will have to initiate an all-inclusive local level/horizontal planning process that involves all stakeholders in formulating locally adapted development policies and programmes. Towards this end the established bottom-up planning process has to strengthen village level community-based participatory planning and link it to the district-wide policy-making process. Local parliaments and individual councillors have to acquire new competencies in identifying and representing community needs, and forging a collaborative planning approach together with the local planning agencies and technical departments. For the central government, the challenge lies in creating incentives and consultation mechanisms that foster the inclusion of key central government policies in autonomously-defined regional development policies. For the DAK, vertical planning processes have to be established which are linked with horizontally-

⁷ In this respect the long-term baseline study initiated by the Social Monitoring and Early Response Unit (SMERU) provides an interesting example.

integrated planning systems on each level of government. Medium-term capital investment planning and annual budget planning processes have to be integrated better. Local development planning will have to be synchronised with spatial and land-use planning on the local level, acknowledging the existing spatial-functional interlinkages with the wider spatial context of neighbouring regions and the provincial as well as national spatial framework. Relevant central government agencies have to formulate non-prescriptive guidelines and training packages which focus on methodologies and planning techniques. Better M&E systems have to be implemented so that local governments can be held accountable for the development expenditures. Inter-regional planning cooperation is needed for activities which effect several local communities.

8. Interregional Cooperation

The cooperation and communication between regional governments will become more important, as will be the role of regional government associations. In planning (see above) and in jointly delivering services like water supply and waste disposal there is a huge scope for interregional cooperation. New fields of activity should become the subject of interregional cooperation, like training (e.g. the set-up of joint local government training institutes), and providing consulting services to local governments (e.g. in the field of organisational development). The system of performance indicators and benchmarks mentioned above should also be a focus of interregional cooperation.

9. Sectoral Issues

Most sectors of public services are effected by decentralisation, and in some of them preparations to adjust systems, procedures and organisations to the new framework conditions have already begun. Once the general framework is set, a review of sectoral regulations, structures, and working mechanisms is required to make sure that there are no contradictions between the general system of decentralised government and sectoral systems. Sector institutions have the responsibility to design minimum standards of services, and to monitor the performance of local governments in service provision. Vertical networks have to be re-designed to ensure the realisation of regional autonomy without forfeiting the still required vertical and sectoral linkages between levels of government (e.g. in designing appropriate DAK mechanisms and in ensuring the involvement of local government sector officials in the formulating and evaluating of national policies and regulations). Service delivery mechanisms in the sectors and the type of institutional arrangements applied have to be reviewed and adjusted according to local needs and conditions.

10. Supervisory Role of Central Government

In those government areas where the central government has no longer any implementing authority, the supervisory mechanisms of the central government (viz. both Ministry of Home Affairs and Regional Autonomy and sector departments) have to shift from direct technical control to legal and performance supervision. Monitoring and reviewing Regional Regulations will become a tremendous task for the central government, and ministries have to put in place the appropriate systems to receive and

review such regulations. The Ministry of Home Affairs and Regional Autonomy needs institutional capacity for the documentation and retrieval of existing Regional Regulations, and has to develop criteria for the assessment of their legality. Lessons learnt with Regional Regulations have to be documented and disseminated. Regional Government Associations have to be involved in this process.

11. Institutional Reform and Organisational Development

Decentralisation and regional autonomy creates an enormous need for reviewing existing organisational structures and for adjusting them to better deal with new tasks and challenges. Such a review is by no means restricted to regional governments: in line with transferring substantial authorities to regional governments, the central government itself has to review its existing structure and to streamline departments and other agencies. New policy institutions (like the Civil Service Commission) will be required to provide policy leadership. The relationship and working mechanisms between central government agencies and respective regional institutions will have to be modified (e.g. BKN – BKD, BAPPENAS – BAPPEDA, sector departments – dinas). As mentioned above, the institutional landscape for civil service training of the central government (LAN, *Badan Diklat Depdagri*, sectoral *Pusdiklats*) requires a complete overhaul, while on the regional level existing *Diklat Props* have to be strengthened to deliver training programmes addressing the needs of local governments.

There is an immediate need for organisational reform in order to accommodate the merger of central government institutions in the regions with the respective regional institutions. In some areas (like HRM) new institutions are required (*Badan Kepegawaian Daerah*), in others the merger of existing institutions could provide for better management (like in financial management). In the medium term, regional autonomy opens the way for regional governments to take a closer look at existing institutions, and to align organisations with tasks and available resources. New mechanisms for service delivery (PPP, BUMD, interregional cooperation etc.) will have to be included in such review. The DPRD secretariat requires particular attention since it will have to support the exercise of much wider DPRD authorities, however is up to now ill equipped to do so.

Existing tools and instruments for organisational analysis and development (like the *analisa jabatan*) are of limited value, and central government, private sector institutions and regional government associations should develop more comprehensive and appropriate review mechanisms. They need to develop the capacity to provide advisory services to the regions (process management, facilitation, training).

12. Local Policy Arrangements

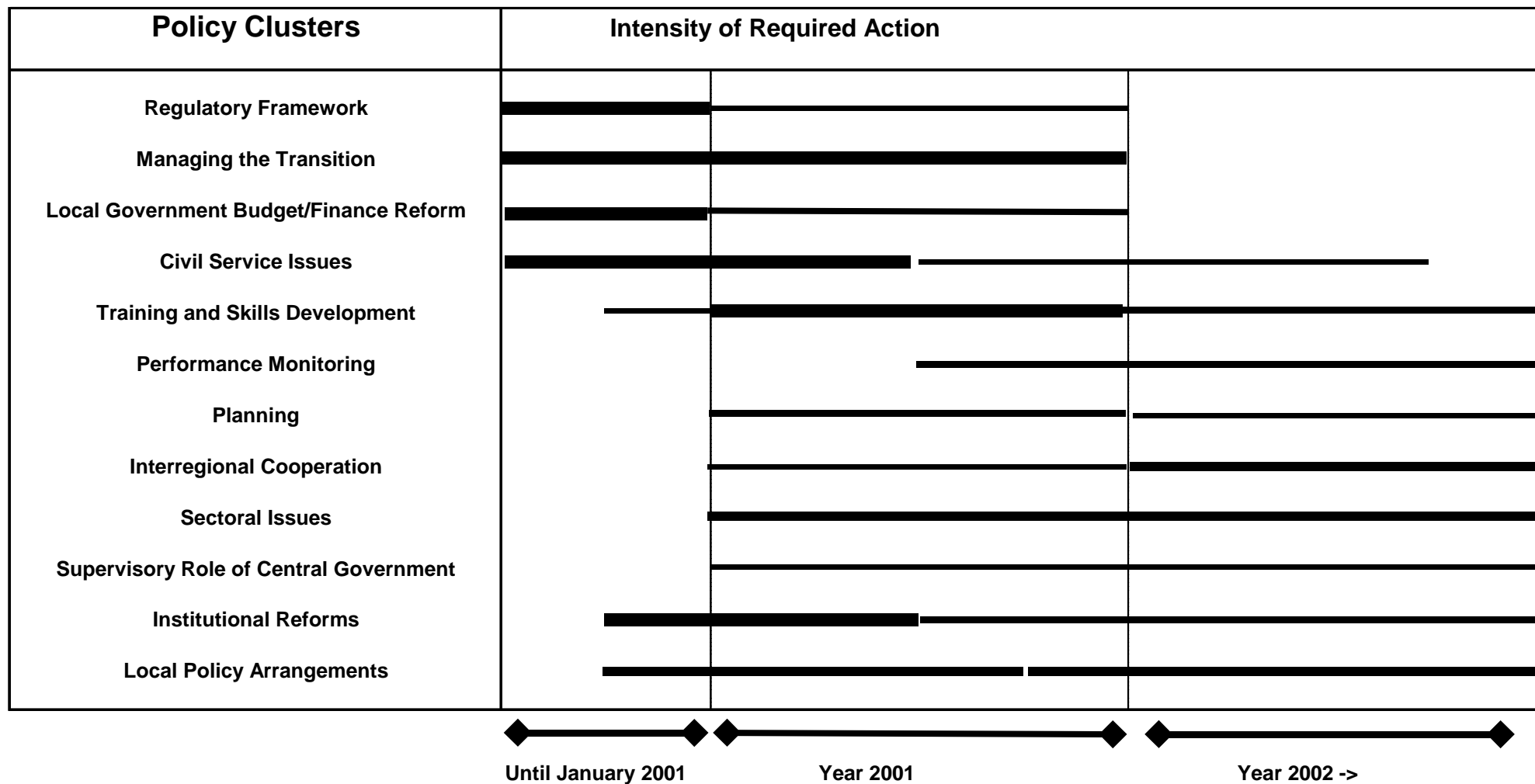
Decentralisation and regional autonomy changes profoundly the policy arena on the local level, strengthening the role of the DPRD and the political parties while weakening the competencies of the central government to interfere with local decision-making. In this new context of local policy making, the principles of good

governance (like accountability, transparency, participation) have to be acknowledged and practices by all stakeholders. DPRD and local administration will have to find new working relationships, not least in making budget decisions and in formulating and implementing local development plans. They will have to involve the local communities in a more systematic and in-depth way regarding the delivery of services, the planning of development programmes, and in the preparation and implementation of the local budget. Formulating local development visions will have to ensure that priorities and needs of the levels below the district level (*kecamatan, desa*) are properly accommodated.

Local communities and their organisations will have to focus more on monitoring the decisions and activities of DPRD and local government, and will have to make themselves felt in the decision-making process. They have to learn the rules and mechanisms of local governance. Local organisations of the political parties have to take their responsibilities serious to listen to the aspirations of the local constituencies, and to link local policies with national policy agendas.

Each policy cluster requires different and changing intensity of action during the next 12 months and beyond. In line with our recommendations in Chapter 2, the most immediate attention is required regarding the regulatory framework, the management of the transition period, budget and finance issues, and civil service issues (transfer of *PNS Pusat* to the regions). Institutional reforms are needed for regional and central governments both in a short-term perspective (making the transition by “unplugging” and “replugging” deconcentrated units of the central government in the regions), but also (and not the least less demanding) in a medium term perspective (making public institutions more efficient). Figure 2 provides a tentative overview of the policy clusters, time frames and intensity of action required.

Figure 2 Policy Clusters for Capacity Building



3.2 Capacity Building and Donor Support – The Present Situation

Each of the thematic reports prepared under the Capacity Building Needs Assessment for Local Governments and Legislatures provides details about ongoing donor-supported activities dealing with capacity building in the respective themes. While this information might not be complete (getting up-to-date information about projects and programmes is a very time-consuming effort, especially if one wants to include planned initiatives)⁸, we are confident that the thematic reports contain the most important initiatives for each theme. Comparing above mentioned policy clusters with the present foci's of donor-supported programmes in Indonesia provides us with the following outline (Figure 3):

- All donors are involved in **sectoral issues** since most donor supported projects and programmes take place in sectors and are implemented by and with sectoral agencies. Especially World Bank and ADB have a wide-ranging set of sectorally oriented programmes which in most cases are being implemented in several locations allowing for cross-regional exchange of experiences and lessons learnt. There are also a number of IBRD projects looking at Public Private Partnerships in the delivery of public services. However to what extent existing sectoral projects and programmes already include concrete issues of decentralisation would require a more thorough review of activities as could be done by the study team. Examples easily available to us include DFID's support to decentralise livestock services⁹, GTZ's project activities in the forestry sector, World Bank's and ADB's support to decentralised health and education programmes, and USAID's Natural Resource Management Programme.
- All donor activities are dealing with **training and skills development** since all technical assistance programmes include elements of training. In this sense all technical and financial assistance activities are and have been by nature "capacity building" activities. With or without decentralisation, they will continue to be so.
- The World Bank, ADB (TA 3177-INO) and GTZ (SfDM) are supporting the Government's effort to formulate the **regulatory framework** for decentralisation. USAID (via its CLEAN Urban project) plays a key role in advising the Ministry of Finance and the Ministry of Home Affairs and Regional Autonomy in the preparation of the implementing regulations for Law No. 25/1999.
- Regarding the **management of the decentralisation** effort and the transition period, a core group of donors and donor-assisted projects can be identified consisting of World Bank, ADB (TA 3177-INO and TA 3178-INO), GTZ (SfDM), CIDA (GRSPI), USAID (CLEAN Urban) and AusAid (TAMF). This core group has been involved in plans to set up a support unit for the former State

⁸ For further details about donor activities, see also the Report No. TR01 "Database on Technical Assistance related to Decentralisation".

⁹ DELIVERI Project, implemented in several local governments in South Sulawesi. For more information, see www.deliveri.org.

Ministry for Regional Autonomy ¹⁰, and continues to work with the Ministry of Home Affairs and Regional Autonomy and the DPOD Secretariat in steering the implementation process for decentralisation.

- USAID (CLEAN Urban), World Bank and ADB (TA 3178-INO) are most vocal and active in issues dealing **with fiscal decentralisation and budget management** both on the policy level (see above), but also in the implementation process in the regions.
- Donor programmes targeting the **Civil Service** on a systems level (like reviewing the Civil Service Law, career and remuneration system, personnel management) are limited. DFID has been providing technical assistance to LAN until early 2000 to improve the content of the civil service leadership training (*diklat struktural*). The World Bank had undertaken a major civil service remuneration review, however up to now no concrete programmes or projects have been put forward. JICA is currently planning a major Capacity Building Programme for Local Government Administration to begin in mid-2001, however content and implementation mechanisms are still under discussion. CIDA (via its Government Reform Support Project) is providing advisory services to BKN and LAN.
- ADB and GTZ have been listed here for the cluster on **Performance Monitoring** due to their involvement of developing benchmarks for urban services.¹¹ The World Bank is supporting the development of benchmarks for local water companies (PDAM) (TAP41-164).
- In **planning**, GTZ, JICA and CIDA have been and continue to be active both on the system design and the local implementation level. GTZ (via SfDM) has been providing and continues to provide advisory services to BAPPENAS and DG BANGDA of the Ministry of Home Affairs and Regional Autonomy in the design of planning systems, and has been active in developing participatory planning approaches on the sub-district level. A new regional component of the project (PRODA-NT) launched recently in four districts in NTB/NTT places emphasis on the development of the local planning function and the strengthening of participatory policy making. JICA is currently involved in supporting planning agencies in Sulawesi, while CIDA (via its DPA project) provides support to BAPPENAS. AusAid has been funding training programmes on planning and strategic management for regional government officials from Eastern Indonesia.¹²

¹⁰ Not realised.

¹¹ The project involved several cities in Southeast Asia, including three cities from Indonesia.

¹² ADB is supporting a TA (TA 3179-INO) on Participatory Planning, Monitoring and Evaluation which however is more geared towards the implementation of its Community and Local Development Support Programme than to the provision of inputs for the design of the overall planning system.

Figure 3 Policy Clusters and Donor-Supported Programmes

Policy Clusters	IBRD	ADB	JICA	GTZ	CIDA	USAID	DFID	AusAid	UNDP	UNICEF	SDC	Non-Govern- mental Donors
Regulatory Framework												
Managing the Transition												
Loc. Government Budget/Finance Reform												
Civil Service Issues												
Training and Skills Development												
Performance Monitoring												
Planning												
Interregional Cooperation												
Sectoral Issues												
Supervisory Role of Central Govt.												
Institutional Reforms												
Local Policy Arrangements												

- **Interregional cooperation** as of now receives very little donor support according to our information, the most active one being the UNDP funded BUILD project.¹³ USAID has recently contracted a programme involving among others support to the new local government associations, the programme is expected to commence soon.
- The **supervisory role of the central government** in the sense defined above does not receive any support yet, not least because it is a new field of activity.
- **Institutional reforms** are widely included in sectoral activities targeting public institutions on the central, provincial and local level. However, little effort is being invested in developing a more systems-oriented approach along the lines suggested in our report on Organisational Development. There is furthermore no concerted effort yet receiving donor support which would address the need to provide consultancy services and process management advice to regional government which intend to review and improve their organisational set-up.
- Most donor-supported projects providing direct assistance to regional governments are involved in **local policy arrangements** (e.g. by supporting efforts to improve the planning process, or by setting up communication fora covering various issues and bringing together the stakeholders involved). International non-governmental organisations play a key role in working with political parties, DPRD members and local community groups, and help to improve political education for the local communities at large.

3.3 Capacity Building and Local Governance – The Agenda for the Future

Decentralisation and regional autonomy will affect the activities of all donors at all levels. There is a need therefore for donors to take decentralisation into account and to review ongoing activities resp. to plan future activities in such a way that they fit into the decentralised system of governance. At a minimum, donors will have to involve regional governments directly in the planning of programmes if these regional governments are the recipients and beneficiaries of technical or financial assistance.¹⁴ The task for both the central government and donors is to develop flexible working and communication mechanisms between regional governments and donors which ensure that the central government is informed of planned or ongoing activities while at the same time allowing regions to negotiate support according to their own needs and priorities. This will probably involve a review of the “Blue Book” procedures, a review of the exact role and function of BAPPENAS as the central government agency coordinating external assistance, and a review of the Ministry of Home Affairs and Regional Autonomy’s role in supervising external relations of regional governments.

¹³ GTZ will start an urban management programme later this year which will use interregional cooperation and the networking of urban local governments as a key mode or project delivery.

¹⁴ This should include involvement of the DPRD.

At this stage, we will refrain from developing a comprehensive and concise framework for donor-activities supporting decentralisation in the form of concrete project proposal, keeping in mind the dynamics of multi- and bilateral assistance and the dynamics of the Indonesian policy formulation process. However, we want to draw the attention of the Government and donors to a number of general issues which are relevant in the decentralisation context:

1. Donors should increase their efforts to support the central government in determining the regulatory framework and in managing the transition period. This involves technical and managerial advise for instance for any coordination mechanism set up at the national level and for the DPOD secretariat. This furthermore involves technical and financial support for massive information and dissemination activities (like preparing adequate information kits, presentation materials and training manuals) and for setting up or improving the technical and institutional infrastructure for such activities (like the use of electronic media). Short-term support will probably have to come from ongoing projects and programmes which have to be adjusted to the changing framework conditions and needs. The Government should indicate whether it wants to renew the idea of a more formalised support structure (Decentralisation Secretariat, Resource and Service Centre), or whether it prefers the present loose arrangements of coordination.

The focus of short-term support should be a) finalising the framework regulations for finance, personnel and organisation, b) socialise the framework to the regions and c) provide support in the implementation for instance by developing model Regional Regulations.

2. Donors should use existing projects and programmes to disseminate relevant decentralisation information to the regional level. In activities providing direct support to local governments, donor-supported activities have to review whether they involve all the relevant stakeholders, or whether there is a need for adjustment.

3. While the central government is finalising the general framework for decentralisation, the sector departments should start to prepare a sectoral review covering the legal framework, vertical coordination mechanisms and the institutional landscape in each sector. Donor projects and programmes working in the same sector could form sectoral clusters to support such review processes by providing technical and managerial advise to the government. Beside the sectoral department concerned, central government agencies like MENPAN and BKN have to be involved due to their cross-sectoral functions for civil service and public administration. In each sector, a resource and information centre could be established to document, store and disseminate relevant information, and to provide advise and guidance to the regional governments.

4. Donor-supported projects and programmes should develop new delivery mechanisms in line with the new framework for local governance. Horizontal coordination and cooperation between local governments will become much more

important for training and for the dissemination of innovations. Supporting the new local government associations, and other forms of interregional cooperation (in service delivery, training, organisational development) should become part of the medium term agenda of donor activities.

5. Capacity building as understood in our study is in principle a continuing and dynamic exercise because at any point in time government organisations face new challenges to which they have to respond. In a more narrow sense, the immediate need for capacity building focus on the management of the transition to a decentralised system of government and on making local governments, local parliaments and the local communities capable to fully take on their new roles and responsibility. The 12 policy clusters identified above provide a reference framework for short- and medium support, and Government and donors should discuss whether for a limited period of time a more formalised coordination mechanism (like a Capacity Building Working Group of GOI and donors) is needed to monitor whether technical assistance activities adequately cover these policy clusters.

6. Capacity building activities on the local level will vary according to the specific needs and conditions of the nearly 400 local governments, and it will not be possible at this stage to indicate concrete programmes for each of them.¹⁵ Donor support for capacity building initiatives should identify the most suitable and efficient delivery mechanisms, for instance by building capacity of local government associations, suitable central government agencies, universities, professional associations and private sector institutions which in turn can support capacity building processes on the local level. Such donor support should also take into consideration the much larger number of stakeholders in the local policy process which include not only public sector institutions but also the DPRD, the political parties and local community groups.

¹⁵ One aspect of the CBNA study was the development of tools and instruments for capacity building needs assessment, and the Technical Reports provide such tools for further needs assessments on the local level.

4. Main findings in the themes and recommendations for donor support

In the following, we present the main findings and recommendations from the individual thematic reports mentioned above. All reports are available at the GTZ-SfDM website www.gtzsfdm.or.id.

4.1 Role and Functions of the Regional Parliaments

4.1.1 Findings and Recommendations

The enactment of Law No. 22 (1999) on Regional Governance, and Law No. 25 (1999) on Fiscal Balance between Central and Regional Governments will dramatically change the nature of governance and public administration in Indonesia. Law No. 22 (1999) reverses the previous trend of gradually decentralising authorities from central government to the regions – and in particular to the local level – and promulgates the principle that the local level is by definition the locus of authority. Central and provincial level authorities are therefore restricted to those functions that are explicitly mentioned in the law and in the implementing regulations such as PP 25 (2000) on allocation of functions to central and provincial government.

The devolution of power to the regions, however, not only involves the regional government as the executive branch, but also the local parliament or DPRD (*Dewan Perwakilan Rakyat Daerah* – Regional People’s Representative Assembly) as the legislative branch. Checks and balances of power, which previously operated on a centre - regional basis, will now primarily hinge on the separation of executive - legislative powers in the region. Strengthening the capacity of local governments therefore has to go hand in hand with strengthening the capacity of the DPRD to carry out its functions, in close interaction with other stakeholders in the region from both public administration, the private sector and the civil society.

For that reason it must be emphasised that strengthening local autonomy and good governance is a field that may not be limited to local government and legislature alone but must embrace the wider institutional context, such as the local community and civil society organisations as well as political parties, to be included into a multi-dimensional capacity building approach that enforces linkages between democratic and transparent local governance and participatory development. The role of political parties is a critical factor in building capacities to support the work of local legislatures and to recruit capable candidates and assist individual councillors in their day-to-day activities.

Related capacity building needs involve three levels: system level requirements, institutional/ organizational concerns, and individual needs.

◆ System level recommendations

At the system level, a number of important tasks still need to be handled by the national level. One of these is to establish standards and minimal requirements for the

authorities held by the DPRD, so that both central and local government have a basis on which to assess the DPRD's performance. A second task is to revise the regulation which deals with the accountability statement of the Head of the Region, so that there is no longer ambiguity on the procedures which apply.

The national level – and to a lesser extent also the provincial level, or even non-governmental organisations – will need to continue to provide support for the DPRDs. One area for which support is very much needed at present is in legal drafting. All districts and cities will need to draw up a whole new body of regional regulations to provide a legal basis for the implementation of governance tasks.

At the local level, the most urgent system demands are for elaboration of legislative - executive working mechanisms, and for agreement between the DPRD and the regional government on what the deliverables and expectations are of each side. The task awaiting both DPRDs and the regional governments is huge, and it will be handled very ineffectively if the local governments pursue such task accomplishment in an isolationist manner, instead of through inter-regional cooperation.

Local Level

- Standard operating procedures of DPRDs have to be aligned with Law No. 22 (1999) and ensuing principles of good governance, including a code of conduct for local councillors (“*Do's and Don'ts*”) and definition of indicators for performance measurement.
- Local government regulation is needed that specifies a) roles and functions of the legislative in local governance, and b) forms and degrees of involvement of councillors in the conduct of local administrative affairs.
- Networks and channels to exchange information should be developed to facilitate the issuance of regional regulations and to reduce the legislative workload of the individual DPRDs.

National Level

Required are:

- The clarification of local level legislative and executive functions and the determination of standards and minimal requirements for the performance of the DPRD's tasks and the execution of authorities, as specified by law.
- The revision of the regulation on acceptance and refusal of the accountability statement of the Head of Region, and elaboration of public hearing and arbitration mechanisms.
- The identification of local level issues that require national government regulation and subsequent local legalisation.
- The specification of local level issues that do not require further national government regulation.

◆ **Institutional level recommendations**

At the **institutional level**, central government has to prepare itself to perform its monitoring function for the regional legislation. Large numbers of regional regulations will be forwarded by the regions, and a good monitoring system as well as a set of criteria and procedures to handle this monitoring function in an orderly and consistent manner will be needed. The longer central government delays doing this, the bigger will be the backlog of work to be carried out.

Whilst implementing the monitoring function, certain problems and issues will surface with great regularity, due to a certain lack of skills from either the DPRDs or the DPRD secretariats. Central government will enhance its effectiveness and efficiency in supporting local autonomy if such regularly surfacing problems can be lessened through well-targeted and client-responsive governance and management skills improvement programmes.

At the local level, capacity development must aim at setting in motion processes of interaction between all local stakeholders involved in local governance. Without broad based dialogues to be launched in the near future, the start up phase of local autonomy will be severely constrained and each actor will aim to pursue its own agenda without synergies to emerge. These dialogues shall be substance-focused, for instance on formulating a local development vision as a common tool of orientation on the future direction of local governance processes. Also the related mechanisms for community participation, supervision of the executive, budget allocation, and monitoring and policy evaluation have to be established in this context.

One important focus for institutional capacity development will be the management of the legislative support function as provided by the DPRD secretariat. In this regard also political parties will have to assume a bigger role in supporting its representatives and fractions in the DPRD.

National Level

The following initiatives are recommended:

- Establishment of a monitoring system to control the timely and adequate issuance of Regional Regulations and Decrees pertaining to matters that have to be regulated in legal form.
- Establishment of criteria and procedures to assess the legality of Regional Regulations and Decrees of the Head of the Region.
- Establishment of a resource and service centre to assist in skills improvement of current and potential DPRD members, and the DPRD secretariat.

Local Level

The following initiatives are recommended:

- Launching a dialogue between local councillors and government executives facilitated by an external moderator to clarify the patterns of cooperation and agree on each party's role.
- Formulating a local development vision with all stakeholders as the common starting point for improved local governance.
- Establishing appropriate procedures and processes for community participation in local governance.
- Establishment of a mechanism to supervise and evaluate the local administration's performance.
- Establishment of a policy evaluation and impact analysis system to assess consistency, transparency and effectiveness of spending for development purposes.
- Establishment of an integrated information system to support the local parliament's functions in deliberation, legislation, budgeting and evaluation.
- Inventorisation of all Regional Regulations and Decrees of the Head of the Region, and review which ones need to be revoked, revised, or can remain as they are.
- Formation of a joint legislative - executive commission to strengthen consistency and transparency between local development policy formulation, technical planning and budgeting and implementation.
- Conduct of regular dialogues with civil society organisations on good governance incl. the evaluation of local practices.
- Upgrading of facilities (hardware, access to information/new regulations, library) and administrative and support capacities of the DPRD's secretariat, as well as recruitment of a limited number of expert staff in fields relevant to the local development process.
- Strengthening the role of political parties in recruiting and preparing DPRD candidates and supporting local councillors and fractions in legislative tasks.

◆ **Individual level recommendations**

At the **individual level**, capacities cover a wide range of skills and knowledge areas which closely tie in with the tasks and functions of the DPRD and its secretariat, the roles of councilors, the various areas of public governance, and how as an individual member one can increase one's leverage.

The need for support of the DPRD will not be transient, but rather permanent, given that at after each election – and even between elections – new DPRD members will be

sworn in. Even though the government is currently playing a major role in the training and skills development of DPRD members, it is to be expected that this role will gradually be taken over by the political parties. It is in their best interest to build up capacities of local politicians and to strengthen their basis in the regions through the development of a capable political cadre.

Capacity building initiatives pertaining to individual capabilities required by local councillors shall be adjusted to priorities as articulated by prospective trainees themselves. Therefore, a training needs assessments must precede all efforts to devise training programmes for legislators.

Local councillors are in need of practical, action-oriented training that is linked towards locally specific needs and generates practical solutions for real life problems. Training therefore should address the councillors' environment and be based on a more direct assessment of training needs. Training courses should be hands on practice and pick real issues from the local context, by simulating related processes, mechanisms for participation, decision making and coordination between stakeholders involved. This action-learning approach warrants that capacity development is firmly grounded within the local government context and addresses eminent needs of DPRD members.

4.1.2 Scope for Donor Assisted Activities

The strengthening of local legislatures is a field that must not only address the local parliaments but has to involve the range of different actors and aspects pertaining to the parliaments themselves as well as to their institutional and political environment. The complexity of establishing democratic governance at the local level requires a multi-dimensional approach that embraces all government levels and the variety of stakeholders. Donor support in local legislature related capacity building therefore shall not only concentrate on the relevant public sector organisations but on the role of political parties, the formation of civil society and on citizens' political education as well.

Hence, support in the area of local governance must reflect this complexity and accordingly should be provided by the diversity of bi-lateral and multi-lateral donor agencies and international civil society organisations alike in order to respond to the existing variety of needs and interests. On both the demand and supply side it is useful to distinguish between particular types of organizations for supplying and receiving support. Basically, apart from international donor agencies which foremost concentrate on government-to-government support in establishing the system's environment of local governance through policy advise and institutional development programmes, international non-governmental organisations such as civil society institutes or citizen based initiatives, can provide support to national non-governmental organisations in order to strengthen capacities for political participation, for external monitoring and assessment of the performance of both legislatures and executives, and the promotion of political education to the community.

Apart from those organisations, there are foundations such as the German FNS (Friedrich-Naumann Foundation), KAS (Konrad-Adenauer Foundation), FES (Friedrich-Ebert Foundation), and HSS (Hanns-Seidel Foundation), all being present in

Indonesia, that are associated with German political parties and extend support to local legislatures for improvement of democratic local governance management processes, to political parties in improving recruitment, training and selection of candidates for party representatives, as well as to citizen organisations to strengthen the bargaining power of society vis-à-vis local government. Other suitable donor organisations in this field comprise the non-party affiliated Westminster Foundation, the Ford Foundation and the Open Society Institute, all of them being active around the world in citizen education and other fields related to the improvement of local governance and democracy.

Based on this distinction, it is useful to look at donor support in a more specific manner and to emphasize **two specific substantive support** areas as well as **three different target groups** to strengthen local governance.

a) Substantive areas for support

In general, substantive support to local legislatures, governments and civil society organisations should aim at direct assistance in the development and application of local governance practice, to be coordinated within a broad system's framework on strengthening of local autonomy in order to feed local experience back into the national policy/legal framework.

❖ Support for local governance process design and management

Within the frame of broad local autonomy support strategies that consider the functional linkages with other themes of the study, integrated approaches should link the improvement of the local parliament's functions with the actual delivery of public services. Formulating policies for addressing local problems and potentials provides the locally grounded substance around which improved practices of legislative-executive interaction, public-private sector partnership approaches and civil society inclusion can be effectively strengthened as part of new public management approaches.

The particular processes will have to be designed in a locally adapted manner leading to the effective enhancement of local capacities on the system, institutional and individual levels. Donors should coordinate their programmes on the variety of different local situations existing in the country in order to create room for experimentation and gain experience with various local environments and different standards of capacity.

❖ Human resources development/training for local governance

With the arrival of local autonomy human resources development requirements will increase considerably, both in terms of absolute demand for and of scope of training. Support should be rendered to the development of appropriate training materials reflecting the roles and functions of local councillors, and of training courses for the variety of stakeholders involved in local governance. Courses shall adopt an action-learning approach and simulate actual practice rather than lecturing trainees in an academic manner. Training material is already available from a number of sources which can be applied in different

settings. Better networking of DPRD related initiatives would increase the effectiveness and efficiency of capacity-building activities.

The institutional strengthening of training providers from both higher education and private and public sector training institutes and the establishment of education/training and research networks on the practice of local governance are of priority importance.

b) Target groups for support

These two substantive areas will unfold into more target group oriented support strategies that are directed at local legislatures, communities and civic organisations, up to political parties and provided by the variety of support organisations as outlined before.

❖ Support to local parliaments, its secretariats, and to individual councillors

Donor support for the DPRD and its secretariat can be directed to specific regions, where it may match and link up with other sectoral or regional support activities in those regions. The purpose in such situations is to create synergies between the sectoral/regional assistance and the DPRD support thereby enhancing mutual benefits.

Alternatively, the support may be more generic and not location specific, focusing on addressing similar needs in a variety of locations. Support for the emergence of a network between DPRD's to facilitate the exchange of information falls in this category. There is a prime opportunity for DPRD and local government assistance through the facilitation of cooperation, networking and exchange of information and experience. Establishing an open access repository of regulations and manuals on a website should be a high priority initiative.

The scope of support programmes can assume different formats such as training, conferences, workshops, excursions and internships, comprising aspects such as

- Discussing the roles and functions of local parliaments,
- Establishment of work programmes and processes for the DPRD's deliberations,
- Community participation in local governance,
- Recruitment and utilisation of expert staff,
- Secretariat organisation and management,
- Legal drafting,
- Library management and compilation of legal documents,
- Information system management,
- Inter-regional cooperation.

One area in which donor agencies have a comparative advantage is in access to and knowledge about international ‘best practice’ in the area of good governance. There is much stated interest in implementing the principles of good governance, but how to go about developing consistency and transparency in establishing linkages between planning and budgeting is another matter. The use of exposure programs with e.g. internships in parliaments of ASEAN countries, and learning from local governance experiences in neighbouring countries, e.g. the Philippines may be one way to facilitate such learning on the individual level.

❖ **Support to civic society organisations and local communities**

Donor support to civic society organisations and local communities should follow the programme format for other actors either in specific regions to create synergies between the variety of local stakeholders, or in a more generic and not location specific manner, focusing on addressing general needs in a variety of locations. Support for the emergence of a network between civic society organisations to facilitate the exchange of information falls in this category.

The scope of support programmes can assume different formats such as training, conferences, workshops, comprising aspects such as

- Awareness building on citizens’ rights and duties,
- Formation of civil society organisations, and mobilisation of members,
- Internal management
- Programme planning and delivery,
- Co-production of services,
- Methods for community participation,
- Performance monitoring of DPRDs and local government agencies in service delivery,
- Participation in public fiscal management (e.g. local budget analysis and expenditure monitoring).

❖ **Support to political parties**

The role of political parties in strengthening democracy cannot be underestimated and political parties shall be eligible for direct support that can be provided by, for instance, international party associations and political foundations. The existing weaknesses of the party system in Indonesia with many parties only having been established recently, has serious repercussions on the functioning of local parliaments. Parties and their leaders have to be capable to formulate their political agenda and programme based on inputs from their constituency and have to know what it means to represent community aspirations in local governance. The scope of support programmes can assume different formats such as training, conferences, workshops, excursions and internships, comprising aspects such as

- Disseminating the objectives of formation of political parties,
- Recruitment of party members and establishment of membership rules,
- Party organisation and management,

- Transparent financing of political parties and sponsoring activities,
- Identification of community needs,
- Representation of interests,
- Formulation of party programmes, up to the
- Preparation of future candidates to run for local election.

Also of importance for the quality of the DPRD's performance and suitable for donor support by political foundations is the establishment of functional linkages between political parties and their elected representatives in the local councils so that councillors receive regular support on substantive issues from their political base and are held accountable for their performance by their respective parties.

It will be essential for the successful strengthening of local autonomy that the procedures for negotiation of and agreement on donor-supported local level development programmes include the local governments as equal partners. Hence, apart from increased opportunities, there is also an increased need for donor agencies to establish and strengthen their contacts with the DPRD, because the DPRD has now the duty and authority to supervise the implementation of international cooperation in the region (Art. 18 (1) f 5) in Law No. 22 (1999). Such need is even more pronounced for projects funded by loans if these are to be repaid by the regions, because the DPRD will have to vote on these financial commitments and will be held accountable for their proper utilisation by the local community.

4.2 Urban Services

4.2.1 Findings and Recommendations

Since the introduction of Government Regulation 14/1987 regarding the Transfer of Responsibilities for Selected Public Works Urban Services to the Tingkat II Local Governments and the gradual subsequent conversion of all centrally-financed project funding (DIPs) into locally-implemented INPRES grant funding, local governments have already been responsible for provision of almost all urban infrastructure and services for some time.

However, significant changes in the capacities needed by local governments will result from the new methods/approaches to governance that local governments need to adopt in delivery of urban services under decentralization. For example, as a result of Law No. 22 (1999), local governments will need to change their orientation to a more customer-oriented approach to service provision. This requires that DPRD members and local government officials responsible for provision of urban services have the ability and mechanisms to understand the priorities of the local residents for various kinds of services and understand their willingness to pay for such services, rather than following centrally-directed levels of service and quality standards.

Law No. 25 (1999) regarding Central-Local Fiscal Balance introduces the more flexible General Allocation Grant (*Dana Alokasi Umum* –DAU) to replace both the

Subsidi Daerah Otonomi (SDO), which previously paid all local government staff salaries, and the previous INPRES grants for development expenditures which were recently combined into the *Dana Pembangunan Kota/Kabupaten*. This change will make it possible for local governments to make better decisions regarding the appropriate balance between operations and maintenance allocations versus those for new development projects. In replacing the SDO system, DAU will also allow local governments to design their own organizations for service provision and will finally give them incentives for achieving labor productivity in the provision of services.

With the introduction of DAU instead of the *Dana Pembangunan Kota/Kabupaten* (which currently consists of a block grant portion and a number of specific sectoral grants), local governments will have to make much more difficult decisions regarding the allocation of funds between different sectors under their responsibility. This means that local government officials who plan and implement urban services must be able to competently present their recommendations for funding and justify them in competition with other sectors under the control of local government (e.g. health and education).

The draft Government Regulation on Local Government Financial Management (*RPP Pengelolaan dan Pertanggungjawaban Keuangan Daerah*) encourages full cost recovery for service provision, where appropriate. It also specifies that local governments will use a performance-oriented budgeting approach for both budgeting and financial performance reporting in order to make a clear linkage between inputs and expected outputs. This performance measurement and reporting to the executive, the local parliament and to the community will help improve transparency and accountability.

Local governments will have full authority to make decisions related to the organization of urban services provision; including decisions related to the appropriate role of the private sector and community in service provision as well as the internal organization of the services to be provided by the local government. Local governments must be able to make their own decisions with regard to organization of *dinas*, *unit swadana*, *badan pengelola* and BUMD. Local governments may establish and dissolve BUMDs in accordance with the draft Law on Regional Government-Owned Enterprises (*RUU BUMD*) without central government approvals.

The draft Government Regulation on Urban Management and Governance (*RPP tentang Pemerintahan dan Pengelolaan Kawasan Perkotaan*) requires urban governments to include the public in planning, implementation and monitoring. For example, one of the mechanisms specified for public participation is regular meetings of an Urban Forum (*Forum Kota*) where various stakeholders participate.

Based on the findings from the field surveys, the following general recommendations for capacity-building needs are offered and ranked according to priority: first those capacity-building measures that need to be implemented immediately and those that should be started now but whose implementation will take time.

In order to support the effective implementation of decentralized urban services in January 2001, the *most immediate capacity-building need* is to issue and fully socialize the regulations related to the new local government financial system; especially the draft Government Regulation on Local Government Financial Management (*RPP Pengelolaan dan Pertanggungjawaban Keuangan Daerah*) and the draft Government Regulation on Fiscal Balance (*RPP Dana Perimbangan*) which will have a serious impact on the local government budgeting process and availability and allowable uses of transfers from central to local governments. To allow the immediate reorganization of local government urban service units to achieve effectiveness and efficiency, clearer guidance and technical support must be provided to local governments regarding local authority and latitude to design their own organizations. For the preparation of budgets for 2001, the local parliaments must be able to provide clear policy guidance to the executive regarding service priorities and the balance between operations & maintenance and new infrastructure construction.

In the near term, the central government ministries must modify the modality of foreign-financed urban infrastructure projects to conform with decentralization. It must also clarify which of the existing multitude of binding regulations and guidelines are no longer valid under decentralization and which are downgraded to suggested guidelines. Local governments (DPRD and KDH) must clarify their policies regarding the balance between cost recovery and subsidization of urban services. To improve the clearly deficient career path and staff recruitment system, local governments must define job descriptions tied to minimum technical qualifications and implement transparent recruitment processes to hire and retain competent technical staff. While urban services technical training is widely available, existing training courses related to urban management and urban services management need to be updated to support the capacities that are needed in the new environment.

4.2.2 Scope for Donor Assisted Activities

Immediate and short priorities for donor support in urban services are identified as follows:

Donors should continue to provide advisory assistance to finalise the Government Regulations needed to implement Law No. 25/1999. Support is also needed to develop and disseminate model Regional Regulations to ensure the quality of the legal framework on the local government level, and to advise local governments on-site.

There is an urgent need to support the socialisation and dissemination of new regulations and guidelines (like e.g. the expected “positive list” of local government functions, the new Government Regulations on financial management and others) and to ensure that in such socialisation exercises the impact of the new system is explained properly. Donor support should help to make local governments understand the need to make decisions between new investment and operations and maintenance, and between sectors of urban services competing for budget allocations, and advise on mechanisms for decision-making.

Donor projects working in the urban services sector should support initiatives to review existing ministerial decrees (like KepMen, InMen etc.). Foreign-loan funded projects in the sector (like P3KT, P3DT, CLGS etc.) need to comply with the new assignment of responsibilities between levels of governments, and donor should take action to review project arrangements accordingly.

Cost recovery in public services will become more important. Donors should support technical assistance and extensive training regarding cost recovery and subsidies in public services, starting perhaps with water tariffs. Ministry of Home Affairs and Regional Autonomy and other central government agencies will need technical support to design clear and useful guidelines and suggestions on how to carry out customer satisfaction surveys, and how to involve customers and local communities in the decisions on urban services, while local governments will need support in the application of such instruments and methods.

Donors should support the dissemination and application of the guidelines for PDAM Corporate Planning, and should support efforts to strengthen the capacity of PERPAMSI to provide training programmes for its members.

In future, local governments can make their own decisions which form of organisation they want to use to deliver public services. Donors could provide technical assistance, dissemination support and training on how to evaluate advantages and disadvantages of possible options (like dinas, BUMD, Public Private Partnership etc.) in line with the local circumstances.

Regarding human resources, donor can support job qualification programmes. Existing standard training programmes for urban management need to be reviewed and updated. Donors should focus on the improvement of existing programmes rather than develop new ones. They should also be more selective in supporting demand-driven programmes and support training on local government sites with cooperation between adjacent local governments.

In a *medium- and long term perspective*, priorities for donor support are identified as follows:

Donors should provide technical assistance to design, pilot test and disseminate practical and useful systems of performance indicators to measure/evaluate the quality of urban services. This requires also setting up an information exchange system (data base) for local government performances.

On the local level, donors should support the application of survey methodologies for urban services (customer satisfaction) and assist local governments in involving non-governmental organisation and local community groups in discussing urban services priorities. They can furthermore support the development and utilisation of customer complaints mechanisms.

Donors can support efforts to improve career paths systems, to introduce employment certification programmes, and to establish job opening advertisement systems.

The central government requires support to formulate coherent policies between different agencies relevant for urban services; there is also a need for support regarding the legal drafting skills. Donors can provide support to disseminate information on regulations and guidelines using new technologies (email, internet).

4.3 Local Development Planning

4.3.1 Findings and Recommendations

A departure from the established development planning system with its previously unbalanced distribution of power and authority to the central level in allocating resources is necessary. Planning system reform will have to remove or modify procedures that supported centralism at the cost of decentralized capacity building and decision-making. Following Law No. 22 (1999) the newly empowered local parliaments together with the local administration will determine the policies and objectives of local development.

Within efforts to reform the local development planning system the basic question to be answered is which type of planning approach or policy towards planning will be conducive to stimulate regional development in line with regional circumstances, encouraging local planners to assume a more flexible and locally adapted planning approach. While the established participatory and consultation procedures on the village, sub-district and district level will also have their value for a reformed planning system, a less prescriptive procedure compared to the established planning approach is required to give more room to the local governments for planning at their own pace, while assuring that some minimum standards are maintained, and necessary coordination between individual regions can be accomplished. In view of the abolishment of hierarchical relationships between provincial and local levels of government, the planning approach also has to make sure that spatial-functional inter-linkages are being observed so that mutually supportive development strategies can be forged by both national, provincial and local levels. The reformed planning system should be sufficiently open and transparent to include all stakeholders of development planning across government levels. It should acknowledge that even under local autonomy functional linkages and complementarities will remain between those levels which will have to be accommodated to support the emergence of a decentralized planning system without abandoning all opportunities to exert coordination from a national development perspective and policy framework. A comprehensive and legally integrated system for local development and planning has to be formed that establishes clear functional linkages between currently independent planning streams.

Towards this end a "normative framework" embracing local autonomy as well as principles of good governance was formulated to provide direction to the process of implementing local autonomy in the planning field. Its gradual implementation is conceived as a process that depends on the strengthening of capacities on the three levels of system, organization and individual which involves all tiers of government simultaneously. The delineation of four key dimensions of planning (i.e. structure,

policy, resources and support) aims at a comprehensive and integrated approach to planning system design.

Problems portrayed in local development planning are common to the whole set-up of local government in the past where centralist control adversely affected local initiative and did not encourage any non-uniform behaviour or activities to deviate from standardised procedures. The overwhelmingly top-down oriented planning approach of the past almost completely prevented local planners from becoming more creative in their operation of the planning process. A future planning system, however, should be based on local conceptualisation of planning and be handled in a flexible and process-like manner that accommodates local needs and gives wide room for local adaptation. Locally determined planning guidelines and structures will have to replace central rules. However, a gradual withdrawal of central level planning would be more appropriate than a sudden abandoning of all further inputs. The current behaviour of the central level in dealing with the launch of local autonomy can be seen as the retarding element because local governments are kept in a “wait and see” - position without feeling to be allowed to start even preparatory activities and do some strategic thinking on their own. On the local level elected councillors as compared to bureaucrats in general seem to look forward to the challenges ahead and to the fact that they have to carve out a role for themselves in local government, yet knowing that for them quite some options are lying ahead which will enhance their role in local government. This is sharply contrasted by the way bureaucrats see their future role, being more anxious about confrontation with the newly established democratic system and less eager to actively support required change processes. That does not mean that there are no motivated individuals in the executive who understand that what is required is a fundamental departure from the practices of the past toward a system of transparent and accountable governance in which mandates are clearly distributed and functions assigned according to the principle of division of powers.

◆ **System level recommendations**

1. Existing legal regulations and guidelines for local development planning, spatial planning and integration/coordination of sectoral planning have to be revised and integrated within an overall framework for local development planning and management:

- **Cancellation of PERMENDAGRI No. 9/1982 (P5D) and its replacement with a guideline that embraces principles of local autonomy, good governance and decentralized local planning;**
- **Establishment of rules for national and provincial level macro plans plus minimal requirements for local level plans;**
- **Elaboration of non-prescriptive methodological guidelines for conduct of local planning, participation, budgeting, and plan implementation.**

2. Nationally (PP) and locally (Perda) determined rules for conduct of planning processes that define:

- the **positions, roles, and functions of public sector agencies** (such as local parliament, planning agency, sectoral agencies, sub-districts, villages) in the various stages of local planning;
- The **form and types of participation** of community, non-governmental organisations and the private sector in planning.

3. Launching a process of local development policy formulation (a vision that is in line with available potentials) based on a dialogue among all stakeholders as the first step of local planning encompassing a mid- to long-term perspective.

◆ **Institutional level recommendations**

Within a unified local planning approach that integrates spatial and development planning and provides a framework for sector-specific and areal programming of development activities:

1. Devising an **all-inclusive horizontal planning process** on the local level that aims at local level coordination in policy formulation, planning and budgeting for multi-year development programs and annual investment plans:
 - Formulating a **vision for local development** by means of dialogues to be held with all stakeholders and based on a regional profile analysis;
 - Opening an avenue/**mechanism for planning from below** (village and subdistrict level) that is capable to forward local policy input (needs and potentials);
 - Formulating the **local development policy framework** that consists of general goals, specific development priorities, suggested concepts to be applied, indication of specific strategies and follow up measures;
 - Designing **local development programmes** that have an inter-sectoral, territorial/areal and/ or thematic orientation;
 - **Implementing programmes in a coordinated and phased manner** (multi-year rolling/PDPP and annual plans/APBD);
 - Establishing a system for **monitoring of plan implementation and evaluation of output** and outcome of local development programmes.

2. Establishing a **bottom-up planning process** from the village level to the local level that provides both substantive guidance and operational flexibility to the lower level and that is matched by a financial mechanism to support sub-area program implementation:
 - Prepare a **sub-regional development policy framework** that is relevant for each sub-region and linked to the local development vision;
 - Provide **leverage to lower levels** to identify more specific area objectives and to plan activities for implementation;
 - Allocate a **budget ceiling for development programs** to each subregion;

- Facilitate **inter-local development issues** that need coordination within the local development planning process;
- Design a **participatory monitoring and evaluation system** for application on the lower levels.

3. Managing vertical planning processes to accommodate national and provincial programs (financed by special fund allocations) within the local development plan and budget:

- Holding **development policy dialogues** with provincial and national levels;
- Clarify **implications of macro provincial and national plans** on local development planning;
- Formulating national and provincial policies and programmes in such a way that they **observe local autonomy and maintain functional authority** based on government regulation PP25/2000;
- Establish **inter-regional planning and vertical planning mechanisms** to synchronize national/provincial policies with proposals from below following the “counter-stream” principle;
- Apply **special financial instruments (DAK)** in line with agreed upon proposals and policies.

4. Strengthening functional linkages between planning and budgeting process, by means of multi-year program planning to improve management of agreed upon policies and development plans.

- Apply types of and **standards for planning** that are relevant to the plan’s and programme’s substance, scope and focus.
- Design phased programme implementation based on **multi-year investment programmes** such as “*Program Dasar Pembangunan Perkotaan*” (PDPP) and ensuing annual plans;
- Mobilise **funding from external sources** such as private sector to increase financial resources
- Develop **institutional linkages/networks** with private and civil sector organisations for programme implementation;
- Establish a **local fiscal management and control system** that strengthens transparency and accountability;
- Apply an **impact evaluation system** to assess the consistency, effectiveness and efficiency of development spending and overall goal achievement.

◆ **Individual level recommendations**

1. Concepts and processes of local development planning:

- Knowledge about local development theories and planning concepts to devise appropriate policies and strategies. The concepts

should reflect the principles deemed appropriate under prevalent conditions of local autonomy and should enable planners to devise realistic development strategies. The related intellectual skills enable the planner to evaluate the utility of different theoretical and conceptual approaches and to select the one that is applicable to the specific local context of planning.

2. The professional skills needed to establish and implement plans:

Planners need a broad range of skills among them

- **Planning skills** to conceptualize problem and action-oriented planning approaches and direct them towards local development problems and opportunities;
- **Managerial skills** to guide, moderate and coordinate stakeholders involved in a series of coordinated planning efforts;
- **Social skills** to use teambuilding and communication techniques across organizational boundaries as well as with local communities and private-sector organizations;
- Enhancing genuine **facilitation skills** for capacity building for central government staff towards the local level is another aspect that will have to be addressed by training.

3. The attitudes and commitments of planners and councillors:

Attitudes and values heavily influence the application of local development concepts and planning, managerial and social skills. Legislators and planners committed to transparency, participation and the involvement of community groups will have to reflect upon the attitudes that obstruct them. Individual capacity building, therefore, will have to challenge existing attitudes and instill the readiness for change.

4.3.2 Scope for Donor Assisted Activities

It will be essential for the successful strengthening of local autonomy that the procedures for negotiation of and agreement on donor-supported local level development programmes include the local governments as equal partners. Priorities for donor support in development planning related capacity building ideally concentrate on three aspects:

- **Support for planning system design**

The new as yet undeveloped planning system is a major policy design effort that requires a departure from most if not all centralist practices of the past by GOI. Concrete input on how to design a decentralized planning system and which planning forms and instruments to consider and balance with each other so that

each level is capable to plan according to its functional authority, is an immediate need. This will include to draft the appropriate legislation on both local and provincial/national planning, suggest operational procedures for different planning streams suggested earlier and develop action-oriented planning methods/guidelines for local, provincial and national level development planning.

▪ **Application of revised development planning framework :**

The application of the revised planning system in the field should be implemented within the frame of broad local autonomy support strategies that consider the functional linkages with other themes of the study and embark on integrated approaches, for instance linking the improvement of planning functions with the delivery of urban services or the promotion of local economic development. A variety of different situations should be supported to experiment and gain experience with various local themes relevant for local autonomy, such as inter-regional planning, urban management of metropolitan regions, secondary city development, regional sustainable resource management, macro-regional (provincial) planning etc., by embarking on locally focused organisation development (OD) strategies.

▪ **Human resources development/training for local development planning :**

With the arrival of local autonomy human resources development requirements will increase considerably, both in terms of absolute demand for and of scope of training. Support should be rendered to the development of appropriate training materials and courses for the variety of stakeholders involved in local planning. The institutional strengthening of training providers from both higher education and private training institutes and the establishment of education/training and research networks on the practice of local development planning & management are of priority importance.

4.4 Regional Finance

4.4.1 Findings and recommendations

Law No. 22/1999 regarding Local Governance, Law No. 25/1999 regarding Central-Local Fiscal Balance and the supporting government regulations represent a fundamental reform of the existing local government finance system which provides the opportunity for meaningful decentralization. This includes enhanced local decision-making authority, transparency and local accountability.

Under the existing system, the central government has dominated the sources of regional finance as well as the permissible uses of such finance. Law No. 25/1999 regarding Central-Local Fiscal Balance and the supporting Government Regulation on Equalization Funds introduces the more flexible General Allocation Grant (*Dana Alokasi Umum* –DAU) to replace both the *Subsidi Daerah Otonom* (SDO), which previously paid all local government staff salaries, and the previous INPRES grants

for development expenditures. This change will make it possible for local governments to make better decisions regarding the appropriate balance between operations and maintenance allocations versus those for new development projects. In replacing the SDO system, DAU will also allow local governments to design their own organizations for service provision and will finally give them incentives for achieving labor productivity in the provision of services. With the introduction of the new DAU and the widening of local government responsibilities, local governments will have to make much more difficult decisions regarding the allocation of funds between different sectors under their responsibility. This means that DPRD members and local government officials will need new and increased capabilities to make such decisions on budgetary allocations. In making these decisions, local governments must be capable of better understanding the priorities of the local communities. This also places new demands on the DPRD, local government officials and the communities.

Until now, the systems and procedures for local government financial management have been dictated in great detail by central government regulations and guidelines, especially PP 5/1975 and PP 6/1975, which have been enforced by intrusive supervision from the central and provincial governments. These are now being replaced by a system of general guidance from the central government supported by central monitoring, evaluation and facilitation. The local governments will themselves be largely responsible for the detailed design and implementation of systems for budgeting, accounting, reporting and other aspects of financial management. This has a profound impact on the new capabilities required of DPRD members and local government officials. The draft Government Regulation on Local Government Financial Management encourages full cost recovery for service provision, where appropriate. It also specifies that local governments will use a performance-oriented budgeting approach for both budgeting and financial performance reporting in order to make a clear linkage between inputs and expected outputs. This performance measurement and reporting to the executive, the local parliament and to the community will help improve transparency and accountability. All of these have huge implications for the new types of capabilities that are required of local governments.

The general findings of the field surveys indicate that existing capabilities of local governments for local government financial management vary greatly; ranging from those that are competent to implement the existing centrally-dictated systems to those with substantial deficiencies. The new regional finance system requires a quantum leap of capabilities such that even the fairly competent local governments will require substantial and sustained capacity-building support in order to fully implement the new system. With such huge needs for capacity-building at all levels (system, entity and individual), there is a very urgent need for the Government of Indonesia to adopt a clear, phased strategy to support the capacity-building needs in local government financial management.

In order to support the effective implementation of decentralized regional finance in January 2001, the *most immediate capacity-building need* is to issue and fully socialize the Government Regulation on Local Government Financial Management (*PP Pengelolaan dan Pertanggungjawaban Keuangan Daerah*) and the Government

Regulation on Equilibrium Funds (*PP Dana Perimbangan*) which will have a serious impact on the local government budgeting process and availability and allowable uses of transfers from central to local governments. This socialization must be in sufficient depth that local governments can fully comprehend the operational implications of the new system and can act upon this knowledge. Such socialization must not be limited to the local government executive and finance officers but also DPRD members on Komisi C, all senior local government officials with budget responsibility and the local communities. This broad and in-depth socialization will at least allow local governments to effectively employ their existing financial expertise to adapt and implement the new system.

Next, capacity-building activities should focus on those new systems and skills that are needed under the new local government finance system; especially an APBD budgeting process which is responsive to priorities of the local communities and the introduction of performance-oriented budgeting and reporting to improve accountability and transparency. At the same time, attention should be paid to correcting critical deficiencies of the less capable local governments. This can be accomplished through targeted technical assistance and training support, as requested by the local governments and communities themselves.

In the medium-term, there is a critical need to introduce a career path system for local government finance complete with job descriptions tied to minimum qualifications and training. The training systems is deficient and must be upgraded, building first upon improving the existing training institutions, courses and training materials.

4.4.2 Scope for Donor Assisted Activities

Immediate and short-term support from donors should focus on the finalisation and socialisation of the regulatory framework for local government finance. This involves donor support to socialise and disseminate new regulations in finance management and fiscal transfers once approved by the central government, and support to efforts to formulate the regulations specifying the exact methodology to calculate shared revenues and the data sources to be used. These data and calculations should be made easily available to local government officials and DPRD members (e.g. via the internet), and local government officials should be trained in the calculation methods to allow them to cross-check allocations and transfers. Technical assistance can furthermore support the analysis of the impact of transferring civil government personnel and assets to the regions in order to develop medium-term strategies for local government how to cope with the increased staffing level.

In a *medium and long-term perspective*, donors can assist the government to review on-lending mechanisms to regional governments and BUMD. They should furthermore review the implementation modalities of ongoing foreign-loan funded projects.

Donors should support the introduction and utilisation of cost recovery mechanisms for local government services (starting with water tariffs). Support will be needed for

local governments to design appropriate organisational structures for the Local Government Finance Board, and for improving the local budget process. The new PDPP guidelines need to be disseminated and local government officials will need training for their application.

Technical assistance and probably financial support will be required for the development of a professional association of local government finance officers. PERPAMSI will need donor assistance for disseminating the PDAM Corporate Planning concept and for training PDAM and local government officials. Donors should support the establishment of performance indicators and benchmarks, and the development of an information exchange system/data base on such indicators.

Donors should support the design, pilot test and disseminate methodologies for Performance Based Budgeting. They should provide support to the introduction of modified accrual accounting and double entry book keeping.

To improve the human resources situation, donors should support efforts by the government to review, modify and upgrade the content of existing financial management training programmes (like KKD, LKD) and to improve the delivery mechanisms for such programmes. There is a dire need for increasing the available pool of qualified trainers in this field, and donors can cooperate with public training institutions (like the *Diklat Prop*), associations, and universities in Training of Trainers programmes. Clear career paths in local government financial management should be established, and a better match between job descriptions and job qualifications implemented.

Support should be provided to improve the policy formulation process between central government agencies and to improve the legal drafting skills of central government officials.

4.5 Organisational Development for Regional Governments

4.5.1 Findings and Recommendations

The task of organizational development that local governments are to undertake in coming months can be described as consisting of the following:

- Determining new authorities of local governments
- Determining new arrangements for new authorities that are currently in departmental and provincial offices in each local government
- Determining arrangements for new authorities that are not yet managed in regions.
- Expanding the capacity of the local governments' secretariat (*Sekretariat Daerah*) and technical institutions to cope with the increased size of government.
- Any other changes that may be required by the new regulations.

None of these steps is straight-forward. The proposed time schedule for implementing organizational development is impossible to keep without significant compromise and risk. The Governmental Regulation on the organisational structure of regional governments is seen as having many short-comings, particularly in the proposed eseloneering which does not allow local discretion reflecting local circumstances. The emerging framework for organisational development of regional governments is also not in compliance with the principles of the Normative Framework. During the field assessments, regions were found to be confused by the lack of regulatory basis for organizational development. This confusion is actually disguising a considerable willingness in most regions to make tentative plans while awaiting clear regulations and directives.

At the **systems level**, capacity building for organisational development in the regions is hampered by a range of problems which can be grouped into conceptual problems, problems with regulations and guidelines, and difficulties for the centre to provide guidance. Conceptual shortcomings refer to the lack of linkages between the structure of the organisation and its actual work (“form does not follow function”), the lack of discretion allowed to regions in establishing their organisations (e.g. all local governments have identical eselon-ranks for their positions). The study team observed a mismatch between professional expertise and managerial positions where often managers don’t have required professional expertise and professionals don’t hold decision-making positions. There is also a lack of a general reference framework for a modern public administration system which provides the basis for terms and concepts of organising local government. Regarding regulations, the study found that the draft Government Regulation on regional government organisations does not match the principles formulated in the Normative Framework. Central government agencies are ill prepared to support organisational change processes on the local level, and can therefore carry out their guidance (*pembinaan*) functions only to a very limited extent.

On the **institutional level**, the study team found that in many cases the prevailing corporate culture of administrative institutions does still not allow local government officials to identify with their communities. However, most regions appear to recognise the importance of changing their corporate culture and prioritise efforts at improving the images of their governments and their public services.

Regions are searching for methods, approaches and processes to better plan organisational structures. There is a need to develop indicators to evaluate the performance of government institutions, and to use “Best Practices” as a means to compare local government activities. Regions were also found willing to improve public participation in decision making, and were looking for methods and procedures to include the public in their decision-making processes. Project and contract management have to be improved and better integrated into the organisational structure and processes of institutions.

Facilities of local government institutions (buildings, equipment, communication equipment etc.) were found to vary greatly between regions.

On the **individual level**, the study found a dire lack of professional expertise and skills of the staff of the local government units dealing with issues of organisation and working procedures (*Bagian Ortaga*), and a general lack of knowledge of good management practices.

4.5.2 Scope for Donor Assisted Activities

Immediate and short term priorities for donor assistance focus on putting in place and disseminating the necessary regulations for organisational development of regional governments. There is a huge need to support the immediate transition when central government units in the regions (*Kandep/Kanwil*) will be merged with local government units, and have to be “unplugged” from the central government system and “replugged” into the local government system. Strengthening management knowledge, and the preparation of a programme to equalise assets and facilities are further short-term priorities.

Medium- and long-term priorities for donor support include assistance to modernise and update the existing *sistem administrasi negara* to become a reference framework for modern public administration which would guide organisational development processes in the regions.

Donors should provide support to reforming the system of functional and structural positions to achieve a better match of professional and managerial expertise and skills. There is need to support central government agencies, associations and private sector organisations in developing tools and instruments to support organisational change processes on the local level, and to build up a pool of experienced “Organisational Development Consultants” which can facilitate such processes. Quality Management Programmes and Best Practices Programmes can alert local officials to improve organisations and their level of services. Project and Contract Management skills need to be upgraded to support increased responsibilities of local governments. Finally, a programme to equalise and improve the facilities and assets of local governments should be supported by donor agencies.

4.6 Human Resources Management

4.6.1 Findings and Recommendations

Law No. 22/ 1999 has relatively little direct content on HRM, despite the fact that the quality of human resources has often been quoted as one of the main constraints to decentralisation. It states that regions will have the authority to conduct HRM functions within national laws and regulations, and that provinces will have a supervisory role in employment administration. Law No. 43/1999 establishes BKN as the civil service management agency responsible for developing new national regulations and procedures and monitoring their implementation. It also establishes a Civil Service Commission responsible for civil service management policy, and authorizes Personnel Units (BKD’s) in regions to conduct HRM. It emphasizes the principles of objectivity, political neutrality and professionalism. By international

comparison it is less detailed and comprehensive than some civil service laws, relying on subsequent regulations to specify details, some of which will be crucial.

Law No. 22/1999 also requires that central government personnel based in the regions are transferred to regional governments. Law No. 43/1999 does not refer to this, and although a subsequent BKN Decree (*Keputusan Kepala BKN 7/2000*) confirms that regions will be obliged to absorb all central government personnel based in their regions, it is not clear how this complex process is to be implemented effectively.

There are a number of open issues and corresponding uncertainties on the part of civil servants regarding the implications of both Law No. 22/1999 and Law No. 43/1999. The degree of autonomy allowed to regions in HRM will depend on how detailed and stringent the standard procedures are, and how rigorously they are monitored. There is a possibility that the regulations could be framed in a way that severely limits the decentralisation of HRM functions. The *PP Kewenangan* (PP 25/2000) does not clarify the division of authority in HRM between levels of government. A strong role is assigned to BKN by Law No. 43/1999 but extent of its role and powers are not defined in detail. Thus the relations between BKN and the local BKD's have yet to be determined. Responsibilities for monitoring procedures appear to be allocated differently between Law No. 22/1999 (provincial supervision) and Law No. 43/1999 (BKN monitoring). Other issues which remain open at present include responsibilities for the training of local civil servants, the status of the various government training institutions and reform of the remuneration system.

The immediate problem that is taxing regional HRM officials is the prospect of local governments absorbing and integrating the central government personnel based in the regions. Some local government officials are not aware that this may become an obligation. Others envisage a range of problems including the criteria for appointments to structural positions in the merged *Dinas* organisations, how to utilise all the transferred officials in productive jobs, working relations between local government personnel and those transferred, and the grading of posts for incoming senior personnel. There is a risk that these transitional problems could adversely affect public service delivery. The government has announced that these transfers will be made in October 2000, but it is not yet clear if the budgets, to be devolved in January 2001, will be sufficient to fund the combined establishments.

Another immediate issue for many local governments is their lack of understanding of the new legislation and its practical implications for management and the division of responsibilities, especially Law No. 43/1999. It is not obvious that this law supports decentralisation. Socialisation has not been effective. In many cases the reaction is simply to await further clarification and more detailed PP's.

Many local governments have very little capacity in HRM functions or in management generally. The personnel in *Bagian Kepegawaian* have little training or experience in HRM, and have historically only undertaken routine administration. Moreover the present regulations and systems are considered repressive and ineffective, and there is little respect for the current system of recruitment, appraisal,

promotion, placement, etc. The procedures and forms are considered to be technical formalities, and susceptible to subjective use. There are continuing problems of abuse of authority and lack of transparency in HRM. Many civil servants are placed in positions that do not correspond to their skills or their preferences. The distinction between structural and functional positions distorts training and career development. In parallel with its programme to develop new HRM systems, BKN is planning training events in job classification, recruitment, performance appraisal, etc. But it seems clear that this will not be enough for officials whose tasks have previously been based on low level administration. A wider range of training and support in management and HRM functions will be necessary to establish the BKD's as operationally effective units. There is also a lack of local capacity to assess training needs and to manage the training function.

The development of partnerships with the private sector, membership of professional associations, and inter-regional co-operation can also play a significant role in developing HRM capacity.

The organisations of central departments should be reduced in line with their more limited functions as decentralisation proceeds, focusing on the development of policies and guidelines, co-ordination and support services, and monitoring local compliance with policy. But officials report that already there are problems in executing this. Apart from the natural resistance of departments to downsizing, many senior officials do not wish to leave Jakarta, and in any case most applications for re-assignment to the regions are being rejected. There are insufficient funds for large scale early retirements.

None of the current legislation addresses the status and roles of training institutions. It is clear that under Law No. 22/1999 budgets and management of training, as with most other functions, will be devolved to regions, and thus central training institutions will not be able to impose their services on local government. At present many local governments feel that the training system is not responsive to local needs. LAN and central *Pusdiklats* are planning to adjust to new roles concerned primarily with policy rather than delivery, i.e. formulating training policies, research and development, and establishing national systems for training management. There is widespread dissatisfaction with the system of structural training as being too long, expensive, and theoretical, and failing to deliver the required competencies and skills. LAN is planning a new system of leadership training based on competencies to replace structural training, with delivery decentralised under LAN accreditation (except for the top level programme).

The functional training centres previously under central departments (in health, agriculture, finance, etc.) will be transferred to the provinces, where management will face the challenge of co-ordinating and integrating these services with provincial training centres. It is not yet clear to what extent local government will be required by future regulations to use provincial training centres. But they will have much more latitude than before in selecting their training providers, especially for technical training. There is a clear danger that they will undertake less training, diverting the

budget to other priorities. Some government training centres could then fall into disuse, resulting in the erosion of the public service training function. This has been experienced in a number of countries where training has been decentralised and deregulated without safeguards.

The reform of the remuneration system is also an urgent necessity to secure and retain professional HRM personnel, especially at management level. Basic salaries need to be increased and allowances rationalised and simplified. But the reformed system should also relate salaries more clearly to level of responsibility and provide incentives to improve performance of core functions (rather than perform peripheral functions that attract allowances).

Priority areas for Government action are as follows:

- ◆ BKN institutes a programme of more extensive and effective socialisation with regard to UU 43/1999, subsequent PP's, and their implications.
- ◆ Support and guidelines are provided by central government for the effective absorption and placement of central government personnel into local government.
- ◆ The roles and functions of BKN and BKD's, the working relationship between them, and the criteria for the creation of BKD's, need to be clarified by the Government.

In the *medium term*, the following items are considered crucial to establish efficient and effective HRM systems at the regional level:

- ◆ Appropriate institutional support is provided by central departments, provinces and donors for the operational establishment of BKD's in local government, including training and development of HRM and MOT competencies.
- ◆ The Government establishes the Civil Service Commission as soon as possible to direct and co-ordinate HRM policies. Central agencies endeavour to develop a set of coherent policies for administrative reform, including decentralisation, deregulation, streamlining, accountability, structure of the civil service, career development, the system of structural and functional positions, etc.
- ◆ New innovative national policies on training are formulated under LAN's co-ordination, and the system of structural training is overhauled and deregulated, in accordance with the government's objectives for decentralisation, transparency and professionalism in the civil service. International technical assistance is provided to LAN.
- ◆ The Government correspondingly clarifies budgeting arrangements or guidelines for training and the roles of training institutions at each level. A strategic review of the roles of these institutions, their capacities and scope for rationalisation would be supportive.

- ◆ Training needs assessments in HRM are conducted at local level, preferably within a standard framework and methodology established by LAN.
- ◆ A review body is established as soon as possible by the government to recommend reform of the civil service remuneration system.

4.6.2 Scope for Donor Assisted Activities

Human Resource Management has been conducted as an integral part of a centralist, “command and control” model of government since national independence in Indonesia and considerable donor support will be required to modernise and decentralise the management system and culture. There are substantial capacity building needs in HRM at central and regional levels and donors can effectively support many of these.

At *central government level* some of the main HRM areas where donor support can effectively contribute are the following (in order of priority):

1. **The organisation of events for debate, clarification and development of HRM policies** in the context of decentralisation and administrative reform, with access to international comparative experience and advice, e.g. senior level workshops, study tours, international seminars for senior officials from the Civil Service Commission, MENPAN, BKN, LAN, etc.
2. Technical assistance for MENPAN, BKN and Organisation Bureaux (*Biro ORTALA*) of selected departments in preparing guidelines and support to local government for the **transfer of central government civil servants to local government**, e.g. short-term consultants in manpower planning, organisation development and local government management.
3. Long term **technical assistance to BKN in developing the regulative framework and national procedures** for the conduct of civil service HRM. Initial emphasis will be required on a job analysis/classification system that is appropriate for Indonesia and can be implemented nationally with full documentation and associated training programmes. Another BKN priority is the early reform of the performance appraisal system. This will also require substantial technical assistance. Previous international support in staff appraisal has not been effective, and cultural sensitivity in the design of instruments and extensive training in the regions will be necessary for successful implementation. BKN’s subsequent work on developing procedures for other core HRM functions will benefit from short term specialist consultants, e.g. recruitment procedures, career development, promotion criteria, enforcement of the code of ethics, etc. These systems and procedures should be developed in consultation with the regions, and their design should safeguard national standards with minimum infringement to local autonomy.

International benchmarking may be an effective approach. CIDA is currently preparing to provide technical assistance to BKN in job classification.

4. Assistance to the Government in **reform of the remuneration system** for civil servants. It is generally acknowledged that official and legal salaries and allowances are inadequate, and do not compare to private sector remuneration. But recent increases and proposals have been largely arbitrary. Structural reform is required to provide salary differentials which reflect levels of responsibility, rationalise complex allowances, produce a simpler and more transparent system, and to reward good performance. Some preparatory work has been done by the World Bank, but BKN and the Ministry of Finance will need specialist support to develop a system to meet the needs of a modernising civil service, and one that is compatible with the job classification system to be developed. At present CIDA is planning some support in this area.

5. LAN is currently strengthening its research and development functions in public administration and preparing plans to replace the system of structural training by a more flexible system of leadership training based on required competencies. Successful decentralisation of responsibilities for training will require clearer **national training policies** and an appropriate **configuration of training institutions** to service the new requirements. Moreover, more radical changes in training policies may be necessary to bring the system up to international standards. LAN should be taking the lead in an overhaul of the current system of training, especially for structural training, so as to transform it into a more effective and deregulated management development programme. New policies for functional and technical training, and clear budgetary arrangements for training, are also required. The configuration and management of training institutions will need to evolve in accordance with new training policies. Numerous alternative models of civil service training are available internationally, and there are many areas where LAN, working in co-operation with BKN and departmental training centres, would benefit from technical support, including:

- a) General policies on civil service training and its funding.
- b) Replacement of the structural training system by a more flexible and efficient senior management programme.
- c) Development of a national accreditation system for senior management training.
- d) Policies on the deregulation of functional and technical training.
- e) Review of the roles and capacities of existing training institutions at all levels, and the scope for rationalisation and co-ordination.
- f) Conducting or providing guidelines for training needs analysis for local government. Possibly compiling a central database of training needs.
- g) Other LAN support for the training process in the regions, e.g. training of trainers, curriculum development, support in contracting and managing training, training evaluation, etc.

6. Support for central government in **establishing a local government audit function** would be an effective contribution, either in a new institution (Local Government Audit Board) or as a unit of *BPKP* or other agency. This board's functions should cover efficiency review, promotion of best practice in management, monitoring financial rectitude and investigating irregularities in management, including nepotism and bias in HRM.

At **regional government level** some of the main areas in HRM for potential donor support are the following (in order of priority):

1. Workshops and discussions for regional officials on the **decentralisation of civil service management**, the provisions of current legislation and new regulations, the implications for local government and the scope of authority and discretion of local management.

2. Technical assistance for local government in the **smooth transfer and absorption of central government civil servants**, and the preparation of plans to integrate these, offer early retirements, reshape the organisation, etc. over a period of time. These plans would be prepared in accordance with any central guidelines that are issued and any local service delivery target levels. Such assistance could entail short-term consultants in manpower planning, performance management, organisation development or local government management.

3. The conduct of detailed HRM capacity building needs and **training needs assessments** for management in particular local governments, working with the local BKD and *ORTALA*, or with the provincial government.

4. **Support for the operational establishment of BKD's** across the range of their functions. At present the capacity to perform these functions is very low in many local governments, and institutional strengthening programmes are required, e.g. training and advice in job analysis and job descriptions, training needs analysis, management of training, management of change, and the core HRM functions (recruitment, promotion, career development, etc.). The development of short training modules that can be replicated in a number of regions may be considered. These must be co-ordinated with BKN's programme in developing HRM procedures and providing related support to BKD's.

5. In parallel with or following work on training policies and systems there is considerable scope for donors to engage in **institutional strengthening programmes for training institutions** in various sectors. There will probably be most scope at provincial level as provinces take over training centres previously operated by central departments and prepare to offer relevant courses to local government in a competitive or partly competitive training market. The formation of international institutional alliances and partnerships could prove to be an effective approach.

Annex 1 List of Reports and Working Papers prepared under CBNA (as of 30 November 2000)

1. Final Report

Capacity Building for Local Governance – A Framework for Government Action and Donor Support (January 2001) (English)

Pengembangan Kapasitas Bagi Pemerintahan Daerah – Suatu Kerangka Kerja Bagi Pemerintah dan Dukungan Donor (Januari 2001) (Bahasa Indonesia)

2. Thematic Reports and Working Documents

Role and Function of the DPRD (B1)

Final Report (August 2000)

Technical Report (Assessment Tools) (August 2000)

Normative Framework (English and Bahasa Indonesia) (August 2000)

Supervisory Mechanisms (B2)

Normative Framework (English and Bahasa Indonesia) (April 2000)

Public Services/Urban Services (B3.1)

Final Report (August 2000)

Technical Report (Assessment Tools) (August 2000)

Normative Framework (English and Bahasa Indonesia) (August 2000)

Public Services/Health (B3.2)

Normative Framework (English and Bahasa Indonesia) (April 2000)

Thematic Report (Bahasa Indonesia) (January 2001)

Public Services/ Education (B3.3)

Normative Framework (English and Bahasa Indonesia) (April 2000)

Thematic Report (Bahasa Indonesia) (January 2001)

Public Services/ Agriculture (B3.4)

Normative Framework (English and Bahasa Indonesia) (April 2000)

Local Development Planning (B4)

Final Report (August 2000)

Technical Report (Assessment Tools) (August 2000)

Normative Framework (English and Bahasa Indonesia) (August 2000)

Regional Finance (B5)

Final Report (August 2000)

Technical Report (Assessment Tools) (August 2000)

Normative Framework (English and Bahasa Indonesia) (August 2000)

Regional Economic Development (B6)

Technical Report (Assessment Tools) (April 2000)

Normative Framework (English and Bahasa Indonesia) (April 2000)

Organisational Development (B7)

Final Report (September 2000)

Normative Framework (English and Bahasa Indonesia) (April 2000)

Human Resources Management (B8)

Final Report (August 2000) (English and Bahasa Indonesia)

Technical Report (Assessment Tools) (August 2000)

Normative Framework (English and Bahasa Indonesia) (August 2000)

Interregional Cooperation (B9)

Normative Framework (English and Bahasa Indonesia) (April 2000)

3. Other Working Documents

Decentralisation in Indonesia – The Framework for Local Governance
(Discussion Paper, May 2000) (English)

Documentation Bengkulu Field Assessment

Implementation Report (November 1999 – October 2000) (English)

Overview on Donor Supported Activities on Decentralisation and Local
Government Capacity Strengthening (Database Report) (October 2000)
(English)

Location Reports (Kabupaten Bima, Kota Makassar, Kota Malang, Kabupaten
Kutai Induk) (October 2000) (Bahasa Indonesia)

Note:

**All reports, papers and working documents can be downloaded from the
GTZ-SfDM website at www.gtzsfdm.or.id.**

Annex 2 Members of the Study Team

The following consultants participated in the study:

Name	Agency	Area of work	Remarks
Rainer Rohdewohld (11/1999 – 10/2000)	GTZ	Teamleader; Institutional Development	Full-time
William Kugler (12/1999 – 10/2000)	USAID/CLEAN Urban	Urban Services; Regional Finance	Part-time
Luc Spyckerelle (11/99 – 5/2000)	GTZ	Role of DPRD; Local Development Planning; Database	Full-time
Syahroni (11/1999 – 10/2000)	GTZ	Role of DPRD; Local Development Planning	Full-time
Laila Suryodipuro (12/1999 – 7/2000)	USAID/CLEAN Urban	Urban Services	Part-time
Muhammad Firdaus (2/2000 – 3/2000, 6/2000 – 8/2000)	GTZ	Human Resource Management	Full-time
Gina L. Leiwakabessy (2/2000 – 3/2000, 6/2000 – 8/2000)	GTZ	Human Resource Management	Full-time
Mohammad Nadjib (1/2000 – 7/2000)	USAID/ CLEAN Urban	Local Economic Development; Role of DPRD; Local Development Planning	Part-time
Manfred Poppe (2/2000 – 3/2000, 6/2000 – 8/2000)	GTZ	Role of DPRD; Local Development Planning	Full-time
Blane Lewis (12/1999 – 2/ 2000)	USAID/CLEAN Urban	Local Economic Development	Part-time
Robert A. Raitt (1/2000 – 3/2000, 6/2000 – 7/2000)	GTZ	Human Resource Management	Full-time
Owen Podger (June/July 2000)	ADB TA 3177-INO	Organisational Development	Part-time
Wayan Tirthayasa (June/July 2000)	ADB TA 3177-INO	Organisational Development	Part-time
Drajat Tri Kartono (12/1999 – 2/2000, 6/2000 – 7/2000)	USAID/CLEAN Urban	Public Services/ Education and Health	Part-time
Prof. Manasse Malo (12/1999 – 2/2000, 6/2000 – 7/2000)	USAID/CLEAN Urban	Public Services/ Education and Health	Part-time
Encik Mugnidin (3/2000, 6/2000)	GTZ/KUF	Public Services/ Agriculture	Part-time
Bambang Tata Samiadji (12/1999- 2/2000)	USAID/CLEAN Urban	Interregional Cooperation	Part-time
USAID/CLEAN Urban		Regional Finance	Part-time