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Building Capacity to Support Decentralisation –
The Case of Indonesia (1999-2004)[1]

1. Background

The regime change of May 1998 opened opportunities for a far-reaching and still ongoing process of transforming the political system of Indonesia. Decentralisation is a key element of this transformation process. Being a main building block in the reform programme of President Habibie (the successor of former President Suharto who had been in power since 1966), decentralisation legislation[2] was passed quickly in May 1999 without much public debate and with little preparation of the stakeholders involved. It radically re-configured the power structure within the public administration system of Indonesia, and resulted in the transfer of a substantial portion of public funds from the national to the regional level. Decentralisation has significant medium-term effects on the future role of the central government and the working mechanisms of its agencies.

From the very beginning, „capacity building" was a major issue in the emerging decentralisation debate. The two-year period between the passing of the law in May 1999 and its coming into effect[3] was meant to provide sufficient time for the national government and the regions to prepare for decentralisation. The concern was mainly in regard to the capacity of the regions to deliver public services as required by the law, while fewer questions were raised about the capacity of the central government to adjust to its new role and to provide the kind of support to the regions which the law envisaged.

This paper does not describe an individual case study of capacity building for a certain institution or a set of people. It is concerned with efforts to formulate national and regional policies to create the required environment for successful capacity building initiatives to support decentralisation. It describes the background of the ongoing capacity building debate in Indonesia (both regarding national policies and direct capacity

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[2] Law No. 22/1999 on Regional Governance (*Pemerintahan Daerah*) transferred substantial responsibilities for delivering public services from the central government to the regions (provinces, districts and municipalities). Law No. 25/1999 (*Perimbangan Keuangan antara Pemerintah Pusat dan Daerah*) established a system of fiscal transfers from the central government to the regions which is meant to ensure that regions have sufficient resources to fulfil their obligations and was supposed to incorporate elements of fiscal equalization. There is a growing literature on Indonesia's decentralisation policy, its implementation so far and the impacts it has since 2003. A few examples: Aspinall/Fealy 2003, World Bank 2003, Podger/Turner 2003, Hadiz 2003. On fiscal decentralisation, see Fane 2003, Lewis 2001, Lewis 2003, Silver et.al 2001. Regarding the impact of decentralisation on the Indonesian bureaucracy, see Rohdewohld 2003.

[3] The decentralisation law originally envisaged May 2001 as starting point for decentralisation, however, this date was subsequently moved forward so that decentralisation would come into effect as of 1 January 2001 to coincide with the beginning of the new financial year.

building exercises in the regions), looks at experiences with approaches to capacity building and identifies areas where actual capacity building has already taken place. It looks at the role of external advisers in their interaction with Indonesian counterparts (especially in the field of policy advise and policy formulation), and identifies success and constraints factors for sustainable capacity building in the context of Indonesia's public administration system.

2. Formulating Policies and Strategies for Capacity Building to Support Decentralisation (1999-2002)

Efforts for capacity building to support decentralisation in Indonesia can be divided into three phases: the implementation of a multi-donor needs assessment exercise between November 1999 and October 2000, the formulation of a national strategy on capacity building to support the implementation of the decentralisation policy between December 2000 and November 2002, and the beginning of efforts to systematically support capacity building in the regions (since late 2003).
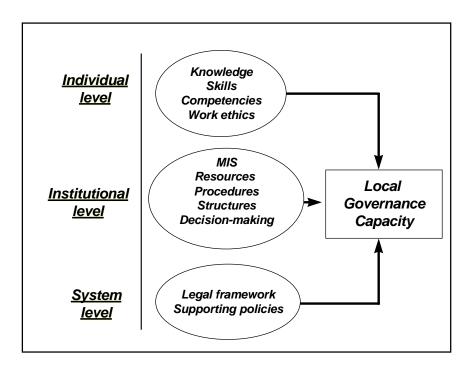
In June 1999, the National Development Planning Agency (BAPPENAS) asked the German Government to support a capacity building needs assessment exercise, so that both the Government of Indonesia (GOI) and the donor community would have a starting point from which future programmes for capacity building could be designed. This needs assessment exercise[4] began in November 1999 and lasted until October 2000, preparing a substantial set of recommendations to GOI and the donor community. Using the conceptual framework of UNDP's Technical Advisory Paper No. 3 on capacity development (UNDP 1998)[5], the needs assessment study identified capacity building needs on the **system level** (i.e. the regulatory framework and enabling national and regional policies), **the entity level** (i.e. an individual organisation's structures and working mechanisms, its relationships with other relevant organisations, its working culture and resources), and **the individual level** (i.e. skills and competencies of staff, work ethics etc) (see Fig. 1). Its main report (GTZ/USAID CLEAN Urban 2001) identified key clusters for capacity building, and set out parameters for a joint strategy. It became a major input to a Pre-CGI meeting between the GOI and donor agencies in October 2000.

Following the Pre-CGI Meeting, the Planning Bureau of the Ministry of Home Affairs took the lead in initiating the formulation of a national strategy for capacity building by inviting the planning units of all central government agencies and sector departments, the aim being to complement the cross-sectoral recommendations of the needs assessment

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[4] *Capacity Building Needs Assessment for Local Governments and Legislatures*. Main actors were GTZ and a USAID funded project (CLEAN Urban). Additional inputs were provided by two technical assistance projects supported by the Asian Development Bank (ADB) and the Canadian International Development Agency (CIDA). Details on the study and the reports originating from it can be found at http://www.gtzsfdm.or.id/cb_cbna_bgr.htm. There is also a review of the assessment exercise in the December 2000 Capacity.Org Newsletter No. 8 (Rohdewohld 2000).

[5] Since then, GTZ has formulated a very similar understanding of capacity development (GTZ 2003).

Fig. 1 Local Governance Capacity

study with sectoral inputs. A new Directorate for Regional Capacity Building (*Direktorat Bina Pemberdayaan Kapasitas Daerah*) was created in the ministry in March 2001, and a team was set up to coordinate the formulation effort. In BAPPENAS, a similar directorate (*Direktorat Pengembangan Kapasitas Daerah*) was established. Between March 2001 and August 2001, a lengthy process of consultations took place involving the Ministry of Home Affairs, BAPPENAS, the Ministry of Finance, sector departments and other central government agencies, the associations of regional governments (APPSI, APEKSI, APKASI) and of regional councils (ADEKSI, ADKASI), selected regions, donor agencies, and civil society organisations.

A draft policy paper on capacity building was presented at the April 2001 Interim CGI-Meeting[6]. In October 2001, an updated version of the draft framework was presented to the Pre-CGI Meeting on Decentralisation and the November 2001 CGI Meeting in Jakarta. Key elements of the suggested GOI's strategy were:

- Medium-term orientation of capacity building activities
- Targeting of different levels of government (central, provincial and local) and of different categories of stakeholders (like public sector agencies, regional parliaments, political parties, civil society organisations)

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[6] Annex 3 of the Speech of the Minister of Home Affairs and Regional Autonomy at the Interim CGI Meeting on 24 April 2001: Capacity Building to Support Decentralisation - A National Framework. Jakarta: 2001. (download at http://www.gtzsfdm.or.id/documents/dec_ind/gv_pa_doc/cb_a3.pdf)

- Focus on demand-driven programmes based on the specific needs of individual regions
- Integration of activities, i.e. combining training and skills development for individuals with institutional reforms and modification of the regulatory framework at central and local level
- Focus on horizontal exchange and peer learning between local governments
- Support to providers of capacity building activities, like training institutes, universities, management and consultancy institutes in order to enable them to provide adequate services to regional governments
- Flexibility in the strategy, i.e. the need to review regularly key assumptions and recommendations of the strategy.

The October 2001 version of the policy framework listed potential items for capacity building initiatives at central and regional level, identified priorities and gave a very rough estimate of the funds needed for capacity building in the 2001-2004 period. After further fine-tuning and inter-agency consultations, the policy framework was finally endorsed by the Minister of Home Affairs and the Chairman of the National Development Planning Agency (BAPPENAS) in November 2002.[7]

Capacity building as understood in the *National Framework* refers „to the need for adjusting policies and regulations, institutional reforms, modification of work procedures and mechanism of coordination, improvement of human resources, skills and qualifications, change of the value system and attitudes, so that the needs of regional autonomy as a new approach towards governance, administration, and participatory mechanisms of development can be fulfilled in order meet the demands for a more democratic system" (GTZ-SfDM 2003a:11). The policy framework contains principles for capacity building, which are still rather novel for the Indonesian public administration. First, it clarifies that in order to achieve the objectives of Indonesia's decentralisation policy, there is need for capacity building for **all** stakeholders including local civil society and the regional councils/DPRD, and not just for the administration. It also calls for capacity building at the national level, since the new decentralisation framework has significant repercussions regarding the roles of the central government agencies and their working mechanisms. It furthermore introduces capacity building as a concept that goes far beyond the traditional civil service focus on training; organisational changes, reviews of working mechanisms, or modifications of national and regional policies and regulatory frameworks being important elements of capacity building. It also attempts to create a medium and long-term perspective on capacity building (as against the traditional short-term focus on the annual budget cycle), and suggests that the regions formulate medium-term capacity building programmes for a four to five year period to

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[7] Menteri Dalam Negeri dan Menteri Negara Perencanaan Pembangunan Nasional/Kepala BAPPENAS: Kerangka Nasional Pengembangan dan Peningkatan Kapasitas dalam Rangka Mendukung Desentralisasi. Jakarta: November 2002. (Download at http://www.gtzsfdm.or.id/ documents /cap bld/ reports/ working_papers/FrameworkNov%202002_EnglishVersion_Final.pdf)

become part of the strategic plans of the regions.[8] A key principle of the *National Framework* is the acknowledgement that regional capacity building must be based on the demands of each region (which vary substantially in this vast and diverse archipelago), and the subsequent acceptance that the traditional way of central government driven programmes is not adequate anymore. Another key element of the *National Framework* is the need to build a "market" for capacity building, where capacity building needs of the regions are covered by adequate supplies from capacity building service providers from both the public and the private sector.

Being a policy paper, the *National Framework* has to be translated into concrete action by the central government agencies and the regions themselves. The delay in finalising the *National Framework* between November 2001 and November 2002 had caused loss of momentum. There has been lack of dissemination and socialisation of the *National Framework* and its principles once it was officially endorsed, while the continuing shortcomings in inter-agency coordination at the national level add additional constraints on making the *Framework* operational. The process of applying the *National Framework* at the regional level has started only in late 2003 (see section 4).

3. Where was capacity building achieved, and where not?

The 1999/2000 capacity building needs assessment study aimed mainly at gathering and synthesising information on capacity building needs at central and regional level; it was not expected to actually build capacity itself. The one exception was the objective that the assessment process should enable the government agencies involved to implement similar needs assessments without further donor support, by introducing them to concepts and methods of capacity building. This was only partly achieved because of frequent institutional changes in the government administration (see GTZ/USAID CLEAN Urban 2000). During the implementation of the needs assessment study, the constellation of GOI agencies involved changed several times (see Fig. 2), often at critical phases of the process. For instance the creation of the new State Ministry for Regional Autonomy in late October 1999 meant that the GTZ/USAID study team did not have substantial involvement of GOI counterpart in the design phase and the first implementation steps of the study until early 2000, when the new ministry became operational. Likewise the abolition of the State Ministry and the re-transfer of the responsibility for implementing the decentralisation laws to the Ministry of Home Affairs and Regional Autonomy in August 2000 caused a considerable delay, before the results of the needs assessment and the emerging policy recommendations could be discussed with the new counterparts in the Ministry of Home Affairs.

The subsequent process of formulating the *National Framework* starting in early 2001 was meant to be an exercise in building capacity for policy analysis and policy formulation. Was this objective achieved?

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[8] Regions are required to formulate five-year strategic plans, outlining their development strategies and priorities. These five-year strategic plans should be used as a basis for the annual planning and budgeting process.

The answers here differ according to the dimensions being looked at, the suggested dimensions being: the three levels of capacity building (system, entity, individual); national versus regional; and short-term versus long-term.
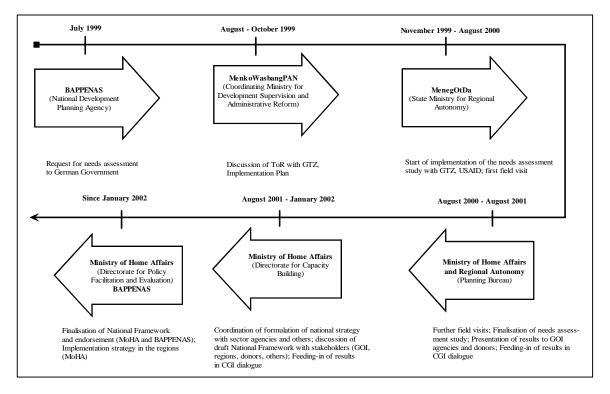
Fig 2 Involvement of GOI Agencies in formulating capacity building policies

On the *system's level*, the joint GOI/donor effort succeeded in putting in place a national policy which departs from the traditional and short-term focus on civil service training and central government-formulated programmes to be implemented in a top-down manner. The principles of the *National Framework* outlined above provide a much better policy context for regions to assess their capacity building needs and to formulate and implement capacity building programmes. It also changes the way in which central government agencies are expected to provide support and facilitation to the regions. Capacity building at the system's level therefore has been achieved.

At the *institutional level*, the capacity for policy analysis and policy formulation remains unsatisfactory. Again, frequent institutional and personnel changes are major reasons. The fragmentation of the Indonesian administration and the inherent reluctance to collaborate reduce the capacity of Government agencies to develop and implement well-coordinated and integrated policies. The implementation of decentralisation, being a cross-sectoral policy par excellence, has severely suffered from this fact.

At an *individual level*, capacity building efforts has been achieved by exposing key officials in the related GOI agencies to international concepts of capacity building strategies, and by discussing and jointly formulating national policies. However, the institutional constraints described above seriously impair and endanger the lasting impact of such individual capacity building.

The national vs. regional dimension shows more successful capacity building at the national level than at the regional level, although this can change quickly. The formulation of the *National Framework* did involve regional officials and officials of the regional associations, and of course made use of the field observations captured by the GTZ/USAID needs assessment study. However, the thrust of discussion was clearly on the national level, and too little was done to socialise the principles and the philosophy of the *National Framework* to the regions. Concerted efforts, especially by the Ministry of Home Affairs, are still needed in order to make regional officials understand and implement the concept of capacity building.

In the short-term, the efforts to further develop the findings and recommendations of the GTZ/USAID needs assessment study have succeeded to formulate a national framework for capacity building in an often difficult and time-consuming process, involving a multitude of national and regional stakeholders. However, transforming this short-term achievement into a long-term success requires that GOI agencies put the *National Framework* into practice by re-programming activities and work priorities. This effort of moving from successful policy formulation to successful policy implementation is still not satisfactory.

4. Building Capacity in the Regions (2003 onwards)

From the very beginning, the needs assessment study and the formulation of the *National Framework* were embedded in the GOI-donor dialogue under the umbrella of the CGI.[9] There was considerable interest from donor countries and donor agencies in the mapping of capacity building needs following the decentralisation policy. It is therefore no surprise that donors have taken up the *National Framework* as one of the guiding government policies for programming their own activities.

Since late 2003, one of the largest donor agencies operating in Indonesia, the Asian Development Bank (ADB), with co-financing from the Dutch government is supporting a five-year programme (Sustainable Capacity Building for Decentralization/SCBD)[10] of the Ministry of Home Affairs that attempts to put the main principles of the *National Framework* into practice: by helping up to 40 regions to formulate medium-term capacity building action plans, by supporting capacity building service providers to develop

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[9] Consultative Group on Indonesia. The CGI comprises all bilateral and multilateral donor countries and agencies, and meets on an annual basis with the GOI. Since 2001, joint working groups on key issues have been established, involving donor agencies and the respective GOI agencies. One of these joint working groups deals with decentralisation.
[10] See the programme's website at www.scbd.net.

services in line with the needs of the regions, and by establishing the infrastructure to allow for the horizontal exchange between regions and peer learning. On a much smaller scale, GTZ (again in cooperation with the Ministry of Home Affairs) has just started to support the implementation of needs assessment exercises and the subsequent formulation of capacity building action plans in three districts in the province of East Kalimantan. Among others, the exercise in East Kalimantan is intended to pilot-test guidelines for regional needs assessments which explain the concept of capacity building to the regions and suggest processes, methods and approaches for capacity building needs assessments (GTZ-SfDM 2003).[11] Both activities differ from traditional donor-government cooperation by not focusing on specific sectors, and by not providing a pre-determined menu of support. The main focus is on developing regional action plans according to regional needs, followed by facilitating the implementation of such action plans with funding coming from the regions themselves, donor agencies and other sources.

In order to fully utilise the potentials of the *National Framework*, the Government (especially the Ministry of Home Affairs) has to more actively promote the framework both towards the donor community, the sectoral and non-sectoral central government agencies, and to the regions. There is also an urgent need to support a wide range of capacity building service providers from the public and the private sector, in order to increase the relevance of their programmes for the capacity building needs of the regions.

5. *Methods and instruments for Capacity Building and the role of external advisors*

The capacity building needs assessment study in 1999/2000 was geared towards a qualitative analysis of major issues, perceptions and suggestions from a broad range of stakeholders at central and regional levels. These stakeholders included senior officials from central government agencies, local government officials, officials from provincial agencies, members of local parliaments, and representatives of local NGOs and community groups. The assessment process included aspects of both self-assessment and external assessment.

For each of the themes covered, the study team formulated so-called *Normative Frameworks* as the starting point for its analysis. These *Normative Frameworks*, which were based on Indonesian policies and regulations as well as on international best practice, consisted of general principles which should be applied to each theme, the operational implications of these principles, and finally the competencies which government organisations at both central and regional levels would need to possess. These *Normative Frameworks* acted as icebreakers in many meetings and discussions, allowing the team to present its normative approach to capacity assessment while the respondents could relate to a broad set of principles for local governance in the respective themes. The *Normative Frameworks* proved a most effective tool in the

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[11] The english language version of the guidelines (consisting of three modules) can be downloaded at http://www.gtzsfdm.or.id/cb_cap_assm.htm

assessment because they combined a relatively abstract, normative approach (based on the principles of good governance) with concrete institutional and individual implications which were much easier to understand, especially by local government officials.

The role of external advisors in the initial needs assessment study and the subsequent formulation of the *National Framework* must be seen against the background of regime change and political transformation, which resulted in unstable political conditions between May 1998 and July 2001,[12] disruption of long-standing working procedures of central government agencies, a re-configuration of power structures both between the legislative and executive branch of the state, and between the national government and the regions following the decentralisation policy. In general, external advisors (meaning advisors contracted and funded by donor agencies)

- provided conceptual inputs and brought national and regional officials in contact with international approaches and „good practices"
- acted as conduits between government agencies
- maintained continuity of activities during frequent institutional changes in the Government structure, and
- networked between donor agencies and GOI agencies.

Facing constraints from the side of the respective donor agency as well as from the Government side, external advisors had to find a sometimes difficult balance between moving ahead without sufficient GOI involvement (risking dis-engagement of important stakeholders and decision-makers), and slowing down for repeated efforts to integrate new counterparts in the work process (risking violation of budget and time limits imposed by the respective funding donor agency). The role of **Indonesian** external advisors of donor agencies cannot be under-estimated: moving between the international arena and the domestic arena, they played an important role in integrating Indonesian officials in the work process, in transferring concepts and ideas, and in pointing out open questions and areas of misunderstanding.

6. Supporting Factors and Constraints

Table 1 summarises supporting and constraining factors which could be observed in the implementation of the capacity building needs assessment study and the subsequent formulation of the *National Framework*. Some of these factors have been mentioned above already (like the institutional changes), others need further explanation.

Regarding supporting factors (pertaining to the effort of formulation national policies and strategies), the support of high-level decision-makers in the related GOI agencies and their willingness to cooperate across agency borders was certainly a main factor in the formulation of the *National Framework*. The integration of both the needs assessment

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[12] During these three years, Indonesia experienced four different Presidents and corresponding changes in the cabinet structure and the institutional set-up of the central government administration.

study and the formulation process for the *National Framework* in a wider context of a formalised and continuous Government-donor dialogue also contributed to keeping the process on track.

Table 1 Supporting and Constraining Factors

Support factors	*Constraints*
▪ High-level support in GOI agencies during certain phases ▪ Integration in wider GOI-donor dialogue ▪ Supportive political context (*reformasi*) ▪ Close donor coordination requiring coordinated GOI response ▪ Willingness of key decision-makers to cooperate across agency borders ▪ Increasing pressure for improved performance of the public sector under decentralised and democratic conditions	▪ Lack of conceptual understanding ▪ Short-term orientation of public sector agencies ▪ Unclear assignment of tasks and functions to agencies and individuals ▪ Lack of results and performance orientation ▪ Lack of intra-agency/inter-agency collaboration ▪ Lack of data and reliable information ▪ Frequent institutional changes and staff rotation (including management level) ▪ Complexity of issues (multi-dimensional, multi-stakeholder, multi-sectoral)

On the negative side, certain features of the Indonesian public administration system can reduce the impact of the *National Framework* and jeopardise potential benefits of regional capacity building programmes. Such features include the short-term orientation of public sector agencies used to operate within one-year budget cycles, a general lack of orientation towards results, avoidance of cooperation and collaboration within and between agencies, and the frequent rotation of staff (including management) in public sector agencies. Especially this frequent rotation is a serious impediment for sustained capacity building at the institutional level: without improved career planning and proper personnel development policies, the ongoing efforts of building up capacity in the regions will hardly be sustainable. Continuing shortcomings in applying principles of good governance are a general feature reducing the potential capacities of the public sector.

7. Conclusions for capacity building efforts

From the capacity building needs assessment study in 1999/2000 and the subsequent formulation of a national strategy, several conclusions can be drawn which indicate requirements for successful and sustainable capacity building processes.

- Leadership commitment is important: without full backing of capacity building efforts by the (political, administrative) leadership, efforts are likely to fail or will

remain short-lived. Leadership has to ensure that resources for capacity building are made available, and has to integrate the capacity building process in the strategic management of the institution(s) concerned.

- There is need for institutional and individual continuity. Repeated changes in the institutional set up of capacity building processes, and replacement of key individuals in this process will jeopardize and/or delay achieving the desired results. In the context of the Indonesian administration, regular staff rotation is a main reason for insufficient institutional capacity.

- Capacity building has to be part of a wider policy or programme. It must be linked to concrete outcomes (like improvement of public services, or - in the case described here – ensuring that cross-sectoral objectives can be achieved).

- Capacity building efforts must relate to and start with the perceptions, understandings and existing knowledge of the individuals or institutions concerned. The *Normative Frameworks* used in the context of the 1999/2000 needs assessment study are an example here: because they were formulated in a way that the respondents could relate to, they succeeded in clarifying perceptions on existing and needed capacities, and in discussing appropriate strategies for capacity building.

- Capacity building efforts need an institutional anchor point. In formulating the *National Framework*, the Directorate for Regional Capacity Building in the Ministry of Home Affairs and its counterpart directorate in BAPPENAS were such anchor points. These anchor point are not meant to be the sole implementing unit for capacity building activities; their main functions should be to facilitate, coordinate, coach and supervise activities of a wide range of stakeholders in line with the agreed policy objectives.

- Capacity building needs time and repeated reflection on what has been achieved and why.

- In the context of Indonesia, capacity building and pursuing good governance can not be separated, since the neglect of good governance principles (like transparency, participation, accountability) are main reasons for insufficient capacities in the public sector.

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