“Government, Local NGOs and the Institutions of Democratic Ownership in Indonesia”

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Introduction:

In the Annual Meeting of the IMF and World Bank in September 2006 in Singapore, the Minister of Finance of Indonesia suggested 4 points about partnership with the World Bank. The fourth point was "act as partners, not preachers".[3] This embarks on the call for strong ownership of the development policies. Although it was targeted on the information about corruption on aid-funded projects, the statement expressed about bigger picture of commitments made and actualized by the present government in Indonesia. Ownership of development policies and strategies has been an issue discussed in several occasions since the increasing criticisms of IMF's policy conditionalities that were publicly recognized as failure. The commitment of country ownership is not the same as the nationalistic orientation, but it is based on the facts that some foreign aid schemes were wasteful or inefficient or ineffective just because there was no strong leadership of the country in making policies and strategies, and in directing and controlling the implementation of the foreign aid-funded projects.

On January 24th, 2007, President Susilo Bambang Yudoyono of Indonesia announced that Indonesia would no longer seek financial aid through the Consultative Group on Indonesia (CGI), because the country is now able to overcome its foreign debts problems acting alone.

CGI was publicly perceived as both source of aid and source of calamities. CGI, chaired by the World Bank (until 2005), coordinated the donors interested in supporting Indonesia. On the other hand CGI was also seen as the forum for the donors to put pressure on Indonesia to implement policies preferred by the donors, which to some extent undermined the democratic procedures that are emerging in the country.

These two statements (the statement by the MOF and the President) outline the commitment of the government of Indonesia to take lead in policy development and the implementation of the policies.

Legal Framework:

In a study on the Strategy for Promoting the Performance of Foreign Aid I 2004, BAPPENAS (the National Planning Ministry) found that there were indications of *project seeking activities* both by the lenders and the government executing agencies in Indonesia for their own benefits.[4] Despite partial successes of the programs and projects funded by foreign aid, the study found that the absorption rate of foreign aid was low and the

[1] OECD Experts Workshop on *Ownership in Practice*, 27 – 28 September 2007, Paris.
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[3] Statement by the Hon. Sri Mulyani Indarwati at the Joint Annual Discussion, IMF and World Bank Annual Meeting, Singapore, September 19 – 20, 2006.
[4] Directorate of Monitoring and Evaluation of Development Funding, BAPPENAS, "The Study on the Strategy for Promoting the Performance of Foreign Borrowing", Jakarta, 2004.

benefits did not achieve the maximum as planned. There were many reasons for these, but there are two main reasons that should be pointed out explicitly. First is that the ownership level of the executing agency was low, which means that the implementing agency of the foreign-aid funded programs and projects did not feel responsible for the achievements and success of the programs and projects.

The second is that there was mutual interest between the government staff of the executing agency and the staff of the donor agencies. The government staff from the executing agency (ministries) needed foreign aid for projects in their respective agencies in order to receive higher allocation of matching funds from the state budget. Higher budget allocation means *higher income* for the staff in the executing agency. On the other hand the donor staff members need more loans for the country. More loans means more overhead costs for the donor, which in turns means *job security* for the staff members of the donor agencies.

The higher income of the government staff and job security for the staff members of the donor agencies to certain extent became more as the objectives of the foreign aid rather than for promoting economic growth and poverty alleviation in the country. As a result the country is burdened by the increasing debts and the people have to pay for the benefits they did not receive.

In 2002 the People's General Assembly (*Majelis Permusyawaratan Rakyat* – MPR) actually made a decision No. II/MPR/2002 about the Policy Recommendations for the Acceleration of the National Economic Recovery. The decision stipulated that the government should find appropriate ways to solve economic problems without too much dependence on foreign aid, and specifically not to extend the agreements with IMF that would terminate at the end of 2003. Foreign aid is needed only as complementary and only if it is necessary. In 2003 the Parliament issued the Law No. 17/2003 about State Finance Law; in 2004 the State Treasury Law (Law No. 1/2004), the State Audit Law (the Law No. 15/2004), and the National Development Planning Law (Law No. 25/2004). The Law No. 25/2004 set out the medium-term development plan for five years (2004 – 2009) as the commitment of the present government. There are three main thematic areas outlined in the Law: (1) a safe and peaceful Indonesia; (2) justice and democracy, and (3) a prosperous Indonesia. This mid-term development plan is put in details in annual development plans and the annual budget plans.

In 2006 the government issued a regulation on the management and procedures of foreign loans and grants (PP No. 2/2006). The regulation outlines the procedures, authorities and mechanisms for proposing, negotiating and implementing of foreign loans and grants by the government, starting from the district governments up to the central government. The policy directions set out by this law stipulate that (1) foreign loans are used for achieving the aims and objectives of development set out in the Medium Term Development Plan 2004 – 2009, and the achievement of MDGs, particularly on infrastructure, education, health and poverty alleviation; (2) the use of foreign loans by the regional governments (based on the Government Regulation No. 54/2005 and No. 57/2005) is prioritized for investment in the development of infrastructures and areas that directly promote regional income and direct benefit for the local communities; (3) the foreign loans used by the state-owned companies are used for investment purposes to expand and promote the services and the revenues of the companies; (4) the foreign loans are used to attract foreign investments.

PP No. 2/2006 regulates the one gate policy for foreign borrowing, the clear division of roles of each institution (from district to central levels), the transparency and accountability in planning, and the affinity between the foreign loans and the needs for the programs set out in the medium-term development plans. The regulation defines and directs the use of foreign loans in the period of 2004 – 2009.

The government has paid serious attention to the system and mechanisms of national development planning, to allow a bottom-up strategy and strong coordination among the executing and planning agencies from district level to national level. This has been included in the Government Regulation No. 39/2006 about the procedures for controlling and evaluation of the implementation of the development planning.

In 2007 the Parliament passed the Law No. 27/2007 about the Long-term development plan. This law sets out the long-term general policy options and strategies from 2005 up to 2025, including the options for development financing.

The legal frameworks indicate the strong commitment of the present government for setting its own policy framework for development for short-term, medium-term and long-term plans, by involving as much as possible "relevant"[5] stakeholders as required by democratic procedures. At sectoral levels the government also has developed sectoral development frameworks, such as investment climate frameworks, poverty alleviation strategies and operational mechanisms and particularly infrastructure development plans. In its implementation, the bottom-up planning has been applied starting from sub-districts, where the representatives of the local communities and local NGOs participate in the processes. In some sub-districts and districts the local NGOs facilitate the processes. This allows local NGOs with better informed about poverty and MDGs to integrate them in the development plans. The problem is at the final formulation of the plan at district and provincial levels where free-riders are waiting with long lists of their own interests. It is not surprising then when the projects come; they are not on the list of priorities of the local communities.

Poverty Alleviation Strategy

DFID, cited DAC OECD, put Indonesia in the category of countries fallen back to LIC status, bounced back to MIC, but fallen back to LIC, in its strategy paper 2004 – 2008.[6] In 2006 the poverty increased to 17.75% from 16.5% in 2005. The government of Indonesia has considered poverty as the big challenge.

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[5] "Relevant" here is put in a bit hesitation, since the author is doubtful if the making of the regulations were truly bottom-up and the participation of civil society was limited, if not at all.

[6] *Achieving the Millennium Development Goals: The Middle-Income Countries, A strategy for DFID: 2005–2008*

The Poverty Reduction Strategy Paper (PRSP) made in multi-stakeholders processes in 2003 has been taken as the National Poverty Reduction Strategy Document (NPRSD, or better known as SNPK – *Strategi Nasional Penanggunagan Kemiskinan*). The SNPK has been integrated in the Medium Term Development Plan 2004 – 2009 that has been made as Law No. 25/2004. The SNPK was made in participatory ways and included rights-based approach and with clear gender perspectives. For the implementation of the SNPK, the government has developed a National Program on People's Empowerment (known as PNPM) that sets out the details of operational plans for poverty reduction through promoting capacities of the local communities and providing funds for development.

PNPM to certain extent overlaps with the World Bank supported project called *Kecamatan Development Program* (KDP – Sub-District Development Program), or also known as the community-driven development concept of the World Bank. This raises the question of ownership of the poverty alleviation program. While the national planning procedures and systems have been bottom-up, the PNPM (or KDP) is in fact a top-down project in terms that the funds have been available and the local communities are encouraged to discuss participatively about how and what they want to use the funds for. Participation becomes vague since people have to involve because the funds have been there for them to use.

While PNPM launch a training program for community facilitators, the World Bank's agencies that have been spread around the country such as SOFEI, DSF, and MDTF etc. also conduct the same training project for community facilitators. PNPM itself was formulated based on multi-stakeholders process where NGOs participate.

The poverty reduction program brings certain challenges for the NGOs, both from the government and the donors. First, the flow of funds to the communities can break up the social capital that has been strengthened by the community organizing processes by the community groups and the NGOs. Second, while on one hand there is the regular bottom-up process of the national development planning, on the other hand the planning for poverty alleviation program is conducted in separate procedures.

Third, the PNPM and the projects supported directly by grants from the World Bank-managed agencies ignored the processes that have been conducted by NGOs for three decades, namely the training of local facilitators for community development. Several big NGOs have established training centers with national and local coverage and have trained thousands of community animators, community facilitators and community development managers. At present the government and the World Bank agencies conduct the same trainings. This can become waste of resources for both the government and the donors.

Disaster Response: a case of ownership

The disaster responses in the tsunami and earthquake torn regions of Aceh and Nias have been claimed as successful by the government and the donor consortia. The government responded by establishing special body called BRR (*Badan Rekonstruksi dan Rehabilitasi Aceh and Nias* – The Rehabilitation and Reconstruction Body for Aceh and Nias) and certain donor agencies established the Multi-Donors Trust Fund (MDTF) managed by the

World Bank.[7] Despite the successes in the collection and disbursements of funds, and the coordination of all donors and the government, the achievements are not as highly successful as claimed.

The ownership is questionable. It is true that the BRR as the representative of the national government is in the lead, but in fact BRR is an authority independent from the local government structures. During the emergency period, this was acceptable and understandable, but in the rehabilitation and reconstruction processes, particularly after the signing of the Helsinki Peace Agreement on August 15, 2005, the separation between BRR and the MDTF from the local government structures has raised the question of local ownership of the coordinated programs and funding schemes. This happened not only the official donors; the International NGOs are also mainly working independent from the local government structures. To certain extent, the BRR established its own structures in parallel, not in cooperation, with the local government structures (from provincial, district, sub-districts to village and hamlet levels).

Although the donors (through MDTF) claimed that the projects utilize participatory approaches and apply the ante-tsunami practices of community-driven approaches, it is hardly believe that the processes were implemented as such. The community-driven processes were only ceremonies, as a forum for the local communities to get amusement, rather than for participatory planning and implementation. The designs of the projects have been made by the facilitators of the World Bank rather than by the local communities.[8] The design of the projects also did not take into account the local context, such as the local institutions that have been long-rooted in the communities in Aceh. If there is acceptance by the local communities, it was mainly caused by opportunistic calculation: rather than not receiving anything it is better to take part just to receive the project approval.[9]

The main challenge for the local NGOs and local government in Aceh when the reconstruction and rehabilitation finished is the continuation of the projects. The ownership of the projects by the local government and the local communities as well as NGOs is questionable. There is a need of a period of preparation for local government and local communities to take over the project responsibilities.

The Exclusive Donors Forum: Emerging Challenge

The World Bank in Indonesia has established several agencies that act as donors' consortia, such as Decentralization Support Facility (DSF), Multi-Donors Trust Fund

[7] The donors include: the European Commission, the Government of the Netherlands, the Government of United Kingdom, World Bank, the Government of Norway, the Government of Denmark, the Government of Canada, the Government of Sweden, Asian Development Bank, the Government of Germany, the Government of United States, the Government of Finland, the Government of Belgium, the Government of New Zealand and the Government of Ireland.

[8] A case of a conflict between an International NGO and a local NGO in Pidie district can be taken as an example. The international NGO received permission from the BRR at Provincial level to develop housing in one village, while the local NGO received the permission from the district Parliament. This shows that BRR did not consult with the local parliament who represents the interests of the local citizens.

[9] INFID and CIREs, "Financing for Reconstruction in Aceh and Nias: Debts-funded projects rehabilitated by new debts", September, 2006.

(MDTF), SOfEI (*Decentralization Support Facility for Eastern Indonesia*) and SPADA (*Support for Poor and Disadvantaged Areas*). Each agency has its own scope of works and area of coverage.

There have been increasing questions about the presence of these agencies. The first concern is about the efficiency of the flow of aid. The donors pool the funds in the Agencies and the Agencies distribute the funds to other agencies whether international or local NGOs, or the Agencies implement their own projects. The second concern is about the domination of this agencies vis-à-vis the NGOs. Since these agencies act as the new donors in the country with their own program priorities, the NGOs who need funds have to reorient their activities to be in line with the priorities of these Agencies, which to certain extent are wasteful. For example, the training of community facilitators projects which become redundant.

The third concern about these World Bank managed Agencies is related to the ownership as indicated by the leadership in the agencies and projects. The Agencies are designed, managed and controlled by the World Bank. They are independent from the control of the government and of the democratic institutions. There are Indonesian academes and politicians sitting in the Board of the Agencies, but only for ceremonial functions.

These agencies are small in number but determine the agenda for development projects by NGOs. The agencies seem to become the conductor for the orchestra of the NGOs and local government's projects. This will ruin the genuine initiatives of the local NGOs and the local communities.

Policy Recommendations

1. The emerging democracy of Indonesia has absorbed most of the skilled and experienced NGOs staff into politics. To certain extent this brings added value to the democratization processes from district level to national level. There is a need for continues capacity building for the Indonesian NGOs. But the capacity building schemes have to be developed by the NGOs in collaboration with their international NGOs counterparts. It will ruin the ownership of the development policies, if the capacity building is orchestrated by the donors consortium (such as by DSF, SOFEI, MDTF, etc.). There have been initiatives of the local governments and the NGOs to collaborate in capacity building for both NGOs and the government staff members. This initiatives need to be promoted.

2. There has been a good practice in Indonesia where the Parliament invites NGOs to discuss about the annual budget plan. Inputs from the NGOs have been taken into account by the Parliament, though the final decisions are in the hands of the Parliamentarians. The NGOs from various sectors have regular consultation processes with their community groups before discussing about the national annual budget plan.

It would be good if the donors also open discussions with the NGOs when the donors develop the country strategy paper or country assistance strategy paper for Indonesia. NGOs are spread throughout Indonesia and work in many sectors. They develop networks based on sectoral issues from local to national level. The richness of information they have can contribute to the better formulation of the strategies, and it will strengthen the ownership of the policies and strategies of the donors by the local NGOs, local communities and their networks in the country.

3. It is wasteful for the donors to establish the agencies such as the World Bank managed agencies. The existence of the agencies might strengthen the perceptions among the public that when the government of Indonesia starts lowering the limits of foreign aid, the staff members of the donors establish agencies to collect grants from all donors for their own job security, while dictating the local NGOs and local governments about what is best for them in development.

It would be better for the donors to channel the funds to the international NGOs and the international NGOs will work together with the domestic NGOs in implementing the programs, rather than the international NGOs have to apply for the funds to the World Bank agencies and have to change their priorities to be in line with the project priorities of the World Bank.

4. Collaborations between the government and NGOs and between the Parliament and NGOs have to be institutionalized. So far, although the consultations and collaborations are productive, the collaboration and consultations depend much on the individuals in the government and parliament. Several ministries have involved NGOs in drafting the bills to be proposed to the Parliament. At district and provincial level, the government officials and the parliaments also start to involve NGOs in the discussions about annual budget plans, regional development plans and in monitoring the implementation of the government projects. But these initiatives have not been in general taken into regulations. It will be more systematic if these collaborations and joint consultations are put into regulations.

5. The participation of NGOs in monitoring and evaluation of the foreign aid funded projects often comes when there are ex-post negative impacts, or the projects have been wasteful. It is a waste of resources for the NGOs and the donors and the government to submit complaints after the projects finished. It is expected that NGOs are involved since the design and during the implementation of the projects.