

AM. 54356

AUDIT OF THE INDONESIAN
PROVINCIAL DEVELOPMENT PROJECTS
I AND II
PROJECT NOS. 497-0264 AND 497-0276

Audit Report No. 2-497-88-02
January 29, 1988

UNITED STATES GOVERNMENT

Memorandum

TO: David Merrill,
Director USAID/Indonesia

DATE: January 29, 1986
RIG/EA-88-110

FROM: Leo L. La Motte, RIG/A/M

SUBJECT: Audit Report No. 2-497-88-02
Audit Report of the Indonesian Provincial
Development Projects I and II (Project Numbers
497-0264 and 497-0276)

The Office of the Regional Inspector General for Audit/Manila has completed its audit of the Indonesian Provincial Development Projects I and II, Project numbers 497-0264 and 497-0276.

This report contains three recommendations. Please provide written notice to this office within 30 days of actions taken or planned to implement these recommendations.

EXECUTIVE SUMMARY

The Provincial Development Projects I and II were implemented in eight of Indonesia's 27 provinces. Their overall goal was to increase the production and productive capacity of the rural poor. The projects sought to achieve this goal by: (1) improving the capabilities of participating local governments to undertake development activities; (2) increasing the capabilities of the central government to support local government rural development activities which impact on the incomes of the rural poor; and (3) increasing incomes of the rural poor within project areas.

The projects provided funds to provincial and district planning boards and technical agencies to plan, implement, monitor and evaluate development activities. Subprojects were generally small and usually involved providing commodities, livestock and training to beneficiaries. At the time of the audit, a total of 2,815 subprojects had been initiated at an average cost of \$10,599 per subproject. As of December 1987, USAID/Indonesia had obligated \$59.1 million for the program - \$41.5 million in loans and \$17.6 million in grant funds. As of the same date, \$44.9 million or 76 percent of total obligations had been disbursed.

USAID/Indonesia financed subproject activities under the projects through two variations of fixed amount reimbursement procedures. Fixed amount reimbursement is a method of financing whereby disbursement of project funds is tied to project outputs rather than inputs. Funds are disbursed after the project or a specified segment has been completed in conformance with design specifications and standards approved in advance.

The pure fixed amount reimbursement variation was used in both projects until 1985. Under this variation, USAID/Indonesia agreed to reimburse the Government a percentage of estimated project implementation cost after subprojects or specified segments had been completed. In 1985, the financing method for both projects was changed. USAID/Indonesia then agreed to pay a fixed percentage of the actual cost for each completed subproject activity.

This was the first program results audit made of the Provincial Development Projects. Audit objectives were to determine whether: (1) goals and purposes were being achieved, (2) an effective system for monitoring program results had been established, (3) arrangements for an orderly USAID/Indonesia withdrawal from the projects had been made and (4) USAID/Indonesia cost reimbursement payments were proper.

According to a 1986 evaluation report, the projects had achieved success in increasing the incomes of subproject recipients, made inroads in developing effective subproject planning and implementation mechanisms at the Government provincial and districts levels and improved the capability of the central government to support local government development activities. However, this audit showed that (1) the system of monitoring project planning and implementation should be improved to gather and analyze information concerning progress toward the projects' goal and purposes; (2) a plan needs to be developed for the orderly and efficient transfer of program operations to the Government when USAID/Indonesia withdraws to ensure continuation of the program benefits; and (3) a payment verification system needs to be established to ensure payments made by USAID/Indonesia for subproject activities are proper.

The logical frameworks for the projects established the goal and purposes to be achieved and identified verifiable indicators for measuring success in achieving the goal and purposes. USAID/Indonesia could not measure the success of 2,815 subprojects in realizing the program goal and purposes. This occurred because an effective management information system for gathering and analyzing information concerning progress toward verifiable indicators and achievements in project implementation had not been established. As a result, USAID/Indonesia could not readily measure the impact of \$44.9 million expended for the projects. This report recommends that a monitoring system which gathers and analyzes information concerning progress toward verifiable indicators be established. While management contended that the existing monitoring and information system was adequate for decentralized projects with institutional development objectives, they have taken some steps to improve the system.

The project papers said that, as a model for replication in other Government programs, the projects should gradually reduce dependency of participating provinces on USAID/Indonesia and consultants for planning, implementing, monitoring and evaluating development activities by building local capability to perform these functions. However, this audit found that improvements in planning, implementing, monitoring and evaluating development activities made at the provincial and district levels may not continue after USAID/Indonesia withdraws from the program and such improvements may not be replicated in other Government programs. This could occur because a plan for USAID/Indonesia orderly withdrawal from the program had not been developed. As a result, the \$18 million spent for technical assistance to improve the planning, monitoring, implementation and evaluation capabilities of participating

provinces and districts may not have lasting impact. This report recommends that USAID/Indonesia develop a plan for the orderly transfer of project operations to the Government. Although management said that a plan for withdrawal is unnecessary, they have directed that participating provinces develop close-out approaches identifying program elements which could continue after USAID/Indonesia funding has ended. Consolidation of these approaches to form a project-wide plan for USAID/Indonesia withdrawal could better ensure that funds are available to continue project activities.

Handbook 3, Project Assistance, required that projects financed through pure fixed amount reimbursement procedures be inspected and that projects financed through the percentage of actual cost reimbursement variation of fixed amount reimbursement procedures be inspected and costs verified before USAID/Indonesia reimbursement payments are made. USAID/Indonesia provided financial support for 2,815 subprojects without adequate inspection to assure that the resources were actually delivered and subprojects were completed. This occurred because the inspection requirements of the pure fixed amount reimbursement variation were unsuited to the projects and procedures followed by USAID/Indonesia under the percentage of actual cost reimbursement variation did not comply with Handbook 3 requirements. As a result, USAID/Indonesia could not be assured of the propriety of payments totalling \$11.6 million for subprojects financed under the pure fixed amount reimbursement variation or of future payments under the percentage of actual cost reimbursement variation. This report recommends that USAID/Indonesia develop a payment verification system for the Provincial Development Projects which complies with Handbook 3 requirements. Management planned to develop an appropriate payment verification system for the projects beginning with voucher reviews of two participating provinces and increases in the financial analysis capability of the USAID/Indonesia staff.

Office of the Inspector General

Provincial Development Projects (PDP) I and II
Participating Provinces



AUDIT OF THE INDONESIAN
PROVINCIAL DEVELOPMENT PROJECTS I AND II

TABLE OF CONTENTS

	<u>Page</u>
PART I - INTRODUCTION	1
A. Background	1
B. Audit Objectives and Scope	3
PART II - RESULTS OF AUDIT	4
A. Findings and Recommendations	5
1. A System for Measuring Progress Toward the Projects' Goal and Purposes Should be Established	5
2. A Plan for Orderly A.I.D. Withdrawal From the Provincial Development Projects Should be Prepared	16
3. A Payment Verification System Needs to be Established	19
B. Compliance and Internal Controls	24
C. Other Pertinent Matters	25
PART III EXHIBITS AND APPENDICES	
A. Exhibits	
1. Provincial Development Projects I and II - Financial Summary	
B. Appendices	
A. Management Comments	
B. List of Recommendations	
C. Report Distribution	

AUDIT OF THE INDONESIAN
PROVINCIAL DEVELOPMENT PROJECTS I AND II

PART I - INTRODUCTION

A. Background

The Provincial Development Projects I and II (PDP) were implemented in eight of Indonesia's 27 provinces. Their overall goal was to improve the production and productive capacity of the rural poor throughout Indonesia. The projects sought to achieve this goal by: (1) improving the capabilities of local governments in participating provinces to undertake rural development activities which improve the productive capacity of the rural poor; (2) increasing the capabilities of the central government to support local government rural development activities which impact on the incomes of the rural poor; and (3) raising incomes of rural poor within the project areas. Planned outputs were rural development subprojects aimed at increasing the incomes of the rural poor. These activities were to be identified, planned, implemented, monitored and evaluated by local governments. At the time of the audit, 2,815 subproject activities had been initiated at an average cost of \$10,599 per subproject.

The two projects were authorized for 11 years. Provincial Development Project I (Project No. 497-0264), implemented in the Indonesian provinces of Aceh and Central Java, was initially authorized from August 1977 through December 1981. In 1982 the project was extended through April 1988. Provincial Development Project II (Project No. 497-0276), implemented in the provinces of Bengkulu, East Java, East Nusa Tenggara, South Kalimantan, West Java, and West Nusa Tenggara, was initially authorized from May 1978 through the end of 1982. In April 1983, it was extended to December 1989.

As of December, 1987 a total of \$59.1 million in A.I.D. funds had been obligated under the two projects, \$41.5 million in loans and \$17.6 million in grants. Seventy-six percent, \$44.9 million, of the total obligations had been dispersed. The Government of Indonesia contribution was about \$54 million. See Exhibit 1 for details concerning the financial status of the two projects.

Fixed amount reimbursement (FAR) is a method of financing A.I.D. projects whereby disbursements are tied to project outputs rather than inputs. A.I.D. funds are disbursed after the project or a specified segment has been completed in conformance with project design specifications and standards approved by A.I.D. in advance. USAID/Indonesia

made reimbursement payments for PDP subprojects under two variations of FAR procedures. The pure FAR variation was used in both PDP projects from initiation until 1985 when payment procedures were changed to the percentage of actual cost reimbursement variation of FAR procedures. Under the pure FAR variation, estimates of project implementation costs derived from the project design specifications and standards are reviewed and approved by A.I.D. in advance. A.I.D. agrees to reimburse the host government a percentage of the estimated cost after the project or specified segments have been completed, inspected and accepted by A.I.D. This percentage becomes the A.I.D. fixed reimbursement amount which does not vary during project implementation. Costs in excess of the approved estimates are absorbed by the host government. If implementation costs are less than estimated, A.I.D. reimburses the full fixed amount.

Under the percentage of actual cost reimbursement variation of FAR procedures, A.I.D. agrees to pay a fixed percentage of the actual cost for each project activity that is completed. Therefore, as costs increase the amount of the A.I.D. contribution increases although the percentage of total project costs remains the same. Prior to reimbursement, A.I.D. should verify actual costs incurred for the project or segments, obtain certification from the host government that the activities had been completed in accordance with approved design specifications, and inspect the completed activities on a total or sample basis.

PDP subprojects were generally small and involved providing commodities, livestock and training to beneficiaries. Subprojects were initiated in the following areas: credit, estate crops, fishing, food crops, forestry, irrigation, livestock, small industry and training. As of March 1987, a total of 2,815 subprojects had been initiated representing \$29.8 million in A.I.D. funds for an average A.I.D. cost per subproject of \$10,599. Two evaluations covering both PDP I and II had been conducted. The first, completed in 1981, considered Indonesian Government and A.I.D. support for PDP, progress in institutional development and impact of PDP on the rural poor. This evaluation made recommendations for modifying the program. A second evaluation was being conducted in two phases at the time of the audit. Phase I assessed the impact of PDP on intended beneficiaries. The report which resulted from this phase did not include recommendations and was awaiting review and approval by the Indonesian Government. Phase II evaluated the institutional development impact of PDP. A report on Phase II had been submitted to USAID/Indonesia. A consultant had been contracted to consolidate the reports from the two phases into one overall evaluation report.

Technical assistance was provided to participating PDP provinces under two A.I.D. funded contracts with two private consultant firms. At the time of the audit, 24 consultants under the supervision of two chief consultants were working in the eight PDP provinces. The consultants provided technical assistance in such areas as credit, agriculture and livestock raising. A total of \$18 million had been spent under the two projects for such technical assistance as of December 1987.

B. Audit Objectives and Scope

This was primarily a program results audit. The objectives of the audit were to determine whether: (1) goals and purposes of the program were being achieved; (2) an effective system for monitoring program results had been established; (3) arrangements for an orderly A.I.D. withdrawal from the program had been made; and (4) cost reimbursement payments made by USAID/Indonesia were proper. The audit did not include a review of the Government of Indonesia (GOI) contribution or A.I.D. direct contracts for technical assistance. The audit was made at USAID/Indonesia and at provincial, district and village government levels within two participating provinces. Provinces were selected based on the size of the investment in the Provincial Development Projects (PDP), while villages and recipients interviewed were selected in conjunction with GOI and USAID/Indonesia officials on the basis that they were representative of PDP subprojects. Audit work included reviews of project administrative files, limited reviews of PDP financial records for subprojects in the two PDP provinces, and interviews with USAID/Indonesia and GOI officials and PDP recipients. Payment vouchers for goods and services delivered under two PDP subprojects were also reviewed.

The audit was conducted from January 1987 through April 1987. It was made in accordance with generally accepted government auditing standards. Internal controls and compliance work was limited to findings discussed in the report.

AUDIT OF THE INDONESIAN
PROVINCIAL DEVELOPMENT PROJECTS I AND II

PART II - RESULTS OF AUDIT

Audit results of the Provincial Development Projects I and II (PDP) showed that (1) the system for monitoring progress of more than 2,800 PDP subprojects toward the projects' overall goal and purposes should be improved; (2) a plan for the orderly and efficient transfer of program operations from A.I.D. to the Government of Indonesia to ensure that program benefits have a lasting institutional effect should be developed; and (3) a payment verification system to ensure that payments made by A.I.D. for the more than 2,800 subproject activities are proper should be established.

Although some subprojects were reported to be unsuccessful, a 1986 evaluation reported that the program had success in raising the incomes of subproject recipients. The evaluation report claimed that PDP recipients, on the average, increased their incomes by 69 cent annually for each dollar that was spent for direct subproject support. Of course, the benefit to cost ratio varied significantly from 33 cents to \$1.66 for each dollar spent for the eight targeted provinces. Project officials believed that progress had been made by the participating provinces and districts in the planning and implementation of development activities and that the capacity of the central government to support such activities had been increased.

This report recommends that USAID/Indonesia (1) improve the monitoring system to obtain and analyze information needed to measure progress in achieving project goals and purposes, (2) develop a plan for the transfer of program operations to the Government of Indonesia after A.I.D. withdraws, and (3) develop a payment verification system which complies with A.I.D. regulations so that the propriety of payments made for subproject activities can be ensured.

A. Findings and Recommendations

1. A System for Measuring Progress Toward the Projects' Goal and Purposes Should be Established

The logical frameworks for the Provincial Development Projects I and II (PDP) established the goal and purposes to be achieved by the projects and identified verifiable indicators for measuring success in achieving the goal and purposes. USAID/Indonesia could not measure the success of 2,815 PDP subprojects in realizing the program goal and purposes. This occurred because an effective management information system for gathering and analyzing information concerning progress toward verifiable indicators and achievements in project implementation had not been established. As a result, USAID/Indonesia could not readily measure the impact of \$44.9 million in A.I.D. funds expended for PDP.

Recommendation No. 1

We recommend that USAID/Indonesia establish a monitoring system for the Provincial Development Projects which gathers and analyzes information concerning progress toward verifiable indicators so that achievement of the projects' goal and purposes can be measured. Such information should include:

- Increases in incomes, production and consumption resulting from participation in the Provincial Development Projects;
- Improvements in the quality of planning, implementation, monitoring and evaluation of development activities by participating provincial and district governments because of involvement in the Provincial Development Projects; and
- Lessons learned by participating provinces and districts in planning, implementation, monitoring and evaluating development activities resulting from participation in the Provincial Development Projects.

Discussion

The logical frameworks incorporated in PDP project papers presented the overall goal and purposes of the PDP program. They also prescribed a series of verifiable indicators by which to measure achievement of the goal and purposes. An effective reporting and monitoring system must therefore provide USAID/Indonesia and Government of Indonesia (GOI) officials with information concerning the performance and

results of PDP subproject activities in relation to these verifiable indicators. The PDP goal, purposes and verifiable indicators as presented in the logical framework are as follows:

<u>Narrative Summary</u>	<u>Verifiable Indicators</u>
<u>Program Goal</u> - To increase the long-term income of rural people.	Increased consumption by people directly or indirectly benefiting from PDP.
<u>Purpose Number 1</u> : To increase the capacity of central government agencies to support local government agencies in target areas to undertake the above activities.	More timely, accurate, useful policy and guidance; timely management decisions based on improved information systems.
<u>Purpose Number 2</u> : To increase the capacity of local government agencies in target areas to undertake annual planning and to plan, implement, monitor and evaluate rural development activities.	Plans and systems where none existed previously; more comprehensive and refined forms of plans and systems where none had existed previously; more accurate beneficiary selection through improved policy and more refined techniques of identification of beneficiaries.
<u>Purpose Number 3</u> : To increase the production and productive capacity of rural people.	Increased production among subproject beneficiaries; skills, equipment, and organization which helped to increase rural peoples' productivity.

A.I.D. Handbook 3, Project Assistance, Sections 12B2 and 12C4 stated that project monitoring and evaluation were interrelated functions. According to the Handbook, effective evaluation of project performance depended on a viable monitoring system which measured ongoing progress toward verifiable indicators. A monitoring system based on the verifiable indicators for PDP I and II should, therefore, provide the following types of information:

- Baseline data concerning the status of PDP beneficiaries before participation in the program, including income levels, production, expenditures and consumption;

- Increases from the baseline in income, production and consumption resulting from participation in PDP;
- Improvements in the quality of planning, implementation, monitoring and evaluation of development activities by participating provincial and district governments because of involvement in PDP; and
- Lessons learned in the planning, implementation, monitoring and evaluation of development activities by participating provinces and districts after involvement in PDP activities.

USAID/Indonesia could not measure progress of PDP activities in achieving the program goal and purposes. Although a recent evaluation said that, overall, PDP had a positive impact on the incomes of recipients, USAID/Indonesia lacked information concerning impact on individual beneficiaries. Such information was needed to determine progress toward the verifiable indicators and success in achieving the program goal and purposes. The Mission did not know the number of people who had benefited either directly or indirectly from PDP activities, the changes in the production or productive capacity of beneficiaries or the changes in individual incomes.

In addition, without an effective monitoring system the Mission could not be sure that the 2,815 subprojects implemented in eight Indonesian provinces were delivering sustained benefits to the target population, the rural poor. According to the PDP project papers, PDP subprojects should benefit the poorer rural inhabitants of participating provinces. Specifically, PDP activities should target rural people whose incomes were below \$150 per year, based on 1969 prices, and whose diets were less than 2,670 calories per day. Examples noted in field reports prepared by PDP consultants raised questions concerning the targeting and sustainability of PDP subprojects. Specifically, a beneficiary received a home garden although he already owned two houses, a fairly large home garden and agricultural land. Another beneficiary participated in a small industry subproject, although he owned his own minibus. A cattle raising project distributed 4 bulls and 48 cows to 26 recipients who already owned cattle. A project to deliver sheep to farmers distributed animals which were sick and suffered aborted fetuses due to the long journeys to the villages. A subproject to supply seedlings to farmers was unsuccessful as only 300 of the 1500 seedlings survived transport to the project site.

USAID/Indonesia could not measure PDP progress in developing

the planning, implementation, monitoring and evaluation capabilities of participating provinces. The Mission could not determine which of the eight PDP provinces were successfully developing capabilities intended by the project. At the time of the audit, all eight provinces had gone through four PDP subproject planning and implementation cycles. However, the Mission lacked documentary evidence demonstrating changes in the planning and implementation capabilities of participating provinces. Officials indicated that several provinces were making significant progress as a result of participation in PDP. However, because the provinces in which progress was reported were selected based on personal impressions and beliefs of individual officials rather than on documentary evidence, the reported progress could not be verified, measured nor analyzed.

PDP monitoring and reporting methods did not provide information needed for measuring progress of PDP activities in meeting the verifiable indicators and in achieving the program goal and purposes. The chief consultant for two PDP provinces pointed out the need for better reporting in a report prepared in June 1986 at the end of his contract period. He said that:

"Despite efforts in some PDP provinces, PDP has not yet been able to introduce adequate systems for monitoring/reporting on project ... implementation or evaluating project impact. This effort still needs to be undertaken."

Two 1981 Project Implementation Letters (PIL) and a 1983 project paper amendment established the monitoring procedures for PDP activities. Primary responsibility for monitoring was delegated to the Government of Indonesia. Three types of reports concerning PDP subprojects were to be submitted to USAID/Indonesia. These reports were (1) monthly and quarterly progress reports, (2) quarterly consultant reports, and (3) field inspection reports. However, neither the PIL nor the project amendment specified the types of information which should be reported. As a result, the PDP monitoring reports did not provide the types of ongoing information needed to measure achievement of the projects' verifiable indicators and monitor progress toward project goal and purposes.

Preparation of monthly or quarterly progress reports for each PDP subproject was required by directives from the Indonesian Ministry of Home Affairs. The forms were initially prescribed in directives issued in 1981 and revised in 1985. These reports were prepared by the district level technical agencies which were also

responsible for subproject implementation. They were submitted to the research and evaluation section at the provincial government levels for review, consolidation and submission to the Indonesia Ministry of Home Affairs and USAID/Indonesia.

Although Mission officials indicated that several provinces had adopted more detailed reporting formats, the two provinces reviewed by the audit team were submitting only the GOI required forms which were financially oriented, geared to the A.I.D. reimbursement process and prepared in the Indonesian language. In addition, Phase II of the 1986 evaluation stated that these forms were the basis of the PDP monitoring system project-wide. A review of these forms revealed that they did not present the types of information needed for measuring progress toward verifiable indicators. The reports did not discuss changes in the incomes, production, consumption and productivity of recipients; they did not address changes in the planning and implementation capabilities of participating provinces; nor did they discuss improvements in the capacity of the central government agencies to support development activities by local governments.

For example, a progress report dated March 1987 from Bengkulu Province, which according to the PDP consultant was typical of reports prepared by the province, reported on seven subprojects implemented during the fiscal year 1985/86 planning cycle. The report contained such information as: a brief description of the activity; the percentage of funds dispersed; the degree of implementation that had been achieved; and a very brief description of the subproject benefits. The report described a banana orchard demonstration as 100 percent completed with 100 percent of funds disbursed. The subproject benefit was described as "Can be imitated by farmers." A subproject described as soybean multiplication was also 100 percent completed with 100 percent of funds disbursed. The subproject benefit was described as "Improve the quality of seeds." The report did not provide information on how well the subprojects were planned and implemented, lessons learned, economic benefit derived or the impact on improving the incomes of the rural poor.

The report on Phase II of the 1986 evaluation said that progress reporting needed improvement. According to the report, no clear guidelines were provided to the provinces and districts as to when the progress reports should be completed, who should fill them out and at what level and what types of information should be included.

Quarterly reports prepared by the consultants assigned to

the eight PDP provinces were identified in the 1983 project paper amendment as an important source of information for USAID/Indonesia concerning PDP activities. These reports were submitted to USAID/Indonesia, the GOI Ministry of Home Affairs and, in some cases, the provincial and district level governments. No standard reporting format had been prescribed for the consultant reports. Decisions concerning the types of information to be included in the reports were left to each consultant.

Consultant reports covering the period October 1985 through September 1986 for eight PDP provinces were analyzed by the audit team. The analysis of these 43 reports questioned the value of the consultants' reports as a management tool. This review disclosed that most reports were weighted heavily toward financial and administrative matters with little emphasis on the types of information needed to measure progress toward the program goal and purposes. For example, all 43 reports presented financial data and discussed such administrative matters as the consultants' annual and sick leave schedules, their movements during the quarter and their planned activities during the next quarter. However, only 5 reports or 12 percent discussed subproject impact on the incomes and productivity of beneficiaries and only 18 reports or 42 percent described progress in planning and implementing subprojects. None of the reports provided other types of information needed to measure progress toward the projects' goal and purposes such as baseline data concerning the economic status of subproject recipients or lessons learned from subproject implementation.

The third reporting method was the field inspection report resulting from inspections conducted upon completion of subproject implementation. According to the PILs which established the monitoring procedures, these reports were intended to provide information concerning implementation progress of subprojects, problems encountered and lessons learned, as well as whether the activity had been completed and was ready for reimbursement. However, these reports were incomplete and geared to the USAID reimbursement process. As a result, their benefit as a means of measuring progress toward project goals and purposes was questionable.

The field inspection reports were prepared by a joint team composed of representatives from USAID/Indonesia and the GOI central and provincial governments. The reports identified subprojects which had been inspected. However, they did not identify the villages under each subproject which had been reviewed by the inspection team. Since each subproject could be implemented in as many as five villages, the reports did not adequately document the inspection process.

As a result, the Mission did not know which villages under each subproject had been inspected and which ones had not. In addition, the inspection reports did not discuss the impact of subprojects upon recipients or identify lessons learned that could be used by the provincial governments in planning, designing and implementing future subprojects.

In response to the audit team's initial impressions concerning the PDP reporting system, USAID/Indonesia identified several other mechanisms which they said provided information concerning program activities. These included special evaluations, special and end-of-term consultant reports, consultant conferences and workshops. According to the Mission, each PDP province had used local universities to conduct at least one evaluation on PDP's impact. Special consultants reports on topics related to PDP had been prepared as needed or as requested by USAID and the GOI. Annual consultant conferences had been held dealing with specific themes such as planning, monitoring, evaluation or technical assistance. Two workshops were sponsored by the GOI to discuss similar topics.

Mission officials provided documentation related to three consultant conferences held in May 1981, March 1984 and October 1985. Analysis of these documents revealed that they did not provide the types of information needed for measuring progress toward project goals and objectives. The documents were simply announcement letters stating the places, dates and purposes for conferences and the discussion agenda for each. The conference held in October 1985 focused on the PDP monitoring and evaluation system. According to the conference agenda, discussions included the monitoring and evaluation systems in several PDP provinces and the PDP planning and reimbursement systems. However, the documentation did not include summaries of conference discussions, conclusions concerning progress and problems in implementing the overall PDP monitoring and evaluation system, recommendations for improving the program or evaluation of progress in meeting program goals and objectives.

Officials also provided a document which resulted from a 1981 PDP workshop. However, the value of the document as a USAID management tool was questionable since it was written entirely in the Indonesian language.

Special evaluations, conferences and workshops were important methods for exchanging information between provinces, GOI and USAID/Indonesia personnel, and PDP consultants. However, benefits from these activities were limited because they only allow the exchange of information concerning subproject status and overall PDP implementation

at one point in time. They did not provide the continuous flow of information necessary to measure progress toward verifiable indicators and, in turn, the PDP goal and purposes. Therefore, special evaluations, conferences and workshops could not substitute for a monitoring system which reports on day-to-day planning, implementation and impact of subprojects.

USAID/Indonesia was unable to measure PDP progress toward the projects' goals and purposes. The Mission, therefore, could not determine at regular intervals the program's impact on the incomes, production and productive capacity of the rural poor or the degree of improvement that was occurring in the subproject planning and implementation capabilities of participating provinces. As a result, USAID/Indonesia could not readily measure benefits derived from the \$44.9 million in A.I.D. funds expended.

Management Comments

Management comments on this finding and recommendation were very lengthy and can be found in their entirety at pages 1 to 15 of Appendix A. Following is a summary of the major points pertinent to the recommendation. Management responded that the intent of PDP was to strengthen local agencies of the GOI by increasing their capacities to plan and implement development activities which would benefit the rural poor. This was to be accomplished by improving and strengthening existing GOI systems and approaches. Therefore, PDP focused on improving processes, systems and practices of local development agencies rather than seeking to achieve specific quantifiable objectives such as those found in non-institution building projects. According to management, it was always intended that the GOI would be better able to manage their own development programs because of experience gained through PDP.

According to management, PDP had been managed through indirect process-oriented management which attempted to achieve a balance between the two project purposes of decentralizing decision making and increasing rural incomes to achieve the long-term objective of institutional development. As a result, gains which resulted in improved central and local government capabilities in program management were sometimes achieved at the cost of less efficient, less technically sound subproject planning and implementation.

In early 1987, project management recommended that upon completion of these projects PDP-type assistance not be continued on a large scale. This recommendation was based

on the status of the GOI's progress in decentralization, the types of assistance USAID/ Indonesia could best provide and the level of staff required to adequately manage, monitor and report on PDP-type assistance. Management concluded that "...It is not developmentally or politically practical to translate this judgment into immediate, in some cases, radical changes in how the remaining support under PDP I and II is to be provided."

Management believed that the type and specificity of subproject monitoring called for in the report was inconsistent with the projects' goals and purposes. Management contended that a monitoring and information system for PDP existed which was adequate to provide information consistent with the management style appropriate for a decentralized program with broadly defined institutional development objectives. This system consisted of consultants' reports, field inspection reports and evaluations. Management also said that the projects' goals and purposes were not easily quantifiable or verifiable, therefore it was difficult to determine when the project had achieved its objectives. Management believed that this was a problem common to most institution building projects.

However, management commented that a number of steps had been taken to sharpen and further define project objectives so that progress in achieving them could be better assessed. Further steps in conjunction with the GOI were planned to identify and document progress toward objectives. Yet, a consolidated statement of these plans had not been prepared because of the reorganization of the GOI implementing agency which had been in process for the past two years. Plans included a national seminar with GOI, University and donor participants to review PDP's progress in institutional development. The results of this seminar could become the basis for a final project evaluation in 1989. Management proposed to repeat the 1986 survey on beneficiary impact as part of the final evaluation to assess progress in increased beneficiary incomes. In addition, management had included a new form as part of the field inspection. This form identified the location of the PDP subproject being inspected and the number of beneficiaries, assessed the quality and appropriateness of implementation and identified lessons learned. Finally, management said that with the completion of the reorganization of the GOI implementing agency in December 1987, it would be possible to develop a plan consistent with project goals, objectives and management practices.

Office of the Inspector General Comments

Management contended that, because PDP I and II were

institution building projects, indicators of progress toward project goal and purposes could not be established as in non-institution building projects. Establishing verifiable indicators for institution building projects can be difficult. Such indicators can not always be expressed in easily quantifiable terms. However, subjective assessments of progress toward project goals and objectives can be made if an effective information system for monitoring project implementation has been established and baseline information, expressed either quantitatively or qualitatively, has been collected. Without these key elements, assessments of progress toward institution building goals and purposes can only be made through impressions and unsubstantiated opinions.

In its response to the draft audit report, management implied that trade-offs were made in the planning and implementation of PDP subprojects. Management said that less technically sound and efficient activities were implemented in order to achieve gains in the GOI's capacity to manage programs. It is true that the planning and implementation of PDP subprojects could have been improved. However, it is questionable whether the trade-offs implied in their comments were necessary or appropriate. Had baseline information on the management capacity of the GOI been collected before the projects began and an effective management information system as described in the audit report been established, management could have identified and terminated those project activities which were not contributing to the projects' institution building goal and purposes. Without these key management elements, managers could not effectively measure program results or justify program costs in terms of improvements in the management capabilities of the GOI.

USAID/Indonesia contended that a management information system for PDP was unnecessary and contrary to the institution building goal and purposes of the projects. Yet, they had taken action to establish such a system. In June 1987, after preliminary audit results were presented to management, subproject field inspectors were provided a form to be filled out for each subproject. If properly completed, this form gave information on subproject locations, qualitative assessments of each subproject, number of beneficiaries, quality of implementation and lessons learned. This new procedure was certainly a step in the right direction and should have begun to provide the types of information needed to effectively manage PDP and assess progress in achieving the program goal and purposes. It is regretful that this procedure was not implemented earlier in response to recommendations from two project evaluations conducted in 1981 and 1986. Both evaluations

recommended improvements in the system for monitoring project implementation.

Management stated that a primary reason for renewing a technical assistance contract under PDP in 1984 was to develop a functional and practical monitoring and evaluation system for the program. However, the system which resulted from this contract renewal was not adopted by the GOI. Elements of the system were implemented in only two of the eight provinces in which the projects had activities. As a result, benefits derived from the \$3.8 million spent to renew the consultant contract were questionable.

2. A Plan for Orderly A.I.D. Withdrawal From the Provincial Development Projects Should be Prepared

The Project Papers for the Provincial Development Projects (PDP) said that as a model for replication in other Government of Indonesia (GOI) programs, the projects should gradually reduce dependency of participating provinces on A.I.D. and consultants for planning, implementing, monitoring and evaluating development activities by building local capacity to perform these functions. However, this audit found that improvements in planning, implementing, monitoring and evaluating development activities made at the provincial and district levels may not continue after A.I.D. withdraws from the program and such improvements may not be replicated in other GOI programs. This could occur because a plan for A.I.D. orderly withdrawal from the program had not been developed. As a result, the \$18 million in A.I.D. funds spent for technical assistance to improve the planning, monitoring, implementation and evaluation capabilities of participating provinces and districts may not have lasting impact.

Recommendation No. 2

We recommend that USAID/Indonesia develop a plan for the orderly transfer of operations of the Provincial Development Projects to the Government of Indonesia. This plan should:

- a. Discuss how USAID/Indonesia can assist the Government of Indonesia in assuming responsibility for technical services necessary for sustaining program activities;
- b. Identify other funding sources for development activities planned and implemented under the Provincial Development Projects; and
- c. Identify those aspects of the Provincial Development Projects which will continue after the program ends and discuss relationships to any follow-on activities.

Discussion

The PDP project papers said that the projects should develop sustainable systems and approaches which could serve as models for replication in other GOI programs. The project papers also said that a benchmark for measuring PDP's success will be the growth in the number of GOI programs which adopt the PDP planning process, information system and emphasis on accountability for implementation. The project papers directed that the projects build functioning systems

which increasingly rely on their own efforts rather than on A.I.D. or consultants for planning, implementation, monitoring and evaluation.

Improvements in the planning, implementation, monitoring and evaluation capabilities at the provincial and district levels may not continue after A.I.D. withdraws from the program. Both projects were approaching their scheduled termination dates. PDP I, initiated in August 1978 was planned to terminate in April of 1988 and PDP II, initiated in May 1978, was planned to end in December of 1989. Although less than three years remained before PDP ended, arrangements for orderly A.I.D. withdrawal and transfer of activities to the Government of Indonesia had not been made. Plans for gradually phasing out technical assistance had not been prepared nor had alternative funding sources been identified to ensure continuation of development activities.

The A.I.D. funded contracts for technical assistance were scheduled to end in 1987 and 1988 for PDP I and PDP II, respectively. However, USAID/Indonesia had not arranged for the orderly transfer of such responsibility to the GOI. Officials at USAID/Indonesia as well as at the provincial and district level governments visited during the audit believed that technical assistance was needed for continuation of PDP type activities. Such assistance had been provided to the projects by consultants under A.I.D. funded contracts with two private consultant firms. At the time of the audit there were twenty-six consultants in the eight PDP provinces. However, plans for transferring funding and management responsibilities for such technical assistance to the GOI had not been prepared.

Alternative sources of funds to replace A.I.D. subproject financing had not been identified. Both the Mission and GOI officials said that provincial and district level governments within Indonesia might supply funds from local revenue sources to replace A.I.D. funds or that funds might be obtained from other donors such as the World Bank. However, neither USAID/Indonesia nor the GOI had developed plans for alternative funding. Furthermore, no funding commitments had been obtained from provincial and district level governments or from other donors.

In response to the audit team's initial impressions concerning the program, USAID/Indonesia said that PDP in its entirety was never intended to become a permanent program of the GOI. As such, only certain aspects of the program would continue as part of a new national program which would pursue many of the same objectives as PDP at the provincial and district levels. The Mission believed that since the

entire PDP program would not continue, a formal plan for A.I.D. withdrawal was not necessary.

A formalized plan for orderly withdrawal is needed to ensure the orderly transfer of PDP activities to the GOI. Even if PDP in its entirety does not continue, a plan should be prepared which identifies those aspects of the program that will continue and relates these to the new project to be initiated. The plan is necessary to ensure that alternative funding sources for PDP activities are found and that there is an orderly phaseout of A.I.D. funded technical assistance with transfer of responsibilities to the GOI. Otherwise, improvements made in planning and implementing development activities at the provincial and district levels will not continue. As a result, the \$18 million in A.I.D. funds spent for technical assistance to improve the planning, monitoring, implementation and evaluation capabilities of participating provinces and districts may not have lasting impact.

Management Comments

Management said that PDP was a very decentralized program which placed responsibility for administering and managing subproject activities with local government officials. Therefore, there was no need to transfer these activities as would be required in other type projects. Also, management said that PDP experience had developed the capabilities of local governments to identify technical assistance needs and to locate and contract for technical assistance as necessary. Management believed that while some local institutions were still weak in certain management skills, providing technical assistance would be less productive than allowing these institutions to manage their own programs without relying heavily on outside consultants. PDP provinces were instructed, in October 1987, to develop a close-out approach during their final year of PDP funding. Provinces were expected to determine priorities and identify those program elements which could be continued after PDP funding ended.

Office of the Inspector General Comments

Budgetary problems facing the GOI make a plan for A.I.D. withdrawal from PDP necessary to ensure that funds are available to continue PDP activities. A consolidation of the close-out plans prepared by participating PDP provinces could become the basis for a project-wide plan for A.I.D. withdrawal from the program and a transfer of project responsibilities to the GOI.

3. A Payment Verification System Needs to be Established

A.I.D. Handbook 3, Project Assistance, required that projects funded under the pure fixed amount reimbursement variation of fixed amount reimbursement (FAR) procedures be inspected and that costs be verified for projects funded under the percentage of actual cost reimbursement variation of FAR procedures before A.I.D. reimbursement payments are made. USAID/Indonesia provided financial support for 2,815 subprojects under the Provincial Development Projects (PDP) without adequate assurance that the resources were actually delivered and subprojects were completed. This occurred because the inspection requirements of the pure FAR variation were unsuited to PDP subprojects and procedures followed by USAID/Indonesia under the percentage of actual cost reimbursement variation did not comply with Handbook 3 requirements. As a result, A.I.D. could not be assured of the propriety of payments totalling \$11.6 million for subprojects under the pure FAR variation or of future payments under the percentage of actual cost reimbursement variation.

Recommendation No. 3

We recommend that USAID/Indonesia develop a payment verification system for Provincial Development Projects I and II that complies with A.I.D. Handbook 3 requirements.

Discussion

A.I.D. Handbook 3, Appendix 3J, titled Use of Fixed Amount Reimbursement Method for Local Cost Financing, prescribed the internal controls for A.I.D. reimbursements under fixed amount reimbursement procedures to ensure that payments made by A.I.D. for project activities are proper, appropriate and reasonable. Under the pure fixed amount reimbursement variation of FAR procedures, A.I.D. Handbook 3 required that A.I.D. inspect completed subproject activities before payment is made. Further, A.I.D. must be assured that the completed activity complies with plans and specifications. Payments are not based on actual cost. Rather, the amount of reimbursement is fixed in advance based on cost estimates reviewed and approved by A.I.D. However, under the percentage of actual cost reimbursement variation of FAR procedures, A.I.D. Handbook 3 required that payments be made only after actual costs are verified for completed subprojects on a total or sample basis depending upon the USAID assessment of the implementing agency's ability to maintain accurate cost records. The sample should also be large enough to represent the universe.

USAID/Indonesia made payments under the pure FAR variation

without adequate assurance that the goods and services were delivered or that the subprojects were completed. In addition, USAID/Indonesia could not be assured that payments under the percentage of actual cost reimbursement variation of FAR procedures were proper.

USAID/Indonesia made payments for PDP subprojects under the pure FAR variation from initiation of the program in 1978 through the 1984-1985 subproject planning and implementation cycle. Beginning with the 1985-1986 cycle the reimbursement method was changed to the percentage of actual cost reimbursement variation of FAR procedures. According to a 1983 amendment to the Project Paper, this change was made because the percentage of actual cost reimbursement variation was better suited to the large number of subproject activities.

Payment verification procedures followed by USAID/Indonesia and the Government of Indonesia (GOI) under pure FAR and percentage of actual cost reimbursement variations were basically the same. Once during each PDP planning cycle an inspection team visited subprojects which had been fully implemented to review activities. These teams consisted of representatives from USAID/Indonesia, the GOI Ministries of Home Affairs and Finance and local government officials. The inspection teams interviewed recipients and reviewed village, district and provincial documentation concerning commodities and services delivered. Results were then compared to the subproject budget of estimated costs. Under the pure FAR variation, USAID/Indonesia's reimbursements were based on an approved percentage of estimated cost for each subproject. Under the percentage of actual cost reimbursement variation, payments were based on a percentage of subproject actual costs.

Project officials agreed that the pure FAR variation was inappropriate for PDP. Handbook 3, Appendix 30, required that all subproject sites be inspected for activities funded under the pure FAR variation. Under PDP I and II more than 2,800 subprojects, at an average cost of \$10,599 per subproject, were established in eight Indonesian provinces. Each of these subprojects was implemented in as many as five different villages. As a result, compliance with the 100 percent inspection requirement under the pure FAR variation could have required inspection of more than 14,000 subproject sites. USAID/Indonesia officials said that such an extensive inspection requirement was impossible to meet because of limited staff and the remote locations of many subproject sites. As a result, project officials changed the funding method from the pure FAR variation to the percentage of actual cost reimbursement variation. Since Handbook 3, Appendix 30, allowed for reimbursement based on

inspection of a sample of subproject sites, USAID/Indonesia officials felt that the percentage of actual cost reimbursement variation was much more appropriate for PDP subprojects.

USAID/Indonesia could not be assured that reimbursement payments made under the percentage of actual cost reimbursement variation were proper because of inadequacies in cost verification and sample selection procedures. The Mission made reimbursements of a percentage of the subproject's actual costs as identified in listings supplied by the GOI agency responsible for implementing the subproject. However, no verification of the cost data was made. Whether costs presented in the listings represented actual costs was questionable. For example, comparisons of actual cost listings for two subprojects to the budgeted cost estimates prepared almost a year earlier revealed that line items equalled the budgeted cost.

The audit team attempted to verify actual cost for two PDP subprojects by reviewing payment vouchers for goods and services delivered under the subprojects. However, inadequacies in GOI internal control procedures for managing subproject costs made such verifications impossible. For example, rather than accepting receipts from vendors upon payment for goods and services, the government employee making the purchase prepared a payment voucher which was signed by the vendor certifying that the purchase was made. This voucher was then used by the vendor to receive payment. Since the government employee making the purchase also prepared the sales voucher, there was no assurance that the voucher reflected the actual price paid for the commodities or services. In addition, amounts on the payment vouchers for the two subprojects were questionable. They were always in figures rounded to the nearest thousand rupiah. Voucher totals for the two subprojects always equalled the line item in the subproject budget estimates, although these estimates were prepared as much as a year in advance of the subproject purchases.

For example, a line item in one of the subproject budgets for materials to be used in monitoring and supervision totalled \$183.00. A review of the GOI accounting records for this line item revealed four payment vouchers for exactly \$45.75 each. The vouchers -- one each in June, July and two in November 1985 -- were used to buy office supplies such as typing paper, ink, and erasers. Even though the estimated subproject budget was prepared in November 1984, one year before the last two purchases, the four vouchers totalled exactly the \$183.00 in the estimated budget. Another example involved a budget line item for materials

for a training course in agriculture and irrigation techniques. The budget estimated cost was \$204.00. A review of the GOI accounting documents revealed four payment vouchers with totals rounded to the nearest thousand rupiah. All four purchases were made during March 1985 for training equipment and office supplies. Although the budget was prepared in November 1984, the four vouchers totalled exactly the \$204.00 in the estimated budget.

Procedures for selecting subproject sites for review by the inspection team did not assure that those selected adequately represented all sites under the subproject. USAID/Indonesia officials said that inspection teams followed informal criteria in selecting villages for review. These included selecting villages which had reported implementation problems and those where local officials considered implementation to have been particularly successful. However, the criteria had not been documented. In addition, most inspection reports prepared by the teams did not indicate how or why villages were selected nor did they always identify the sites visited. Reports only identified villages where problems were noted. As a result, USAID/Indonesia could not be assured that procedures followed by inspection teams in each of the eight PDP provinces were consistent or that samples selected by the inspection teams were sufficiently large to adequately reflect all subproject sites.

The 100 percent inspection requirement under the pure FAR variation made this method of project funding inappropriate for PDP subprojects. As a result, USAID/Indonesia lacked assurance that reimbursement payments under the pure FAR variation totaling \$11.6 million for subproject activities were proper. In addition, procedures followed by USAID/Indonesia in inspecting and accepting subprojects funded under the percentage of actual cost reimbursement variation did not conform to requirements of A.I.D. Handbook 3, Appendix 3J. As a result, the propriety of payments made under this variation was questionable.

In response to the audit team's initial impressions concerning the payment verification system, USAID/Indonesia scheduled a financial management review of at least two PDP provinces during September 1987.

Management Comments

Management planned to develop an appropriate payment verification system for PDP. A voucher verification review of two PDP provinces was to be completed in January 1988. In addition, increases in USAID/Indonesia's financial

analysis capabilities were planned which should improve payment verification coverage.

Office of the Inspector General Comments

Planned actions to be taken by management should meet the intent of this recommendation. The recommendation will be closed when our office receives documentary evidence demonstrating that an approved payment verification system has been implemented and actions have been taken to correct systemic weaknesses noted during voucher verifications of two PDP provinces.

B. Compliance and Internal Controls

Compliance

As discussed in the report, the audit identified three instances of non-compliance with A.I.D. regulations. First, planning and implementation of the Provincial Development Projects (PDP) was not adequately monitored to ensure the efficient and effective use of program resources. Second, a plan for the orderly transfer of program activities to the Government of Indonesia (GOI) to ensure that activities continue after A.I.D. involvement ends had not been prepared. Third, an effective payment verification system for ensuring that payments made by A.I.D. for subproject activities were proper had not been established. Nothing came to the auditors' attention as a result of specific procedures that caused them to believe untested items were not in compliance with applicable laws and regulations.

Internal Controls

A review of GOI financial records for PDP subprojects revealed a lack of effective internal controls for managing costs of these activities. For example, rather than accepting receipts from vendors upon payment for goods and services, the GOI employee making the purchase prepared a payment voucher which was signed by the vendor certifying that the purchase was made. This voucher was then used by the vendor to receive payment. Since the government employee making the purchase also prepared the sales voucher, there was no assurance that the voucher reflected the actual price paid for the commodities or services. In addition, amounts on the payment vouchers appeared questionable because they were always in rounded figures and equalled the line item in the subproject budget estimates. See Finding Number 3 for details. Nothing came to the auditors' attention as a result of specific procedures that caused them to believe untested items were not in compliance with applicable laws and regulations.

C. Other Pertinent Matters

Audit work identified two subprojects where honoraria and salary supplements were paid from project funds for interrelated functions. These payments were made although A.I.D. policy guidance and USAID/Indonesia Mission Order Number 1900.2 prohibited employees of the Government of Indonesia from receiving duplicate honoraria and salary supplements from more than one source for the same activity. The audit team reviewed payment vouchers for goods and services delivered under two subprojects. This review identified two subproject managers who were paid honoraria from project funds totalling \$402 for participating in the training program and salary supplements totalling \$25 for serving on the training committees and teaching the same training courses. Both recipients were salaried employees of the Government of Indonesia.

In its response to the draft audit report, USAID/Indonesia said that they reviewed 30 subproject budgets and that, in each case, honoraria were identified under the wages category. USAID/Indonesia also said that they finance only a portion of the overall cost of subproject activities and that these funds are not identifiable by budget line item. USAID/Indonesia attributed honoraria payments to the Government of Indonesia contribution to subproject funding.

The Office of the Regional Inspector General, Manila has planned an audit of honoraria and salary supplement payments in Indonesia during fiscal 1988. Any significant issues on salary supplementation will be developed in that audit.

AUDIT OF THE INDOONESIAN
PROVINCIAL DEVELOPMENT PROJECTS I AND II

PART III - EXHIBITS AND APPENDICES

Provincial Development Projects I and II Exhibit 1
Financial Summary
Project Numbers 497-0264 and 497-0276
As of December 31, 1987

	<u>Obligations</u>	<u>Expenditures</u>
<u>Provincial Development Project I</u>		
Grant Funds	\$ 5,100,000	\$ 4,967,927
Loan Funds	12,500,000	8,640,063
Subtotal	<u>\$17,600,000</u>	<u>\$13,607,990</u>
<u>Provincial Development Project II</u>		
Grant Funds	\$12,400,000	\$ 9,762,918
Loan Funds	29,100,000	21,494,035
Subtotal	<u>\$41,500,000</u>	<u>\$31,256,953</u>
<u>Program Totals - Provincial Development Projects I and II</u>		
Grant Funds	\$17,500,000	\$14,730,845
Loan Funds	41,600,000	30,134,098
Total	<u>\$59,100,000</u>	<u>\$44,864,943</u>

1/11

UNCLASSIFIED

JAKARTA

8972701

ACTION: AID-6 INFO: AMB DCM AA ECON/10

VZCZCML0753

PP RUEHML

DE RUEHJA #8972/01 3390308

ZNR UUUUU ZZ3

P 050253Z DEC 87

FM AMEMBASSY JAKARTA

TO AMEMBASSY MANILA PRIORITY 8140

BT

UNCLAS SECTION 01 OF 11 JAKARTA 18972

05-DEC-87

TCR: 04:21

CN: 52641

CBRG: AID

DIST: AID

ADD:

AIDAC

FOR LEO L. LA MOTTE, RIG/A/M FROM DAVID MERRILL

E. O. 12356: N/A

SUBJECT: RESPONSE TO DRAFT AUDIT REPORTS ON PROVINCIAL
AREA DEVELOPMENT PROGRAM (PDP) I AND II (497-0264,
497-0276).

REF.: JAKARTA 7544

1. SUMMARY: USAID/JAKARTA HAS CAREFULLY REVIEWED THE DRAFT AUDIT REPORT (DAR) ON PDP I AND II IN THE CONTEXT OF THE BASIC PROJECT DOCUMENTS, ONGOING PROJECT MANAGEMENT AND MONITORING EFFORTS AND OUR PREVIOUS RESPONSE TO THE INITIAL REPORT OF AUDIT FINDINGS

REFTEL). THE ISSUES IDENTIFIED IN THE DAR ARE IMPORTANT AND REPRESENT A SELECTION OF SOME OF THE MAJOR CHALLENGES CONFRONTED BY AID IN UNDERTAKING A PROJECT SUCH AS PDP IN INDONESIA AND MANY OTHER COUNTRIES. THE DAR REFLECTS THE CONSIDERABLE TIME AND EFFORT DEVOTED TO CARRYING OUT THIS AUDIT BY THE RIG/A/M AUDIT TEAM. AS DESCRIBED IN DETAIL BELOW IN RESPONSES TO EACH OF THE RECOMMENDATIONS OF THE DAR, HOWEVER, WE DO NOT AGREE IN SEVERAL MAJOR CASES WITH THE INTERPRETATION THE DAR PRESENTS OF PROJECT GOALS AND PURPOSES AND USAID'S APPROPRIATE AND RESPONSIBLE MANAGEMENT ROLE IN IMPLEMENTING THE PROJECT. IN THESE CASES WE DO NOT FEEL THAT THE RECOMMENDATIONS MADE ARE ENTIRELY VALID OR THAT THE CORRECTIVE STEPS CALLED FOR ARE NECESSARY, CONSISTENT WITH AID REGULATIONS OR IN SEVERAL INSTANCES PRACTICAL GIVEN THE ADVANCED IMPLEMENTATION STAGES OF THE PROJECTS.

INTRODUCTION: IN RESPONDING TO THE DRAFT AUDIT REPORT (DAR) ON PDP I AND PDP II, THE MISSION FEELS IT IMPORTANT TO DESCRIBE THE OVERALL OBJECTIVES OF THE PDP PROJECTS INITIALLY STATED IN THE PROJECT PAPERS AS SUBSEQUENTLY AMENDED IN 1982 (PDP I) AND 1983 (PDP II), AND USEFULLY SUMMARIZED IN THE COMPOSITE LOGFRAME PRESENTED ON PAGES 8 AND 9 OF THE DAR.

PDP WAS DESIGNED IN 1976 AND 1977 TO ADDRESS THE GOI'S GROWING INTEREST IN STRENGTHENING DECENTRALIZED DEVELOPMENT THROUGH FUNDING ALLOCATIONS TO LOCAL

1/11

UNCLASSIFIED

JAKARTA

218972/01

28

1/11

UNCLASSIFIED JAKARTA 018972/01

DEVELOPMENT PLANNING BOARD (BAPPEDAS), WHICH UNDER TYPICAL GOI DEVELOPMENT PROGRAMS HAVE LITTLE AUTHORITY TO PLAN AND IMPLEMENT ACTIVITIES IN THEIR REGION. RATHER, THE MAJORITY OF THE GOI'S DEVELOPMENT FUNDS ARE PROGRAMMED AND EARMARKED BY CENTRAL GOI AGENCIES FOR ACTIVITIES IMPLEMENTED IN LOCAL AREAS BY LOCAL AGENCIES.

THROUGH PIP, IT WAS INTENDED TO STRENGTHEN LOCAL AGENCIES TO INCREASE THEIR CAPACITIES TO PLAN AND IMPLEMENT DEVELOPMENT ACTIVITIES WHICH WOULD BENEFIT THE RURAL POOR. THIS WOULD BE ACCOMPLISHED BY IMPROVING AND STRENGTHENING EXISTING GOI SYSTEMS AND APPROACHES. IT WAS ALWAYS INTENDED THAT WHEN THE AID ASSISTED PROJECT ACTIVITIES ENDED, THE GOI WOULD BE BETTER ABLE TO CARRY-ON THEIR OWN DEVELOPMENT PROGRAMS MORE EFFECTIVELY AND EFFICIENTLY BASED ON EXPERIENCE GAINED THROUGH PDP. PDP FOCUSES ON IMPROVING PROCESSES, SYSTEMS AND PRACTICES OF LOCAL DEVELOPMENT AGENCIES RATHER THAN SEEKING TO ACHIEVE SPECIFIC QUANTIFIABLE OBJECTIVES SUCH AS FOUND IN PROJECTS DEALING WITH, FOR EXAMPLE, AGRICULTURAL PRODUCTION. THE SUBPROJECTS OF PDP ARE A MEANS TO THE GOAL OF STRENGTHENING LOCAL GOVERNMENT AGENCIES, NOT THE END PURPOSE OF PDP. THE PROVISION OF SUBPROJECT FUNDING WAS BASED ON USAID'S AND THE GOI'S JUDGEMENT THAT THIS WAS NECESSARY TO GIVE LOCAL AGENCIES BOTH THE FUNDING AND THE AUTHORITY TO DEVELOP THEIR CAPABILITIES IN DESIGNING AND IMPLEMENTING APPROPRIATE DEVELOPMENT ACTIVITIES. TECHNICAL ASSISTANCE, TRAINING AND LIMITED COMMODITIES PROVIDED UNDER PDP WERE INTENDED TO SUPPORT PDP'S INSTITUTIONAL DEVELOPMENT EFFORTS AT THE LOCAL AND CENTRAL GOVERNMENT LEVELS.

THE PROJECT HAS BEEN MANAGED IN A WAY WHICH ATTEMPTS TO ACHIEVE A SOMETIMES DIFFICULT BALANCE BETWEEN THE TWO PURPOSES OF DECENTRALIZING DECISION MAKING AND INCREASING RURAL INCOMES, BUT WITH THE PURPOSE OF INSTITUTIONAL DEVELOPMENT VIEWED AS THE LONG RANGE OBJECTIVE. THIS HAS RESULTED IN THE MISSION'S USE OF INDIRECT PROCESS-ORIENTED MANAGEMENT. GAINS RESULTING IN IMPROVED CENTRAL AND LOCAL GOI CAPABILITIES IN PROGRAM MANAGEMENT ARE SOMETIMES ACHIEVED AT THE COST OF LESS EFFICIENT, LESS TECHNICALLY SOUND SUBPROJECT PLANNING AND IMPLEMENTATION. THE MISSION BELIEVES, HOWEVER, THAT THE POTENTIAL RETURNS OF THIS LESS DIRECTIVE APPROACH LEAD TO SUSTAINABLE IMPROVEMENTS IN LOCAL INSTITUTIONAL
BT

1/11

UNCLASSIFIED JAKARTA 018972/01

29

UNCLASS SECTION 22 NO 11 JAKARTA 18972

CAPABILITIES THAT DIRECTLY BENEFIT THE RURAL POOR.

IN LINE WITH THE PROJECT APPROACH OF WORKING WITHIN GOI STRUCTURES AND, AS FAR AS PRACTICAL, NORMAL GOI PROCEDURES AS A PREFERRED APPROACH TO BRING ABOUT LONG TERM, SUSTAINABLE INSTITUTIONAL IMPROVEMENTS, USAID MANAGEMENT HAS CONSISTENTLY BEEN CARRIED OUT WITH AND THROUGH GOI PARTICIPATION. THIS HAS HAD DISADVANTAGES IN THAT CHANGES AND IMPROVEMENTS ARE SOMETIMES SLOW TO ACHIEVE, BUT THE MISSION FEELS THE INCREASED SUSTAINABILITY OF RESULTS HAS MORE THAN COMPENSATED FOR THE DISADVANTAGES. IN LIGHT OF SOME COMMENTS MADE IN THE DAR, IT IS IMPORTANT TO POINT OUT THAT THIS APPROACH HAS ALSO REQUIRED THAT ALL OF THE USDB STAFF WORKING ON PDP ARE LANGUAGE QUALIFIED (MINIMUM FSI 2/2, USUALLY 3/3 OR HIGHER) AND THAT CONSIDERABLE RESPONSIBILITY BE CARRIED OUT BY USAID FSN STAFF. MOST DAY TO DAY VERBAL COMMUNICATIONS ARE CONDUCTED IN THE INDONESIAN LANGUAGE BOTH IN THE PROVINCES AS WELL AS IN JAKARTA. ENGLISH IS USED FOR REQUIRED DOCUMENTATION, COMMUNICATIONS WITH AND FROM CONSULTANTS, AND SPECIAL REPORTS OR EVALUATIONS.

AS POINTED OUT TO THE AUDIT TEAM DURING THEIR VERY EARLY IN THE WORK IN JAKARTA, USAID MANAGEMENT AND PROJECT STAFF HAD RECOMMENDED IN EARLY 1987 THAT AFTER THE COMPLETION OF COMMITMENTS UNDER PDP I AND II IT WAS NOT ADVISABLE FOR AID TO ATTEMPT TO CONTINUE THIS MODE OF ASSISTANCE ON THE SCALE OF PDP. THIS WAS BASED ON AN ASSESSMENT OF THE CURRENT STATUS OF CENTRAL AND LOCAL GOI PROGRESS ON DECENTRALIZATION, THE TYPES OF ASSISTANCE WHICH AID COULD BEST PROVIDE IN THE FUTURE, AND THE LEVELS OF STAFF INTENSITY REQUIRED TO ATTEMPT TO ADEQUATELY MANAGE, MONITOR AND REPORT ON ASSISTANCE UNDER PDP. IT IS NOT DEVELOPMENTALLY OR POLITICALLY PRACTICAL TO TRANSLATE THIS JUDGEMENT INTO IMMEDIATE. IN SOME CASES, RADICAL CHANGES IN HOW THE REMAINING SUPPORT UNDER PDP I AND II IS TO BE PROVIDED.

3. RECOMMENDATION NO. 1: WE RECOMMEND THAT USAID/INDONESIA ESTABLISH A MONITORING SYSTEM FOR THE PROVINCIAL DEVELOPMENT PROJECTS WHICH GATHERS AND ANALYZES INFORMATION CONCERNING PROGRESS TOWARD VERIFIABLE INDICATORS SO THAT ACHIEVEMENT OF THE PROJECTS' GOAL AND PURPOSES CAN BE MEASURED. SUCH INFORMATION SHOULD INCLUDE:

- BASELINE DATA CONCERNING THE STATUS OF BENEFICIARIES BEFORE PARTICIPATION IN THE PROVINCIAL DEVELOPMENT PROJECTS, INCLUDING INCOME LEVELS, PRODUCTION, EXPENDITURES AND CONSUMPTION;
- INCREASES IN INCOMES, PRODUCTION AND CONSUMPTION RESULTING FROM PARTICIPATION IN THE PROVINCIAL DEVELOPMENT PROJECTS;
- QUALITY OF PLANNING, IMPLEMENTATION, MONITORING AND EVALUATION OF DEVELOPMENT ACTIVITIES BY PARTICIPATING PROVINCIAL AND DISTRICT GOVERNMENTS BEFORE INVOLVEMENT IN

2/11

UNCLASSIFIED

JAKARTA 218972/22

THE PROVINCIAL DEVELOPMENT PROJECTS; AND

- LESSONS LEARNED IN THE PLANNING, IMPLEMENTATION, MONITORING AND EVALUATION OF DEVELOPMENT ACTIVITIES BY PARTICIPATING PROVINCES AND DISTRICTS AFTER INVOLVEMENT IN THE PROVINCIAL DEVELOPMENT PROJECTS.

A. COMMENTS: THE MISSION CONTENDS THAT, GIVEN THE BROADLY DEFINED INSTITUTIONAL DEVELOPMENT OBJECTIVES OF PDP AS AUTHORIZED IN BOTH PROJECT PAPERS AND SUBSEQUENT AMENDMENTS, AN ADEQUATE MONITORING AND INFORMATION SYSTEM EXISTS WHICH PROVIDES AID MANAGEMENT WITH INFORMATION CONSISTENT WITH THE MANAGEMENT STYLE APPROPRIATE FOR A DECENTRALIZED PROGRAM SUCH AS PDP IN INDONESIA. THE MISSION RECOGNIZES THAT THE GOALS AND PURPOSES OF PDP STATED IN THE INITIAL PP'S ARE NOT EASILY QUANTIFIABLE OR VERIFIED AND THEREFORE IT IS DIFFICULT TO DETERMINE WHEN THE PROJECT HAS ACHIEVED ITS PURPOSES. THIS IS A PROBLEM COMMON TO MOST INSTITUTIONAL DEVELOPMENT PROGRAMS. TO DATE THERE HAS BEEN LITTLE SUCCESS IN IDENTIFYING COST-EFFECTIVE, EASILY MONITORED BENCHMARKS WHICH INDICATE PROGRESS IN INSTITUTIONAL DEVELOPMENT. THE DIFFICULTY OF DEFINING THE GOAL LEADS TO THE PROBLEM OF NOT KNOWING WHEN THE GOAL HAS BEEN ACHIEVED. THIS WAS
BT

2/11

UNCLASSIFIED

JAKARTA 218972/22

UNCLAS SECTION 03 DF JAKARTA 18972

RECOGNIZED AT THE EARLY STAGES OF PDP'S IMPLEMENTATION AND THERE HAVE BEEN A NUMBER OF STEPS TAKEN TO FURTHER SHARPEN AND DEFINE OBJECTIVES AND ASSESS PROGRESS IN ACHIEVING THEM.

CONSISTENT WITH PLANS FOR THE REMAINING PERIOD OF SUPPORT UNDER PDP (PRIMARILY PDP II SINCE PDP I ENDS IN APRIL 1988) FURTHER STEPS WILL BE TAKEN TO JOINTLY IDENTIFY AND DOCUMENT PROGRESS TOWARD OBJECTIVES UNDER PDP WITH THE GOI. THE LACK OF A CONSOLIDATED STATEMENT OF THESE PLANS HAS BEEN A PRODUCT OF THE PROLONGED REORGANIZATION OF THE MINISTRY OF HOME AFFAIRS (MHA) WHICH HAS BEEN IN PROCESS FOR THE PAST TWO YEARS. WITH THE COMPLETION OF THE LAST STAGES OF THIS REORGANIZATION AND STAFFING CHANGES THIS MONTE (DECEMBER 1987) IT WILL BE POSSIBLE TO COME TO MEANINGFUL AGREEMENT ON SUCH A PLAN CONSISTENT WITH PROJECT GOALS, OBJECTIVES AND MANAGEMENT PRACTICES.

IN GENERAL USAID FEELS THAT THE TYPE AND SPECIFICITY OF SUBPROJECT MONITORING CALLED FOR ON THE PART OF USAID IN THE DAR RECOMMENDATION IS INCONSISTENT WITH THE PROJECT GOALS, OBJECTIVES AND THE MEANS IDENTIFIED IN THE PROJECT PAPERS AND AGREEMENTS TO ACHIEVE THESE. TO SOME EXTENT THE MEASURES CALLED FOR ARE APPROPRIATE GOALS FOR LOCAL GOVERNMENTS TO ATTEMPT TO ACHIEVE AND SOME DEMONSTRABLE PROGRESS IN THIS DIRECTION IS DESCRIBED BELOW. THAT DETAILED BEFORE AND AFTER BENEFICIARY DATA BE COLLECTED FOR EACH SUBPROJECT AS IDENTIFIED IN THE RECOMMENDATION, HOWEVER, IS NOT FELT TO BE EITHER NECESSARY OR PRACTICAL EVEN AT LOCAL GOVERNMENT/IMPLEMENTING AGENCY LEVELS.

THE MISSION HAS UNDERTAKEN 2 MAJOR EVALUATIONS OF PDP IN ORDER TO ASSESS THE PROJECT'S PROGRESS TOWARDS ACHIEVING ITS GOALS. IN ADDITION TO THESE EVALUATIONS, THE MISSION USES OTHER MEANS ON A MORE FREQUENT BASIS TO KEEP INFORMED ON PROJECT DIRECTIONS AND ACTIVITIES TO ENSURE THAT THE PROJECTS ARE MOVING TOWARDS ACHIEVEMENT OF THE OBJECTIVES IN A MANNER CONSISTENT WITH THE INSTITUTIONAL DEVELOPMENT AND DECENTRALIZATION ASPECTS OF PDP. THE MISSION'S INFORMATION SYSTEM IS COMPRISED OF VARIOUS DOCUMENTS, REPORTS, SPECIAL EVALUATIONS AND FIELD VISITS WHICH PROVIDE QUALITATIVE AND SUBJECTIVE ASSESSMENTS OF VARIOUS ASPECTS OF PDP. THE VALIDITY AND RELIABILITY OF THIS INFORMATION SYSTEM HAS BEEN INDEPENDENTLY CONFIRMED BY THE RESULTS OF THE 1981 AND 1986/87 EVALUATIONS.

THE 1981 PDP EVALUATION FOUND THAT "PDP HAS HAD A SIGNIFICANT BUT SOMEWHAT UNEVEN EFFECT ON INSTITUTIONAL DEVELOPMENT IN ALL PDP PROVINCES". THIS ASSESSMENT WAS BASED ON THE DEGREE OF DECENTRALIZATION, OF SYSTEMS DEVELOPMENT AND INSTITUTIONAL SUSTAINABILITY. THE TEAM FOUND SUBSTANTIAL DECENTRALIZATION IN FUNDING ALLOCATED FROM PROVINCIAL TO DISTRICT BAPPEDAS. FOR CENTRAL JAVA IN FY 78/79, DISTRICTS AND SUB-DISTRICTS RECEIVED 51 PERCENT OF ANNUAL FUNDING; IN FY 80/81, DISTRICTS AND SUB-DISTRICTS RECEIVED 84 PERCENT OF ANNUAL FUNDING. THE EAST JAVA CREDIT PROGRAM WAS CITED AS AN EXAMPLE OF

32

3/11

UNCLASSIFIED

JAKARTA 018972/03

SUCCESSFUL DECENTRALIZED ADMINISTRATION, SUPERVISION AND
MANAGEMENT BY SUB-DISTRICT OFFICIALS OF VILLAGE LEVEL
CREDIT ACTIVITIES.

THE EVALUATION NOTED THAT PDP'S IMPACT WAS GREATER ON
PLANNING PROCESSES THAN ON SUBPROJECT IMPLEMENTATION WITH
RESPECT TO MAKING IMPROVEMENTS AND CHANGES. PROGRESS
ACHIEVED WAS INDICATED BY IMPROVED INTERSECTORAL
COORDINATION, GREATER FOCUS ON THE NEEDS OF THE RURAL
POOR AND INCREASED INVOLVEMENT OF LOWER LEVELS OF
GOVERNMENT AGENCIES. PROGRESS ON SUBPROJECT TECHNICAL
CONTENT WAS LESS DRAMATIC, BUT NEW APPROACHES AND
PROGRAMS WERE IDENTIFIED AS INDICATORS OF PROGRESS.
MONITORING AND EVALUATION WERE NOTED AS THE WEAKEST AREAS
IN PDP'S EFFORTS. IN AN ATTEMPT TO ADDRESS THIS ISSUE,
THE 1983 PDP II AMENDMENT AND THE SUBSEQUENT DAI TA
CONTRACT EXTENSION DEVELOPED A STRATEGY TO DESIGN AND PUT
IN PLACE A MONITORING AND EVALUATION SYSTEM TO IMPROVE
LOCAL GOVERNMENT CAPABILITIES TO MANAGE THEIR PROGRAMS.

PROGRESS TOWARD TARGETTING THE RURAL POOR WAS NOTED TO BE
SATISFACTORY, ESPECIALLY COMPARED TO NORMAL GOI
DEVELOPMENT PROGRAMS WHICH DO NOT ELICIT IDEAS OR
PARTICIPATION FROM BENEFICIARIES NOR SPECIFICALLY
IDENTIFY THE RURAL POOR POPULATIONS AS THE RECIPIENTS OF
BT

3/11

UNCLASSIFIED

JAKARTA 018972/03

UNCLAS SECTION 04 OF 11 JAKARTA 18972

ACTIVITIES IN SPITE OF GOI POLICIES AND REGULATIONS TO THIS EFFECT.

THE FIRST PART OF THE 1986/87 EVALUATION WAS A SURVEY ON BENEFICIARY IMPACT CONDUCTED BY SURVEY RESEARCH INDONESIA (SRI) IN RESPONSE TO THE LACK OF QUANTITATIVE DATA ON PDP SUBPROJECT IMPACT. SRI COLLECTED DATA FROM A SAMPLE OF OVER 4500 RECIPIENTS (10 PERCENT) OF 250 PDP SUBPROJECTS (25 PERCENT) IMPLEMENTED FROM FY 78/79 TO FY 84/85 IN 8 PROVINCES. THE SURVEY, DESCRIBED IN DETAIL IN THE REFTEL, COLLECTED DATA ON CHANGES IN BENEFICIARY INCOMES/PRODUCTION, TARGETTING SUCCESS AND SUSTAINABILITY OF PDP SUBPROJECTS WHICH DIRECTLY BENEFITTED RECIPIENTS. USING THE INDICES SET BY THE SURVEY ANALYSTS, RESULTS SHOW THAT AT LEAST 67 PERCENT OF BENEFICIARIES WERE CORRECTLY TARGETTED ON A POVERTY CRITERION. PROVINCES HAVE MADE PROGRESS IN IMPROVING TARGETTING FROM 55 PERCENT CORRECT TARGETTING IN EARLY YEARS TO 83 PERCENT IN LATER YEARS. ACEH, BENGKULU AND SOUTH

KALIMANTAN, THE LEAST SUCCESSFUL IN EARLY YEARS, IMPROVED THEIR TARGETTING BY 28, 14 AND 19 PERCENTAGE POINTS RESPECTIVELY, IN LATER YEARS. THIS INDICATES INCREASING ABILITY OF LOCAL GOVERNMENTS TO CORRECTLY TARGET PROGRAMS TO THEIR RURAL POPULATIONS. IT WAS EXPECTED THAT LOCAL LEVEL OFFICIALS WOULD GAIN EXPERIENCE THROUGH PDP AND OVER TIME, THE PROJECT WOULD SEE INCREASED SUSTAINABILITY OF SUBPROJECTS. SRI DATA SHOW THAT 73 PERCENT OF ON-GOING SUBPROJECT BENEFICIARIES EXPECT TO CONTINUE THE ACTIVITY BEYOND PDP'S INPUT AND 56 PERCENT OF PREVIOUS SUBPROJECT BENEFICIARIES REPORT THAT THEIR ACTIVITIES WERE CONTINUING AFTER THE PDP INPUTS HAD STOPPED. IN EARLY PROJECT YEARS, 17 PERCENT OF BENEFICIARIES STOPPED PDP INITIATED ACTIVITIES, BUT THIS DROPPED TO 2 PERCENT IN LATER YEARS, AN INDICATION OF INCREASING INSTITUTIONAL CAPABILITIES IN PLANNING AND IMPLEMENTATION.

THE SECOND PART OF THE 1986/87 PDP EVALUATION DEALS WITH PDP'S IMPACT ON INSTITUTIONAL DEVELOPMENT. ALTHOUGH THE PDP PROJECT DOCUMENTS DO NOT CLEARLY DESCRIBE HOW SUCH ACHIEVEMENT WILL BE MEASURED, THE TWO PROJECT PAPER AMENDMENTS IN 1982 AND 1983 ATTEMPT TO BETTER DESCRIBE WHAT THE DESIRED OUTCOME WOULD BE. THE 1986/87 EVALUATION REPORT HAS FOCUSED ON FOUR AREAS TO DETERMINE PDP'S PROGRESS IN INSTITUTIONAL STRENGTHENING: IMPROVED INSTITUTIONAL PERFORMANCE; DECENTRALIZATION OF PROJECT MANAGEMENT; INSTITUTIONAL LEARNING; AND INSTITUTIONAL INNOVATION.

AS DESCRIBED ABOVE, THE DATA FROM THE SRI SURVEY SHOWS IMPROVED INSTITUTIONAL PERFORMANCE OVER TIME IN AREAS OF BENEFICIARY TARGETTING AND INCREASING SUSTAINABILITY OF SUBPROJECTS. THE SRI DATA ALSO SHOW DIFFERENT DEGREES OF ACHIEVEMENT IN VARIOUS AREAS FOR THE INDIVIDUAL PROVINCES.

THERE HAS BEEN INCREASING DECENTRALIZATION OF PROJECT MANAGEMENT. THE SHARE OF SUBPROJECT FUNDS ADMINISTERED

34

4/111

UNCLASSIFIED

JAKARTA 018972/04

AT OR BELOW THE DISTRICT LEVEL INCREASED FOR ALL EIGHT PROVINCES FROM 64 PERCENT OF TOTAL PDP FUNDS IN EARLY YEARS (FY 78/79 TO 82/83) TO 75 PERCENT IN LATER YEARS (FY 83/84 TO 86/87). FOR SUBPROJECTS WITH DIRECT IMPACT (FACTORING OUT ADMINISTRATIVE, PLANNING, AND TRAINING ACTIVITIES) 78 PERCENT WERE MANAGED AT DISTRICT LEVELS OR BELOW IN EARLY YEARS; THIS INCREASED TO 90 PERCENT IN THE LAST 4 YEARS. THE DEVOLUTION OF PROJECT MANAGEMENT HAS BEEN ACCOMPANIED BY SIGNIFICANT IMPROVEMENT IN ACHIEVING BENEFICIARY IMPACT OBJECTIVES. THIS IS A FURTHER INDICATION OF INCREASING SKILLS AND MANAGEMENT ABILITIES OF LOCAL GOVERNMENTS PARTICIPATING IN PDP.

INSTITUTIONAL LEARNING CAN BE SEEN BY ASSESSING THE PROCESSES AND APPROACHES USED BY LOCAL OFFICIALS DURING PLANNING AND IMPLEMENTATION. FOR EXAMPLE, ANNUAL PLANS (ROTS) NOW FOCUS MORE ON EXPECTED GAINS AND EXPECTED OUTPUTS TAKING INTO ACCOUNT PREVIOUS PROJECT EXPERIENCE AND IMPACT. THERE IS MORE ATTENTION AND WRITTEN DESCRIPTION REGARDING POTENTIAL IMPACT ON BENEFICIARIES AND THE TARGETTING OF ACTIVITIES TO THE RURAL POOR. MUCH OF THIS IS LINKED TO THE IMPROVED PLANNING PROCEDURES INTRODUCED BY PDP IN 1983 AND 1984. THERE IS INCREASED
BT

4/111

UNCLASSIFIED

JAKARTA 018972/04

35

UNCLAS SECTION 03 OF "K" JAKARTA 18972

EFFORT TO DESIGN PROJECTS WHICH ARE APPROPRIATE AND RESPONSIVE TO LOCAL NEEDS AND CONDITIONS. FOR EXAMPLE, NEIGHBORING PDP VILLAGES MAY HAVE HOMEGARDEN PROJECTS, BUT OFFICIALS UNDER PDP PROJECTS MAY PLAN DIFFERENT CROPS FOR EACH VILLAGE DEPENDING ON DIFFERENCES IN VILLAGE CONDITIONS. THIS IS NOT THE CASE FOR THE GOI'S NORMAL (NON-PDP) SECTORAL PROGRAMS WHERE PACKAGES OF INPUTS GENERALLY REMAIN THE SAME REGARDLESS OF LOCAL CONDITIONS OR PREFERENCES.

THE EVALUATION NOTES INCREASED INSTITUTIONAL LEARNING THROUGH CHANGES IN THOUGHT PROCESSES, IDEAS AND APPROACHES. FOR INSTANCE, THERE IS MORE INFORMATION SHARING AND COORDINATION AMONG THE VARIOUS LOCAL DEVELOPMENT AGENCIES WHICH NORMALLY DO NOT HAVE THE OPPORTUNITY TO DO SO IN SECTORAL PROGRAMS. INDIVIDUALS INVOLVED IN PDP THINK MORE IN TERMS OF PROJECT IMPACT AND SUSTAINABILITY. THERE IS ALSO INCREASED WILLINGNESS TO USE PLANNING DOCUMENTS AS FLEXIBLE TOOLS RATHER THAN RIGID BUDGETS WHICH CANNOT BE CHANGED. PROJECT PLANS ARE MORE SPECIFIC IN DESCRIBING EXPECTED OUTPUTS, IDENTIFYING NUMBER OF RECIPIENTS, AND PROJECT ACTIVITY LOCATIONS. THE EVALUATION CITES VARIOUS EXAMPLES OF INSTITUTIONAL LEARNING WHERE GOI OFFICIALS HAVE DEMONSTRATED SOUND MANAGEMENT PRACTICES ON PDP SUBPROJECTS.

THE EVALUATION DESCRIBES SEVERAL EXAMPLES OF INNOVATIONS RESULTING FROM PDP. A SYSTEM OF BLOCK GRANT FUNDING IS USED BY SEVERAL PDP PROVINCES WHERE EACH DISTRICT IS GIVEN THEIR ANNUAL ALLOCATION LEVELS BY THE PROVINCE, BUT INSTRUCTED TO SUBMIT PROPOSALS FOR LEVELS OF FUNDS GREATER THAN THE FLOOR AMOUNT. PROPOSALS ARE THEN RANKED BY THE PROVINCIAL BAPEEDA FOR QUALITY AND SOUNDNESS SO THAT DISTRICTS WITH BETTER PROPOSALS ARE GIVEN ADDITIONAL FUNDING. THE SYSTEM HAS ENCOURAGED RAPID IMPROVEMENT IN PROPOSALS AND PLANS BY THE DISTRICTS WHOSE PROPOSALS WERE REJECTED AND RECEIVED LESS OVERALL FUNDING. ANOTHER INNOVATION IS CENTRAL JAVA'S DECENTRALIZATION OF PLANNING AND MANAGEMENT OF SUBPROJECTS TO THE SUBDISTRICT LEVEL. THIS IS THE FIRST CASE IN INDONESIA OF PROJECTS BEING MANAGED AT THIS LEVEL AND HAS BEEN TRIED IN OTHER AREAS. PDP SUPPORTED CREDIT PROGRAMS, STARTED IN CENTRAL JAVA BASED ON NO COLLATERAL LOANS, EASY ACCESS TO SMALL LOANS FOR RURAL POOR, INTEREST RATES SUFFICIENTLY HIGH TO COVER COSTS, AND ADEQUATE SUPERVISION, ARE NOW USED IN THE MAJORITY OF PDP PROVINCES.

BOTH THE 1981 AND THE 1987/87 EVALUATIONS CONFIRM THE QUALITY OF THE INFORMATION COMING INTO THE MISSION THROUGH OUR EXISTING MONITORING AND INFORMATION SYSTEM. THE SYSTEM PROVIDES INFORMATION ON A REGULAR BASIS AND CONSISTS OF DOCUMENTS AND REPORTS IN ENGLISH OR INDONESIAN, WHICH ARE SUBJECTIVELY ANALYSED AT REGULAR INTERVALS TO DETERMINE PDP'S STATUS OF ACHIEVEMENT. EXAMPLES OF REGULAR SOURCES OF INFORMATION INCLUDE: MINISTERIAL INSTRUCTIONS (INMEN), ANNUAL OPERATIONAL PLANS (POTS) PREPARED BY DISTRICTS AND PROVINCES; VERBAL AND WRITTEN REPORTS ON BI-ANNUAL MONITORING TRIPS FOR

5/11

UNCLASSIFIED

JAKARTA 218972/25

REIMBURSEMENT PURPOSES; CONSULTANT'S QUARTERLY AND FINAL REPORTS; SPECIAL REPORTS; SPECIAL EVALUATIONS; CONFERENCES; AND NATIONAL PDP WORKSHOPS. (SEE REFTEL SECTION 1 POINT 1 FOR A DETAILED DESCRIPTION OF THE INFORMATION SYSTEM USED FOR PDP). THE ABOVE PROVIDE USAID WITH REGULAR, TIMELY AND APPROPRIATE INFORMATION ON VARIOUS ASPECTS OF PROJECT IMPLEMENTATION FROM WHICH THE MISSION CAN DETERMINE THE RELATIVE PROGRESS OF THE PROJECT.

FOR EXAMPLE, COMPARING INITIAL WITH MORE RECENT INMEN, USAID BELIEVES THAT BANGDA HAS IMPROVED THE QUALITY OF INSTRUCTIONS SENT TO THE PROVINCES. THE INSTRUCTIONS ARE MORE COMPLETE, PROVIDE MORE DETAILED POLICY GUIDELINES, AND HAVE OVER THE PERIOD OF PDP MADE NECESSARY CHANGES IN THE GUIDELINES. FOR EXAMPLE, THE INMEN IN 1992 CHANGED THE POLICY ON EC. PDP CREDIT PROGRAMS SHOULD BE DESIGNED SO THAT SUCH PROGRAMS WOULD BE RUN THROUGH LOCAL BANKING INSTITUTIONS RATHER THAN THROUGH TECHNICAL AGENCIES AS PREVIOUSLY.

USAID IS ABLE TO ASSESS PROGRESS MADE IN THE PLANNING CAPABILITIES OF THE PROVINCIAL AND DISTRICT PAPPEDA (DEVELOPMENT PLANNING BOARDS) BY REVIEWING THE
BT

5/11

UNCLASSIFIED

JAKARTA 218972/25

UNCLAS SECTION 46 NOV 11 JAKARTA 18972

PREPARATION AND CONTENT OF ANNUAL PLANS (ROTS) EACH YEAR. ASSESSMENT OF THE PROGRESS IS MADE BY BOTH USAID PDM STAFF AND THE PLANNING CONSULTANTS, AND DISCUSSED WITH PROVINCIAL AND DISTRICT OFFICIALS PRIOR TO THE PREPARATIONS OF FINAL DOCUMENTS. THE DAI CHIEF OF PARTY, IN HIS END OF CONSULTANCY REPORT IN 1986 FOUND THAT WHILE SIGNIFICANT PROGRESS HAS BEEN MADE (AFTER 3 ROT CYCLES) THERE WAS STILL A NEED FOR FURTHER IMPROVEMENT. USAID RESPONDED TO THIS AND EXTENDED TECHNICAL ASSISTANCE AND FUNDING FOR 1 ADDITIONAL PLANNING CYCLE IN 4 PROVINCES, AND 2 ADDITIONAL CYCLES FOR THE REMAINING 4 PROVINCES.

WHILE PROGRESS IN PLANNING IS DIFFICULT TO QUANTIFY, QUALITATIVE ASPECTS CAN BE USED TO INDICATE PROGRESS. FOR EXAMPLE, CENTRAL JAVA, THE PROVINCE CONSIDERED TO BE MOST ADVANCED IN PLANNING CAPABILITIES, PREPARES ANNUAL PLANS WHICH SHOW LOGICAL DEVELOPMENT OF PROGRAMS INTO OPERATIONALIZED PROJECTS TARGETED TO WELL IDENTIFIED RECIPIENT GROUPS. THE PROVINCIAL ANNUAL PLAN SUPPORTS AND COMPLEMENTS THE INDIVIDUAL DISTRICT ANNUAL PLANS, AND THERE IS MORE REAL LOCAL PARTICIPATION IN PREPARATION OF THE DISTRICT ANNUAL PLANS THAN IN MOST OTHER PDP PROVINCES. BY COMPARISON, PROGRESS IN SOUTH KALIMANTAN HAS BEEN SLOWER, BUT THERE ARE SIGNS OF IMPROVEMENT INDICATED BY PROVINCIAALLY INITIATED AND ORGANIZED MEETINGS IN PDP VILLAGES AIMED TO INCREASE REAL PARTICIPATION BY RECIPIENTS IN PLANNING. THE PROVINCE ALSO HAS STARTED A NEW SYSTEM FOR EVALUATING PROPOSED PROJECTS BASED ON WEIGHTED RANKING OF THE PROPOSAL'S DIRECT IMPACT ON PDP BENEFICIARIES, SUSTAINABILITY, COST-BENEFIT ESTIMATES, AND TECHNICAL FEASIBILITY AMONG OTHER CRITERIA.

PROGRESS ON DEVELOPING MONITORING AND EVALUATION SYSTEMS (M/E) IN PROVINCES AND DISTRICTS HAS BEEN MORE DIFFICULT AND HAS CONSISTENTLY BEEN IDENTIFIED (IN THE 1981 EVALUATION, 1982, 1983 PP AMENDMENTS) AS A PROBLEM AREA. USAID HAS RESPONDED TO THIS AT SEVERAL LEVELS, BUT THIS HAS BEEN EXTREMELY DIFFICULT TO ACCOMPLISH DUE TO INSTITUTIONAL WEAKNESSES IN THE CENTRAL GOVERNMENT, LOCAL GOVERNMENTS AND THE LOCAL UNIVERSITIES FREQUENTLY USED BY PROVINCES TO CARRY OUT EVALUATIONS. THE DAI TECHNICAL ASSISTANCE CONTRACT WAS RENEWED IN 1984 WITH SPECIFIC EMPHASIS ON DEVELOPING A FUNCTIONAL, PRACTICAL M/E SYSTEM FOR PDP PROVINCES.

THE PROPOSED (AND WELL DOCUMENTED) APPROACH WHICH RESULTED FROM THIS WAS NOT FULLY ACCEPTED BY CENTRAL GOI OFFICIALS ALTHOUGH SOME ADOPTION OF THE SYSTEM HAS BEEN MADE BY INDIVIDUAL PROVINCES. CENTRAL JAVA HAS MADE THE STRONGEST EFFORT TO WORK WITH DAI CONSULTANTS TO DEVELOP AN M/E SYSTEM WHICH CATHEES ROUTINE IMPLEMENTATION INFORMATION AND ALSO ATTEMPTS TO DETERMINE BENEFICIARY IMPACT AFTER PROJECT COMPLETION. NTT DID NOT FOLLOW THE DAI MODEL WHEN IT WAS RECOGNIZED THAT THE LOCAL INSTITUTIONS IN NTT HAD FEWER AND LESS QUALIFIED STAFF TO IMPLEMENT THE MODEL. INSTEAD, NTT HAS DEVELOPED ITS OWN SYSTEM WHICH INFORMS SUB-DISTRICT AND VILLAGE OFFICIALS

6/11

UNCLASSIFIED

JAKARTA 218972/06

OF SUBPROJECT IMPLEMENTATION SCHEDULES AND INPUTS SO THAT THESE OFFICIALS CAN BETTER COORDINATE AND MONITOR THE VARIOUS DEVELOPMENT ACTIVITIES IN THEIR REGIONS.

USAID FEELS THAT FURTHER PROGRESS IN DEVELOPING USEFUL M/E SYSTEMS IN PROVINCES, WHILE VERY NECESSARY, WILL NOT BE ACHIEVED UNTIL CENTRAL GOI AGENCIES SET OUT CLEAR GUIDANCE FOR LOCAL GOVERNMENTS ON WHAT AN M/E SYSTEM SHOULD CONSIST OF, AND MAKE A STRONGER CONCEPTUAL LINK BETWEEN PAST PERFORMANCE AND FUTURE ALLOCATION LEVELS. CONTINUING EFFORTS TO ADDRESS THE PROBLEM UNDER THE EXISTING FDP PROJECT WOULD RESULT IN IMPROVEMENT BUT IS CONSIDERED BY USAID TO BE LESS EFFECTIVE THAN DESIGNING A NEW PROJECT WHICH CAN MORE CLEARLY AND DIRECTLY FOCUS ON THE PROBLEM IN THE CONTEXT OF LOCAL DEVELOPMENT PROGRAMS GENERALLY. (PENDING APPROVAL OF OUP NEW CDSS, THE MISSION HAS PLANS FOR A NEW PROJECT, LOCAL DEVELOPMENT POLICIES, WHICH COULD ADDRESS THIS PROBLEM AS WELL AS OTHERS.)

THE RECOMMENDATIONS IN THE DAR THAT USAID DIRECTLY TRACK BENEFICIARY IMPACT DATA (BASELINE DATA FOR BEFORE AND AFTER IMPACT OF FDP SUBPROJECTS) PLANNING, MONITORING AND EVALUATION, AND LESSONS LEARNED ARE FELT TO BE
BT

6/11

UNCLASSIFIED

JAKARTA 218972/06

UNCLAS SECTION 07 0 11 JAKARTA 18972

INCONSISTENT WITH PDP'S GOAL OF DEVELOPING THE GOI AGENCIES' ABILITIES TO PLAN, MONITOR AND RESPOND TO PROJECT MANAGEMENT ISSUES. IT IS A COSTLY UNDERTAKING AND PRACTICALLY IMPOSSIBLE TO IMPLEMENT AT THIS LATE DATE CONSIDERING THERE HAVE BEEN OVER 600,000 BENEFICIARIES. THE MISSION IS MORE THAN SATISFIED THAT WE HAVE REGULAR, RELIABLE INFORMATION ON PROJECT PROGRESS TOWARDS ACHIEVING OBJECTIVES AT A LEVEL OF DETAIL AND FREQUENCY APPROPRIATE TO THE PROJECT. THE QUALITY OF THE INFORMATION HAS BEEN VERIFIED BY 2 MAJOR PROJECT EVALUATIONS (1981, 1986/87) AND OTHER MORE SPECIFIC EVALUATIONS.

THE MISSION ALSO WISHES TO POINT OUT THAT PDP I IS IN THE FINAL YEAR OF IMPLEMENTATION OF SUBPROJECTS WITH A PACD OF APRIL 1988. PDP II PROVINCES ARE NOW PLANNING THEIR FINAL YEAR OF SUBPROJECTS (88/89) AND THE PACD IS DECEMBER 1989. TO ESTABLISH A COMPREHENSIVE MONITORING SYSTEM AS SUGGESTED IS NOT ONLY INCONSISTENT WITH PDP'S MANAGEMENT APPROACH, BUT NOT PRACTICAL GIVEN THE TIME REMAINING IN EITHER PROJECT.

THE AUDITORS QUESTIONED THE USEFULNESS OF CONSULTANT'S REPORTS AS A MANAGEMENT TOOL. A UNIFORM REPORTING FORMAT WAS ESTABLISHED FOR BOTH DAI AND FMI ADVISORS IN LATE 1984 TO ASSIST IN MONITORING PDP'S ACHIEVEMENTS AND FINANCIAL EXPENDITURES, AS WELL AS TO REPORT CONSULTANT'S WORK PLANS. WHILE THE FORMAT MAY NOT BE PRECISELY FOLLOWED IN EACH REPORT, THE CONSULTANTS ARE REQUESTED TO ADDRESS THE FOLLOWING ISSUES WITH RESPECT TO THEIR PROVINCES: FINANCIAL STATUS (REQUESTED FOR USAID'S QUARTERLY EXPENDITURE REPORTS), PROGRESS IN PLANNING; PROGRESS IN MONITORING/EVALUATION; PROGRESS IN BENEFICIARY IMPACT, PROGRESS IN INSTITUTIONAL DEVELOPMENT; OTHER ISSUES/PROBLEMS. AS THE AUDITORS NOTED, FMI CONSULTANTS ALSO PROVIDE INFORMATION ON ANNUAL AND SICK LEAVE, AND NEXT QUARTER'S WORK AND TRAVEL PLANS FOR AID CONTRACT MANAGEMENT PURPOSES; THIS TAKES UP AN AVERAGE OF 5% OF THE LENGTH OF THE REPORTS.

THE MISSION FEELS THAT CONSULTANT REPORTS DO CONTAIN INFORMATION USEFUL FOR DETERMINING PDP'S PROGRESS TOWARDS GOALS. AS INDICATED ALREADY, IT HAS NEVER BEEN INTENDED THAT USAID SHOULD ROUTINELY COLLECT INFORMATION ON INDIVIDUAL BENEFICIARIES OR THE IMPACT OF EACH SUBPROJECT. AS NOTED ABOVE, WHILE THE CAPABILITY OF THE LOCAL INSTITUTIONS IS STILL WEAK, PROGRESS HAS BEEN ACHIEVED IN BUILDING UP VARIOUS ASPECTS OF PROJECT MANAGEMENT INCLUDING MONITORING AT LOCAL LEVELS. THE CHANGES WHICH INDICATE SUCH DEVELOPMENT ARE CONTAINED IN MOST PLANNING AND MANAGEMENT ADVISOR'S REPORTS. OTHER TECHNICAL ADVISORS HAVE SLIGHTLY DIFFERENT EMPHASES IN THEIR REPORTS DEPENDING ON THEIR INDIVIDUAL AREAS OF TECHNICAL EXPERTISE (AGRICULTURE, CREDIT, ETC.)

SUBPROJECT FIELD INSPECTION REPORTS HAVE, SINCE JUNE 1987, BEEN SUPPLEMENTED WITH A FORM FILLED OUT FOR EACH SUBPROJECT WHICH GIVES INFORMATION ON VILLAGE LOCATIONS AND GIVES A QUALITATIVE ASSESSMENT OF EACH SUBPROJECT'S

7/11

UNCLASSIFIED

JAKARTA 018972/07

IMPACT. THE FORM ASKS FOR INFORMATION ON THE NUMBER OF BENEFICIARIES, QUALITY OF IMPLEMENTATION, AN ASSESSMENT OF BENEFICIARY'S OPINION OF THE ACTIVITY, THE BENEFITS AND APPROPRIATENESS OF THE ACTIVITY, GENERAL IMPRESSIONS AND LESSONS TO BE LEARNED IN ADDITION TO FINANCIAL EXPENDITURE DATA USED FOR REIMBURSEMENT.

THE AUDITORS QUESTIONED OTHER SOURCES OF INFORMATION AS USEFUL MANAGEMENT TOOLS BECAUSE OF INCOMPLETE DOCUMENTATION, DOCUMENTS WHICH WERE IN INDONESIAN, OR THE LOW FREQUENCY OF INFORMATION FLOW. AGAIN, WITH RESPECT TO THE INSTITUTIONAL GOALS OF PDP, THESE SOURCES ALL PROVIDE APPROPRIATE AND ADEQUATE INFORMATION TO ALLOW USAID TO MANAGE THE PROJECT AS WAS INITIALLY INTENDED.

C. CONCLUSIONS: IN RESPONSE TO RECOMMENDATION NO. 1, THE MISSION RECOGNIZES THAT PROJECT GOALS AND OBJECTIVES IN THE AUTHORIZED PROJECT DOCUMENTS ARE NOT EASILY MEASURED TO DETERMINE QUANTITATIVE ACHIEVEMENT, NOR IS IT EASILY DETERMINED WHEN THE PROJECT WILL HAVE ACHIEVED THESE OPEN ENDED GOALS. THIS IS NOT A PROBLEM UNIQUE TO PDP, BUT COMMON TO INSTITUTION BUILDING PROJECTS AROUND THE WORLD. THE MISSION HAS CONSISTENTLY ATTEMPTED TO MEASURE INDICATORS OF ACHIEVEMENT THROUGH THE MONITORING
BT

7/11

UNCLASSIFIED

JAKARTA 018972/07

UNCLAS SECTION 08 OCT 11 JAKARTA 18972

AND INFORMATION SYSTEM USED BY PROJECT MANAGEMENT. IN LIGHT OF THE OVERALL INSTITUTIONAL DEVELOPMENT GOAL OF PDP, THE MISSION FEELS THAT WE HAVE ADEQUATE AND ACCURATE INFORMATION WHICH SHOWS THAT THE INSTITUTIONS INVOLVED IN PDP HAVE MADE SIGNIFICANT PROGRESS IN DEVELOPING THEIR CAPABILITIES PARTICULARLY IN PLANNING AND MANAGEMENT.

WHILE IT IS THE MISSION'S VIEW THAT THE MONITORING SYSTEM RECOMMENDED BY THE AUDIT IS INAPPROPRIATE FOR PDP, WE RECOGNIZE THE NEED TO DETERMINE THE EXTENT OF PDP'S ACHIEVEMENT AND IMPACT. THE MISSION THEREFORE INTENDS TO CONDUCT A NATIONAL LEVEL SEMINAR WITH A RANGE OF KEY GOI, UNIVERSITY, AND DONOR PARTICIPANTS TO REVIEW PDP'S PROGRESS (BASED ON THE 1986/87 EVALUATION RESULTS) AND TO FORMULATE A STRATEGY TO BETTER IDENTIFY AND MEASURE PROGRESS OF LOCAL INSTITUTIONAL DEVELOPMENT IN INDONESIA. WE EXPECT THIS TO BECOME THE BASE FOR CONDUCTING A FINAL PROJECT EVALUATION IN MID-1989, PENDING GOI APPROVAL. THE MISSION ALSO PROPOSES TO REPEAT THE 1986 SURVEY ON BENEFICIARY IMPACT AS PART OF THE FINAL EVALUATION TO ASSESS PROGRESS IN INCREASED BENEFICIARY INCOMES DURING THE FINAL YEARS OF THE PROJECT. THE RESULTS OF THIS FINAL EVALUATION WOULD BE USED NOT ONLY AS A FINAL ASSESSMENT OF PDP'S IMPACT, BUT TO LAY THE GROUND WORK FOR AREAS OF FOCUS OF THE PROPOSED NEW PROJECT.

4. RECOMMENDATION NO. 2: WE RECOMMEND THAT USAID/INDONESIA DEVELOP A PLAN FOR THE ORDERLY TRANSFER OF OPERATIONS OF THE PROVINCIAL DEVELOPMENT PROJECTS TO THE GOVERNMENT OF INDONESIA. THIS PLAN SHOULD:

- A. DISCUSS HOW USAID/INDONESIA CAN ASSIST THE GOVERNMENT OF INDONESIA IN ASSUMING RESPONSIBILITY FOR TECHNICAL SERVICES NECESSARY FOR SUSTAINING PROGRAM ACTIVITIES.
- B. IDENTIFY OTHER FUNDING SOURCES FOR DEVELOPMENT ACTIVITIES PLANNED AND IMPLEMENTED UNDER THE PROVINCIAL DEVELOPMENT PROJECTS, AND
- C. IDENTIFY THOSE ASPECTS OF THE PROVINCIAL DEVELOPMENT PROJECTS WHICH WILL CONTINUE AFTER THE PROGRAM ENDS AND DISCUSS RELATIONSHIPS TO ANY FOLLOW-ON ACTIVITIES.

A. COMMENTS: AS STATED PREVIOUSLY, THE INTENT AND GOAL OF PDP IS TO STRENGTHEN AND IMPROVE EXISTING GOI SYSTEMS. PDP HAS BEEN A MEANS TO TEST LOCALLY GENERATED IDEAS FOR DEVELOPMENT PROGRAMS AND IMPROVED SYSTEMS TO PLAN AND MANAGE PROGRAMS AT LOCAL LEVELS. INITIATIVES, IDEAS, PROCESSES, AND PROGRAMS DEVELOPED BY PDP WERE INTENDED TO SERVE AS TRIAL OR PILOT EFFORTS, WITH SUCCESSFUL ONES BEING USED TO IMPROVE THE GOI'S EXISTING SYSTEM OF MANAGEMENT OF ITS DEVELOPMENT PROGRAMS.

IT WAS ASSUMED DURING THE DESIGN OF THE PROJECT THAT AS THE PDP EXPERIMENT DEMONSTRATED SUCCESSFUL PROCESSES AND

48

8/11

UNCLASSIFIED

JAKARTA 218972/28

APPROACHES THE GOI WOULD INCORPORATE AND/OR PROVIDE FUNDING TO SUPPORT THE CONTINUATION OF WHAT PDP HAD INITIATED. HOWEVER, THE ABILITY OF THE GOI TO INCORPORATE SUCH IMPROVEMENTS SINCE 1985/86 HAS BEEN AFFECTED BY THE SHARP DECLINE OF OIL REVENUES WHICH PROVIDED FUNDING FOR UP TO 70 PERCENT OF THE GOI BUDGET. IN THE LAST 2 YEARS THE GOI HAS FOLLOWED AN AUSTERITY BUDGET AND PREDICTIONS ARE THAT THIS WILL CONTINUE FOR AT LEAST THE NEXT 2 TO 3 YEARS. DUE TO THE UNANTICIPATED CUT IN REVENUES, USAID IS ASSISTING THE GOI AT THE CENTRAL AND PROVINCIAL LEVELS IN DETERMINING HOW TO BEST USE THE LESSONS LEARNED FROM 9 YEARS OF PDP EXPERIENCE AT NO OR MINIMUM ADDITIONAL BUDGET REQUIREMENTS. PDP HAS STRIVED, AND IN MOST CASES SUCCEEDED, TO WORK WITHIN EXISTING SYSTEMS AND INSTITUTIONS, WITH EXISTING GOI CIVIL SERVANTS. WHEN PDP ACTIVITIES ARE FINISHED, THE STAFF AND INSTITUTIONS WITH WHICH PDP HAS WORKED WILL STILL EXIST AND CONTINUE TO FUNCTION AND MANAGE THE REGULAR GOI PROGRAMS. THIS IS IN MARKED CONTRAST WITH PDP-TYPE PROJECTS IN INDONESIA SUPPORTED BY THE WORLD BANK, THE GERMAN AND DUTCH GOVERNMENTS. THERE IS NO NEED, THEREFORE, TO "TRANSFER" ACTIVITIES FROM USAID SPONSORED PROJECTS TO THE GOI AS RECOMMENDED IN THE AUDITOR'S REPORT SINCE THE ACTIVITIES HAVE ALWAYS PRIMARILY BEEN
BT

8/11

UNCLASSIFIED

JAKARTA 218972/28

UNCLAS SECTION 09 OF 11 JAKARTA 18972

IMPLEMENTED IN NORMAL GOI SYSTEMS, BY REGULAR GOI STAFF.

PDP FUNDING TO PROVINCES REPRESENTS ONLY A SMALL PART OF THE GOI'S LOCAL DEVELOPMENT BUDGET SUPPORT (INPRES, OR INSTRUKSI PRESIDEN, PRESIDENTIAL INSTRUCTION PROGRAMS). IN FY 86/87 FOR EXAMPLE DOLS. US. 960 MILLION WAS PROVIDED BY THE GOI THROUGH INPRES PROGRAMS TO PROVINCES, DISTRICTS AND VILLAGES FOR LOCAL DEVELOPMENT PROGRAMS. THIS COMPARES TO DOLS. US 3.2 MILLION WHICH PDP PROVIDED IN SUBPROJECT FUNDS FOR THE SAME TIME PERIOD. THEREFORE, THE LACK OF AID FUNDING FOR SUBPROJECTS WILL NOT REPRESENT A MAJOR OVERALL CUT IN FUNDS RECEIVED BY THE LOCAL DEVELOPMENT AGENCIES. THESE AGENCIES WILL CONTINUE THEIR REGULAR ON-GOING AND NEW ACTIVITIES FUNDED BY THE INPRES PROGRAMS. THE AREA IN WHICH THE LOSS OF PDP FUNDS WILL HAVE IMPACT IS IN FUNDING FOR ACTIVITIES OUTSIDE THE NORMAL USES OF CURRENT INPRES PROGRAMS AT THE DISTRICT LEVEL. THIS IS BEING ADDRESSED THROUGH ON-GOING DISCUSSIONS WITHIN THE GOI, AND IN CONNECTION WITH THE DESIGN OF THE PROPOSED NEW LOCAL DEVELOPMENT POLICIES PROJECT.

AS DESCRIBED IN THE 1986 PDP AMENDMENT, LIMITED LOCAL TECHNICAL ASSISTANCE WOULD HOPEFULLY CONTINUE WITH GOI FUNDING AFTER PDP HAD ENDED. GIVEN THE CURRENT SEVERE BUDGETARY CONSTRAINTS THIS PLAN MAY NO LONGER BE FEASIBLE. HOWEVER, ALL PDP PROVINCES HAVE GAINED VARYING DEGREES OF EXPERIENCE IN IDENTIFYING AND WORKING WITH INDONESIAN AND FOREIGN CONSULTANTS; DEVELOPING SCOPES OF WORK; AND CONTRACTING WITH NGOS AND UNIVERSITIES TO CONDUCT SHORT-TERM AND LONG-TERM CONSULTANCIES. USAID FEELS THAT TO CONTINUE PROVIDING TA FUNDED BY SOURCES OTHER THAN GOI FUNDS WOULD BE BENEFICIAL IN ONLY A FEW SELECT CASES NOTED BELOW.

THE GOI AND USAID IN JUNE 1986 AGREED THAT CURRENT TECHNICAL ASSISTANCE CONTRACTS FOR PDP I WOULD TERMINATE IN JUNE 1987 AND FOR PDP II IN JUNE 1988. ADDITIONAL TECHNICAL ASSISTANCE IS CURRENTLY BEING DISCUSSED IN RELATION TO ASSISTING SPECIFIC CREDIT PROGRAMS IN 2 PROVINCES AND IN CARRYING OUT SPECIAL STUDIES OF EVALUATIONS TO FURTHER PDP'S SUSTAINABLE IMPACT ON THE GOI'S APPROACH TO LOCAL RURAL DEVELOPMENT. DUE TO THE RECENTLY COMPLETED REORGANIZATION AT ALL LEVELS IN THE MINISTRY OF HOME AFFAIRS NOTED EARLIER, THESE PLANS HAVE NOT YET BEEN FINALIZED.

IN A FEW CASES, PDP HAS HELPED CREATE PROGRAMS, SUCH AS RURAL CREDIT WHICH BECAUSE THEY ARE RELATIVELY NEW PROGRAMS IN THESE PROVINCES, ARE NOT YET SELF-SUPPORTING. SUCH IS THE CASE IN ACEH, NTB AND BENGKULU. USAID AND GOI OFFICIALS FROM THE PROVINCES AND MINISTRY OF HOME AFFAIRS HAVE BEGUN DISCUSSIONS WITH THE NATIONAL PLANNING AGENCY (BAPPENAS), MINISTRY OF FINANCE AND OTHER DONORS TO DETERMINE WHAT FUNDS COULD BE PROVIDED TO THESE PROGRAMS UNTIL THEY HAVE A CHANCE TO ACHIEVE SELF-SUFFICIENCY.

AS NOTED EARLIER, A NATIONAL LEVEL SEMINAR IS TENTATIVELY

9/11

UNCLASSIFIED

JAKARTA 218972/09

SCHEDULED FOR FEBRUARY 1988 TO DISCUSS PDP'S EFFECTIVENESS, IMPACT AND IMPLICATIONS FOR FUTURE GOI DECENTRALIZATION POLICIES AND PROGRAMS. A NEW PROPOSED PROJECT, AS IT PRESENTLY EXISTS IN A CONCEPT PAPER, WILL FOCUS PRIMARILY ON ASSISTING THE GOI TO IDENTIFY IMPROVEMENTS IN EXISTING POLICIES TO FURTHER ENHANCE THE EFFICIENCY AND EFFECTIVENESS OF LOCALLY ADMINISTERED AND MANAGED DEVELOPMENT PROGRAMS, PRIMARILY AT THE DISTRICT LEVEL. USAID FUNDING WOULD SUPPORT A POLICY ANALYSIS TYPE OF ORGANIZATION TO ASSIST THE GOI IN POLICY STUDIES AND TO SUPPORT SMALL PILOT INITIATIVES IN PROVINCES AND DISTRICTS. WHILE THIS COULD EFFECTIVELY INCLUDE OR BE LINKED TO A COMPONENT WHICH PROVIDES FUNDS FOR LOCAL PROGRAMS (SIMILAR TO PDP'S SUBPROJECTS), OTHER DONORS WOULD BE EXPECTED TO ASSIST THE GOI IN FUNDING THIS POSSIBLE NEW INFRES FUND. THE NEW PROJECT IS INTENDED TO BUILD ON PDP'S EXPERIENCE BUT NOT BECOME A CONTINUATION OF PDP PER SE. IT WILL NOT IN MOST CASES CONTINUE AID FUNDING FOR LOCAL PROJECT ACTIVITIES BEGUN UNDER PDP.

EACH PDP II PROVINCE HAS BEEN INSTRUCTED INDIVIDUALLY, AND IN A GROUP MEETING IN JAKARTA IN OCTOBER 1987, TO DEVELOP A CLOSE-OUT OR PHASE-OUT APPROACH DURING THEIR FINAL YEAR OF PDP FUNDING. COLLABORATING WITH THEIR
BT

9/11

UNCLASSIFIED

JAKARTA 218972/09

UNCLAS SECTION 10 OF 11 JAKARTA 18972

PROVINCIAL CONSULTANTS, THE PROVINCES ARE EXPECTED TO DETERMINE PRIORITIES IN THEIR PROGRAMS AND IDENTIFY THOSE THAT SHOULD AND CAN BE CONTINUED BEYOND PDP FUNDING.

SEVERAL PROVINCES HAVE ALREADY MADE PROGRESS ON THIS. IN NTT, BAPPEDA OFFICIALS HAVE OBTAINED ASSURANCES THAT SOME LOCAL FUNDING WILL BE MADE AVAILABLE TO SUPPORT THE VILLAGE EXTENSION PROGRAM. DONORS ALREADY WORKING IN NTT (AUSTRALIA, WORLD BANK) HAVE BEEN INVITED TO MONTHLY COORDINATING MEETINGS TO DETERMINE IF FUTURE SUPPORT IS AVAILABLE FROM DONORS FOR NTT'S PDP INITIATED AGRICULTURE RESEARCH STATION. CREDIT PROGRAMS IN NTB, SOUTH KALIMANTAN, BENGKULU AND ACEH ARE ALL IN THE PROCESS OF PREPARING BREAK-EVEN POINT PROJECTIONS TO DETERMINE LEVELS OF FUNDING REQUIRED BEFORE THEY REACH SELF-FINANCING. THEY WILL PRESENT THEIR REQUESTS FOR ADDITIONAL FUNDING TO EITHER LOCAL OR CENTRAL GOI AUTHORITIES AFTER PDP HAS TERMINATED ITS FUNDING. CENTRAL JAVA AND ACEH HAVE ALREADY SET ASIDE LOCAL GOI FUNDS FOR "PDP TYPE" ACTIVITIES FOR FY 88/89 AND HAVE REQUESTED MATCHING FUNDS FROM THE GOI NATIONAL DEVELOPMENT BUDGET. DISCUSSIONS ON THIS ARE STILL IN PROCESS.

B. CONCLUSION: USAID HAS BEEN HOLDING REGULAR ON-GOING DISCUSSIONS WITH VARIOUS LEVELS OF THE GOI TO PREPARE PROVINCES FOR THE END OF PDP. AS THE LOCAL GOVERNMENT AGENCIES HAVE ALWAYS ADMINISTERED AND MANAGED SUBPROJECT ACTIVITIES THERE IS NO NEED TO "TRANSFER" THESE ACTIVITIES TO THEM AS WOULD OCCUR WITH AN AD HOC OR AUTONOMOUS PROJECT.

LOCAL GOVERNMENTS HAVE GAINED THE CAPABILITY TO IDENTIFY TECHNICAL ASSISTANCE NEEDS, AND CAN LOCATE AND CONTRACT FOR TA IF NECESSARY. WITH THE PRESENT FINANCIAL SITUATION, HOWEVER, IT IS UNLIKELY THE LOCAL OR CENTRAL GOVERNMENT WOULD HAVE MUCH FUNDING AVAILABLE FOR THIS IN THE NEAR TERM. IN LIGHT OF THIS, USAID IS AND WILL CONTINUE ASSISTING THE LOCAL GOVERNMENTS TO FIND SOURCES OF FUNDING FROM THE GOI DEVELOPMENT BUDGET AND OTHER DONORS FOR HIGH PRIORITY PROJECTS AND NEEDS. BOTH AID AND GOI COUNTERPARTS FEEL THAT, WHILE LOCAL INSTITUTIONS ARE STILL UNDERDEVELOPED IN CERTAIN MANAGEMENT SKILLS. PROVIDING ADDITIONAL TA AT THIS POINT WILL BE LESS EFFECTIVE THAN ALLOWING THESE INSTITUTIONS TO ATTEMPT TO MANAGE THEIR PROGRAMS WITHOUT RELYING HEAVILY ON OUTSIDE CONSULTANTS.

5. RECOMMENDATION NO.3: WE RECOMMEND THAT USAID/INDONESIA DEVELOP A PAYMENT VERIFICATION SYSTEM FOR PROVINCIAL DEVELOPMENT PROJECTS I AND II THAT COMPLIES WITH A.I.D. HANDBOOK 3 REQUIREMENTS.

A. COMMENTS: PAYMENTS ARE MADE BASED ON THE POST-AUDIT CONCEPT. AS THE MISSION HAS ONLY ONE FINANCIAL ANALYST, WE HAVE NOT YET BEEN ABLE TO VERIFY ACTUAL COSTS FOR THE PDP PROJECTS. NEVERTHELESS, THE MISSION PLANS TO PERFORM VOUCHER VERIFICATION OF TWO PDP PROVINCES SOON AND EXPECTS TO COMPLETE THIS REVIEW IN JANUARY 1988.

10/11

UNCLASSIFIED

JAKARTA 018972/10

APPROPRIATE ACTIONS WILL BE TAKEN BASED ON FINDINGS OF THE REVIEW TO CORRECT WEAKNESSES OF THE IMPLEMENTING AGENCIES' ACCOUNTING SYSTEM IF ANY ARE FOUND. AN APPROPRIATE PAYMENT VERIFICATION SYSTEM FOR PDP WILL BE DEVELOPED AND CLEARED WITH RIG/A/MANILA PRIOR TO IMPLEMENTATION. IN ADDITION, WE HAVE RECENTLY RECEIVED APPROVAL FOR AND ARE IN THE PROCESS OF INCREASING OUR FINANCIAL MONITORING CAPABILITY BY BRINGING FOUR TO FIVE ADDITIONAL FSM FINANCIAL ANALYSTS. WITH INCREASED STAFF WE WILL HAVE IMPROVED COVERAGE OF PAYMENT VERIFICATION.

6. RECOMMENDATION NO. 4: WE RECOMMEND THAT USAID/INDONESIA AMEND USAID/INDONESIA MISSION ORDER NO. 1900.2 TO:

- INCLUDE SPECIFIC DEFINITIONS AND EXAMPLES OF ACTIVITIES AND SERVICES FOR WHICH HONORARIA AND SALARY SUPPLEMENTS CAN BE PAID; AND
- PROHIBIT PAYMENT OF MORE THAN ONE HONORARIA FOR THE SAME OR CLOSELY RELATED ACTIVITIES OR SERVICES IN THE SAME PROJECT OR PROGRAM WITHOUT SPECIAL JUSTIFICATION.

A. COMMENT: THE GOI HAS AN ESTABLISHED SYSTEM IN WHICH
BT

10/11

UNCLASSIFIED

JAKARTA 018972/10

UNCLAS SECTION 11 0711 JAKARTA 19972

GOVERNMENT EMPLOYEES RECEIVE A VERY LOW BASE SALARY, WHICH, IN ACCORDANCE WITH DOCUMENTED GOI REGULATIONS IS SUPPLEMENTED IN VARIOUS WAYS. IN ADDITION TO THEIR BASE SALARY, CIVIL SERVANTS RECEIVE A RICE ALLOWANCE, COLA, AND CLOTHING AND TRANSPORT ALLOWANCES. IF A CIVIL SERVANT IS, IN ADDITION TO HIS/HER ROUTINE DUTIES, RESPONSIBLE FOR SERVING ON A COMMITTEE, TEACHING A COURSE, PRESENTING A PAPER OR MANAGING A PROJECT (IN PDP'S CASE, A SUBPROJECT) AN HONORARIUM IS PAID. THE GOI, THROUGH THE NATIONAL PLANNING AGENCY (BAPPENAS) AND OTHER CENTRAL AGENCIES, HAS DETAILED REGULATIONS WHICH SET OUT THE VARIOUS KINDS OF HONORARIA AND LEVELS ALLOWED IN ACCORDANCE WITH TASKS PERFORMED AND THE INDIVIDUAL'S CIVIL SERVICE RANK. THE GOI MINISTRIES, INCLUDING HOME AFFAIRS HAVE INSPECTORATE GENERALS WHOSE STAFF CONDUCT AUDITS OF BOTH CENTRAL AND LOCAL LEVEL GOVERNMENT UTILIZATION OF FUNDS. THE PROVINCIAL GOVERNMENT ALSO HAS AN INSPECTORATE. USAID IS AWARE THAT AUDITS ARE CONDUCTED BY THE GOI INSPECTORATE, WHICH AMONG OTHER ASPECTS, REVIEW LEVELS AND TYPES OF HONORARIA PAID BY GOI PROJECTS. PDP SUBPROJECTS ARE SUBJECT TO GOI AUDIT SINCE THEY ARE FUNDED THROUGH THE GOI'S NORMAL BUDGETING PROCESS.

WHILE THE MISSION RECOGNIZES THE SENSITIVITY OF PAYING HONORARIA, IT ALSO REALIZES THAT NOT PAYING IT WOULD CAUSE MAJOR PROBLEMS FOR IMPLEMENTING PROJECTS IN INDONESIA. IT IS A STANDARD PRACTICE IN INDONESIA TO PAY AN HONORARIUM TO CIVIL SERVANTS FOR WHAT IS CONSIDERED AN ADDITIONAL DUTY TO WHAT IS ROUTINELY EXPECTED.

THE MISSION HAS REASONABLE ASSURANCE THAT: 1) HONORARIA PAID UNDER PDP SUBPROJECTS ARE IN ACCORDANCE WITH BAPPENAS REGULATIONS, 2) THEY ARE PAID FOR IDENTIFIABLE TASKS PERFORMED. IF THE TASK IS NOT PERFORMED, THE HONORARIUM IS NOT PAID, 3) AND THERE IS NO DOUBLE PAYMENT FOR THE SAME TASK, AS TASKS ARE IDENTIFIED AND DEFINED BY BAPPENAS REGULATIONS.

7. RECOMMENDATION NO. 5: WE RECOMMEND THAT USAID/INDONESIA REQUIRE THAT THE GOVERNMENT OF INDONESIA IDENTIFY HONORARIA AND SALARY SUPPLEMENTS PAID UNDER PROVINCIAL DEVELOPMENT PROJECTS AS A SEPARATE LINE ITEM IN SUBPROJECT BUDGETS.

A. COMMENTS: THE MISSION RANDOMLY REVIEWED OVER 33 DIPS (SUBPROJECT BUDGETS), AND IN EVERY CASE, HONORARIA WERE CLEARLY IDENTIFIED UNDER THE WAGES BUDGET CATEGORY. IN THE CASE OF PDP, USAID REIMBURSES A PREVIOUSLY AGREED UPON PERCENTAGE OF THE ACTUAL COST OF THE ENTIRE SUBPROJECT DIP (BUDGET). THERE ARE NO BREAKDOWNS IN THE DIP WHICH SHOW BY BUDGET LINE ITEM, USAID AND GOI CONTRIBUTIONS. FOR EACH PDP SUBPROJECT, AID FINANCES ONLY A PORTION OF THE OVERALL COST OF THE ACTIVITIES AND AID FUNDS ARE NOT IDENTIFIABLE BY BUDGET LINE ITEM. FUNDING OF HONORARIA IS ATTRIBUTED TO THE GOI-FUNDED PORTION OF THE SUBPROJECTS AND AID FUNDING CANNOT CORRECTLY BE IDENTIFIED AS FINANCING HONORARIA.

48

11/11

UNCLASSIFIED

JAKARTA 018972/11

B. CONCLUSION: SINCE AID FUNDS CANNOT BE SAID TO BE FINANCING HONORARIA, THE AUDIT RECOMMENDATIONS FOR REVISING THE MISSION ORDER DO NOT PERTAIN IN THIS CASE. THE MISSION ORDER IS VALID ONLY WHERE AID FUNDS ARE USED DIRECTLY TO FINANCE HONORARIA AND SALARY SUPPLEMENTS.

WOLFOVITZ

BT
#8972

NNNN

11/11

UNCLASSIFIED

JAKARTA 018972/11

List of Recommendations

	Page
<u>Recommendation No. 1</u>	5
<p>We recommend that USAID/Indonesia establish a monitoring system for the Provincial Development Projects which gathers and analyzes information concerning progress toward verifiable indicators so that achievement of the projects' goal and purposes can be measured. Such information should include:</p> <ul style="list-style-type: none">- Increases in incomes, production and consumption resulting from participation in the Provincial Development Projects;- Improvements in the quality of planning, implementation, monitoring and evaluation of development activities by participating provincial and district governments because of involvement in the Provincial Development Projects; and- Lessons learned by participating provinces and districts in planning, implementing, monitoring and evaluating development activities resulting from participation in the Provincial Development Program.	
<u>Recommendation No. 2</u>	16
<p>We recommend that USAID/Indonesia develop a plan for the orderly transfer of operations of the Provincial Development Projects to the Government of Indonesia. This plan should:</p> <ul style="list-style-type: none">a. Discuss how USAID/Indonesia can assist the Government of Indonesia in assuming responsibility for technical services necessary for sustaining program activities;b. Identify other funding sources for development activities planned and implemented under the Provincial Development projects; and	

- c. Identify those aspects of the Provincial Development Projects which will continue after the program ends and discuss relationships to any follow-on activities.

Recommendation No.3

19

We recommend that USAID/Indonesia develop a payment verification system for Provincial Development Projects I and II that complies with A.I.D. Handbook 3 requirements.

APPENDIX C

Report Distribution

	<u>No. of Copies</u>
Mission Director, USAID/Indonesia	5
Assistant Administrator, Bureau for Asia and the Near East (AA/ANE)	1
Indonesia Desk (ANE/EA)	1
Audit Liaison Office (ANE/DP)	1
Bureau for External Affairs (AA/XA)	2
Office of Press Relations (XA/PR)	1
Office of Legislative Affairs (LEG)	1
Office of the General Counsel (GC)	1
Assistant to the Administrator for Management (AA/M)	2
Office of Financial Management (M/FM/ASD)	2
Bureau for Science and Technology (S&T/RD)	1
PPC/CDIE	3
Office of the Inspector General	
IG	1
AIG/A	1
IG/PPD	2
IG/LC	1
IG/EMS	12
IG/II	1
RIG/I/M	1
RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
RIG/A/Tegucigalpa	1
RIG/A/Washington	1
RIG/PSA	1