

A.I.D. EVALUATION SUMMARY - PART I

PD-ASK 727
93768

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

A. Reporting A.I.D. Unit: Mission or AID/W Office <u>Jakarta</u> (ES# _____)	B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input checked="" type="checkbox"/> Slipped <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY _____ Q _____	C. Evaluation Timing Interim <input type="checkbox"/> Final <input checked="" type="checkbox"/> Ad Hoc <input type="checkbox"/> Other <input type="checkbox"/>
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D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated: if not applicable, list title and date of the evaluation report.)

Project No.	Project/Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (MO/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
497-HG-001	MUNICIPAL FINANCE AND SHELTER PROGRAM	FY 89	9/94	120,000	120,000

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Dir. or	Name of Officer Responsible for Action	Date Action to be Completed
Action(s) Required The Evaluation Team has not identified any outstanding issues under MFSP that need to be resolved before the project is closed out. (See full evaluation, p.iv)	Not Applicable	Not Applicable
	(Attach extra sheet	if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review of Evaluation: _____ (Month) _____ (Day) _____ (Year)
 October 28, 1994

G. Approvals of Evaluation Summary And Action Decisions:

Name (Typed)	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Signature	<i>[Signature]</i> Joel Kolker	<i>[Signature]</i> Sugiyati Hirawan	<i>[Signature]</i> Gary Bricker	<i>[Signature]</i> Charles F. Weden
Date	1/20/95	1/25/95	1/30/95	2/3/95

ABSTRACT

H. Evaluation Abstract (Do not exceed the space provided)

In 1988, USAID and the GOI recognized the opportunity for a new assistance program that would emphasize municipal finance objectives of a Policy Action Plan prepared by the GOI. Accordingly the Municipal Finance Project (397-0365) was initiated with an overall objective to:

...improve the shelter conditions of the urban poor by developing the means by which municipal governments can finance shelter-related urban services and infrastructure at a pace sufficient to overcome present deficits and match the pace of urban population growth.

The central component of the Project was the Municipal Finance and Shelter Program (MFSP: 497-HG-001) under which USAID agreed to provide a \$100 million Housing Guaranty Loan (HGL) to support infrastructure development and the GOI agreed to continue to pursue the objectives of the Policy Action Plan and to undertake certain Investment Plan requirements. Based on the success of reforms related to municipal finance, the HGL was amended to add an additional \$20 million in resources. The MFSP project also included \$5 million in Development Assistance grants for technical assistance and training.

The final evaluation was undertaken to measure the impact of the MFSP program and to assist in the implementation of future USAID urban programs. Specifically, the evaluation noted that the momentum behind MFSP policy themes has grown notably since 1992 and that many of the concerns raised in the Interim Evaluation have been addressed by the GOI. Key achievements and findings identified that the program:

1. Built performance capacity in local government;
2. Expanded local government revenues and local government discretion over the use of revenues received;
3. Coordinated investment programs for infrastructure, with expanded community participation;
4. Transferred control over nearly all water authorities from the central to the local governments;
5. Endorsed inclusion of the MFSP Policy Action Plan themes in the national development plan (Repelita VI);
6. Built urban environmental management principles into local planning processes.

The MFSP evaluation team did not identify any outstanding issues which need to be resolved before the program is closed out. Nonetheless, they did identify key lessons learned which include:

1. Focusing management on priorities within a broad policy framework can achieve impressive results;
2. Reliable performance monitoring, access to technical assistance resources, and strong RHUDO/Mission collaboration are critical to success in USAID management of urban policy programs;
3. Recognizing, and taking advantage of, variation in local entrepreneurialism and pay-off opportunities may be an important means of expediting results in urban decentralization programs.

C O S T S

I. Evaluation Costs

1. Evaluation Team		Contract Number OR	Contract Cost OR	Source of Funds
Name	Affiliation	TDY Person Days	TDY Cost (U.S. \$)	
Thomas Kingsley	The Urban Institute	PCE-1008-I-00-2070-00	\$ 58,138.00	Project Funds
Maris Mikelson	The Urban Institute	DO No. 5		497-0365
2. Mission/Office Professional Staff		3. Borrower/Grantee Professional		
Person-Days (Estimate) _____ 20 _____		Staff Person-Days (Estimate) _____ 20 _____		

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A.I.D. EVALUATION SUMMARY - PART II

SUMMARY				
<p>J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided) Address the following items:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;"> <ul style="list-style-type: none"> • Purpose of evaluation and methodology used • Purpose of activity(ies) evaluated • Findings and conclusions (relate to questions) </td> <td style="width: 50%; border: none;"> <ul style="list-style-type: none"> • Principal recommendation • Lessons learned </td> </tr> </table>			<ul style="list-style-type: none"> • Purpose of evaluation and methodology used • Purpose of activity(ies) evaluated • Findings and conclusions (relate to questions) 	<ul style="list-style-type: none"> • Principal recommendation • Lessons learned
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Mission or Office: USAID/Indonesia	Date This Summary Prepared: December 20, 1994	Title and Date of Full Evaluation Report: Final Evaluation of the Indonesia Municipal Finance & Shelter Program, November 1994		
<p>PURPOSE AND METHODOLOGY</p> <p>The main purpose of the MFSP evaluation is to assess the Program's performance under the Policy Action Plan and Investment Plan requirements. However, to the extent evidence permits, the report also comments on the Project's broader impacts and draws lessons that should be of relevance to other USAID projects with similar objectives.</p> <p>The evaluation was conducted in August 1994 by two U.S. urban policy specialists. To obtain evidence on the policy change that has occurred, as well as Project impacts, the authors examined numerous reports and other documents, interviewed 32 program officials and knowledgeable observers, and analyzed GOI and USAID records on sectoral investments and financing.</p>				
<p>PURPOSE OF ACTIVITY EVALUATED</p> <p>The report is the final evaluation of Indonesia's Municipal Finance and Shelter Program (MFSP). The Project was designed to further the Government of Indonesia's (GOI) program to decentralize substantial authority and responsibility for urban development to local governments. Under the MFSP agreement (as amended), USAID was to provide \$120 million in Housing Guaranty Loan (HGL) funds for urban infrastructure improvements, and the GOI was to implement a series of reforms called for in a pre-agreed "Policy Action Plan" and to meet certain "Investment Plan" requirements to ensure the local currency equivalent of the HGL funds received would be spent in a manner consistent with program objectives and legal requirements.</p>				
<p>FINDING AND CONCLUSIONS</p> <p><i>I. Policy Action Plan Accomplishments through 1992.</i> In the first few years of MFSP, the GOI had already accomplished a great deal within the framework of the Plan. It had: (1) transformed the process by which urban infrastructure is programmed through the Integrated Urban Infrastructure Development Program (IUIDP—in which coordinated planning and project preparation occur across sectors for individual cities, with strong local government participation and linkage to local resource mobilization); (2) substantially improved the management of the property tax and other local own-source revenues, and enhanced their yields; (3) set a sound policy and technical base for expanding private sector participation in urban services; (4) built the base for expanded municipal borrowing for urban infrastructure, notably through establishing the Regional Development Account (RDA); and (5) established and maintained a viable framework for interministerial coordination of central government actions affecting urban development.</p> <p><i>II. Policy Action Plan Accomplishments, 1992-94.</i> The evaluation noted that the momentum behind MFSP policy themes has grown notably since 1992 and the GOI has since done much to address the concerns raised in the Interim Evaluation. Key achievements are noted and include:</p> <p><i>1. Building performance capacity in local government:</i> the number of person-days of relevant skill training provided to local officials has been substantially increased (by 45 percent from 1992/93 to 1993/94); a major new training program in urban management has been initiated; the number of professional civil servants under the jurisdiction of the Ministries of Home Affairs and Public Works assigned to work for regional and local governments has more than doubled (from 54,700 in 1991/92 to 132,800 in 1993/94).</p>				

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S U M M A R Y (Continued)

2. Expanding local government revenues and local government discretion over the use of revenues received: property tax (PBB) receipts increased nominally by 58 percent from 1991/92 to 1993/94; more notably, real per capita own source revenues of Tk. I and II governments (including PBB) had increased by 60 percent in the four years from 1987/88; the share of PBB receipts to be retained by local governments was expanded from 90 percent to 100 percent and a decree instructing Provinces to allocate 50 percent of motor vehicle taxes to local governments was implemented; absolute levels of central government grants to local governments grew markedly (SDO and INPRES grants increase by 53 percent from 1991/92 to 1994/95); the proportion of central grants that local governments can freely allocate between sectors increased from 20 percent in 1990/91 to 25 percent in 1994/95; local government contract approval authority was increased from Rp.500 million to Rp.2 billion; the local (as opposed to regional) government share of all central grants increased from 45 percent in 1990/91 to 57 percent in 1994/95.

3. Other key accomplishments: IUIDP program coverage continued to expand (by the end of 1993, areas with coordinated investment programs completed and with financing approved accounted for 80 percent of the national urban population—up from 56 percent a year earlier—and planning work was either underway or scheduled for areas accounting for another 9 percent); the number of water authorities for which control has been transferred from the central to the local level increased from 177 in 1992 to 276 in 1994 (control has now been transferred for all but 17 of 293); a series of new regulations transferred additional authority for specific functions to local governments; a major review of Indonesia's urban policy was conducted and resulted, for the first time, in strong and explicit endorsement of MFSP Policy Action Plan themes in the nation's new development plan (Repelita VI); Repelita VI also strongly endorses building urban environmental management principles into local planning processes and several new projects and regulatory measures have been initiated in support of this goal; the GOI is preparing a new Policy Action Plan for Repelita VI which reinforces earlier themes but adds a broader scope for urban management.

III. Progress Under the HG Investment Plan.

From the start of MFSP through March 1994, the GOI has documented investments in local environmental infrastructure totaling \$188.5 million in accord with HGL program requirements (i.e., shelter-related improvements benefitting below-median income households not supported by funding from other donors). This total is well in excess of the \$120 million required under the MFSP agreement. Also noteworthy are efforts made by GOI and USAID (implemented in 1993) to improve the targeting of program benefits to low income households: (1) by narrowing formulas for HGL eligibility; and (2) by the GOI decision to require demand-surveys as a part of all future local investment planning (which provides a knowledge base to permit more effective targeting).

PRINCIPAL RECOMMENDATIONS

The evaluation team did not identify any outstanding issues under the MFSP that need to be resolved before that project is closed out.

LESSONS LEARNED

Key lessons learned include:

1. Focusing management on priorities within a broad policy framework can achieve impressive results. Concerns are often raised about the ability of broad policy reform projects like MFSP to deliver clear results; i.e., if you try to cover too many objectives at once you may accomplish very little. On the other hand, projects with narrower objectives may have a higher probability of producing outputs but they often fail because, lacking linkage to the broader policy environment, their outputs have limited impact. MFSP implementation illustrates an effective approach to avoiding the problems of either extreme. The Program gained the benefits of joint GOI/USAID involvement on a long term basis with the ability to address a broad range of policy issues all of which, at one time or another, could be on the critical path to achieving a major institutional change. Program managers, however, recognized the need for clear focus on only a few priorities within the overall agenda at any one time. They could (and did) shift emphasis in policy dialogues and the allocation of technical assistance resources as needed to ensure progress in those priorities areas without losing linkage to the full range of Program objectives.

2. Reliable performance monitoring, access to technical assistance resources, and strong RHUDO/Mission collaboration are critical to success in USAID management of urban policy programs. In MFSP, the USAID Regional Housing and Urban Development Office (RHUDO) which managed the program: (1) insisted on, and secured, regular and unbiased monitoring of performance under the Policy Action Plan; (2) applied technical assistance resources to help GOI counterparts focus on emerging problems and opportunities in a flexible manner; and (3) kept USAID Mission top management well informed and maintained their active involvement and support in carrying through major program initiatives. It is doubtful that the program's major accomplishments would have been achieved if any of these elements had been lacking.

3. Recognizing, and taking advantage of, variation in local entrepreneurialism and pay-off opportunities may be an important means of expediting results in urban decentralization programs. Studies done as a part of MFSP show that there is tremendous variation in the entrepreneurialism exhibited by local officials in different cities (zeal and skill in raising own-source revenues and implementing infrastructure projects differ dramatically between cities) even in the same city-size classes. Opportunities for results also vary in important ways. Some cities are at the edge of take-off: addressing infrastructure constraints there expeditiously will yield much larger benefits to the national economy (and poverty alleviation) than focusing now on urban areas where take-off may be many years away. There is evidence to suggest that similar variations are likely to exist in other countries during the decentralization process, and that a "one size fits all" approach will have limited effectiveness. This lesson is not yet well understood or incorporated into the literature of development; yet it may be an important one, both for MFA and for other similar USAID sponsored projects elsewhere.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary: always attached copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation. If relevant to the evaluation report.)

Urban Institute (Thomas Kingsley & Maris Mikelsons)
"Final Evaluation of the Indonesia Municipal Finance and Shelter Program."

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

USAID/Indonesia concurs with the findings of the evaluation and agrees with the conclusion that MFSP "has facilitated a truly monumental (and, we judge, permanent) change in governance in Indonesia." We also appreciate the reference to USAID management as being "both diligent and innovative." Finally, the guidance and three design suggestions for the follow-on MFEI HG program are also appreciated and will be considered in the development of the new workplan for the Municipal Finance Project.

The Ministry of Finance states that "in general, the evaluation report present a fair and balance appraisal of the Indonesia Municipal Finance and Shelter Program."