USAID | INDONESIA
FROM THE AMERICAN PEOPLE

REQUEST FOR INFORMATION

Date of Issuance:	September 16, 2019
Reference No. :	72049719RFI00003
Preliminary Activity Title:	Improving Local Governance and Service Delivery
Deadline to Submit Responses:	October 4, 2019; 5:00 pm, Jakarta local time
Submit Responses to:	proposals-indo@usaid.gov

Dear Interested Parties:

The purpose of this Request for Information (RFI) is to collect written information about an activity with the preliminary title of "Improving Local Governance and Service Delivery," in which USAID seeks to enhance Indonesia's local governance and improve basic service delivery across the country.

This RFI is open for comments from any US or non-US organization.

This is an RFI, not a Request for Application (RFA) or Request for Request for Proposal (RFP). Do not submit any applications at this time; only the information requested in this RFI will be reviewed. Responses will be treated as confidential. A solicitation is expected to be released in early 2020.

At this time a decision has not been finalized as to whether the instrument type will be acquisition or assistance. Therefore, this RFI is being posted on both grants.gov and fedbizopps.com.

USAID is seeking input regarding a list of inquiries contained in Attachment 2. The information provided will be used to help finalize the activity design in order to improve development outcomes. USAID may revise the structure and concept of the activity based on comments received, but is not obligated to do so.

All responses should be sent using the cover page that is Attachment 2 to this RFI. All comments must be submitted electronically via email to proposals-indo@usaid.gov with the subject of "RFI: Improving Local Governance and Service Delivery Activity" no later than the date/time stated above.

The issuance of this RFI will not restrict the Government's ultimate approach, if any. Respondents are advised that USAID is under no obligation to acknowledge receipt of the information, answer questions or provide feedback to respondents with respect to any information provided. Any information submitted in response to this notice is voluntary. Not responding to this request does not preclude participation in any future solicitation, if any issued.

Please note that release of this RFI is not to be construed as a commitment by the U.S. Government to issue any notice of funding opportunity or solicitation or ultimately award on the basis of this RFI. USAID is not responsible for any costs incurred in responding to this RFI nor will funding be made available prior to any award. Respondents are responsible for all costs incurred prior to award.

Thank you for your interest in USAID/Indonesia's programs and we look forward to your comments.

Sincerely,

/s/
Alexis McGinness
Contracting/Agreement Officer
USAID/Indonesia

Attachments:
1. Activity Description
2. Response Form (with questions)

Attachment 1

Activity Title:	TBD – Improving Local Governance and Service Delivery
Development Objective:	Democratic Governance and Security Strengthened
Intermediate Result:	Cross-Cutting Theme: Governance key at all levels (from national to village), in all key sectors
Activity Purpose:	Enhance Indonesian local governance; improve basic service delivery across the country
Geographic Locations:	TBD
Time Frame:	5 years, 2020-2024
Resource Requirements:	USD 30-40 million

Background

20 years ago, Indonesia embarked on decentralizing most functions of the government to the rural districts and municipalities, thereby bringing government closer to the people. The 1999 Regional Autonomy Law gave authority to two levels of regional government, provinces (*provinsi*) at the first-order administrative level, and regencies (*kabupaten*) and municipalities (*kota*) at the second-order administrative level, to make their own policies and local bylaws, as well as to manage the budget and to implement local development.[1] The promise of greater autonomy led to the creation of new administrative units. Prior to decentralization, there were 26 provinces and 299 regencies and municipalities. Now Indonesia is comprised of 34 provinces, sub-divided into 416 regencies and 98 municipalities. These municipalities are further divided into 7,210 sub-districts and 74,957 administrative villages.[2]

Decentralization has set in motion the fundamental reshaping of local government practices in planning, budgeting, financing and procuring key services. Under an ambitious reform agenda, accounting standards have been introduced and financial management has been reformed. With the advent of more genuine democratization in Indonesia, greater attention has been given to good governance, including transparency, participation, and accountability. Provinces, regencies and cities have their own local governments and parliamentary bodies. However, by law, regencies and cities enjoy greater autonomy than the provinces. According to the latest version of the Law on Local Governance, obligatory local government functions relate to basic services, including education, health, public works and spatial planning, public housing, public order, and social affairs.[3] This list of functions is complemented by a longer list of tasks that are unrelated to basic service delivery.

The implementation of mandatory government tasks requires intensive interdepartmental coordination, planning, and consultation with citizens. In addition to the harmonization of legal instruments, national-level ministries and agencies have been issuing implementing regulations for more effective governance, financial management, and quality service delivery. Since 2000, to ensure common levels in access and quality of basic services across provinces and districts, the Government of Indonesia (GoI) issued minimum service standards (MSS) for public services.[4] MSS feasibility and affordability was initially untested, therefore, the GoI initiated model-building exercises and piloting with the support of donors

[1] See, Law 22/1999 on Fiscal Balance between the Central Government and the Regional Governments.
[2] See, "Profil Administrasi Wilayah Indonesia per Provinsi tahun 2017" in Data Statistik Desentralisasi dan Otonomi Daerah, Direktorat Otonomi Daerah, Bappenas, Jakarta 2018.
[3] Article 12, Law 23/2014 on Local Governance
[4] Minimum service standards had their initial foundation in the 1999 legal framework, but were given more emphasis in revised Law 33/2004 on Fiscal Balance between the Central Government and the Regional Governments.

until well into 2006, when new regulatory instruments were issued.[5] An inter-ministerial team including representatives from the Ministry of Home Affairs (MoHA), the Ministry of National Development Planning (Bappenas), the Ministry of Finance (MoF), and the Ministry of Administrative and Bureaucratic Reform (Kemenpan-RB), was tasked with ensuring that ministries and agencies have the necessary tools and support to prepare sound MSS for various service sectors.

The GoI's concerns with regard to service standards culminated with the amendment of Law 23/2014 on Local Governance and the issuance of Ministry of Home Affairs Regulation 100/2018 on the Application of Minimum Service Standards.[6] Further, to support the improvement of service quality, Law 25/2009 regarding Public Services was passed. The law is designed to improve the quality of public services by: (i) setting up clear limitations of the rights, responsibilities, obligations, and authorities of all parties related to the provision of public services; (ii) setting up a system for the provision of public services corresponding to principles of good governance; (iii) making sure the public services provided comply with the prevailing laws; and (iv) giving legal protection and legal certainty to the public on the provision of public services.[7] The scope of the Public Service Law is rather broad and includes the areas of education, employment and business, housing, communication and information, environment, health, social security, energy, banking, transportation, natural resources, tourism, and other related sectors.

Under Article 1 of Law 25/2009, Public Service Organizers (*penyelenggara, PSO*) are all state administrations, institutions, corporations, independent institutions established under the laws governing public service activities, and other legal entities established purely for public service activities. They include government institutions, state-owned enterprises (*Badan Usaha Milik Negara* or BUMN), and regional government-owned enterprises (*Badan Usaha Milik Daerah* or BUMD). Public services are to be provided by public services operators (*pelaksana*), which comprise the state apparatus, civil servants, officers, and anyone working in any of the above PSO. PSO are required to prepare and set MSS, taking into account the ability of the organizer, public needs and environmental conditions; they also must involve the public and other stakeholders.[8]

Under decentralization, 2.5 million civil servants were reassigned from the national civil service to serve at the province and district levels, creating training and administrative challenges. At the sub-national level, provincial and district governments are required to implement central government regulations. Office structures and management lines have been established. The transition to new functional assignments for district offices and civil servants required intensive interdepartmental coordination and adjustments, while incentives shaping bureaucratic behavior continue to require further consideration. Local government offices must continuously invest in the development of skills for planning, budgeting, and procurement in their respective technical domains. Aiding in this effort, national, regional, and district training centers have been tasked to develop the specific capacities and skills of local-level civil servants to develop policies and implement them, often through utilizing service providers. Local regulations that are drafted by local executives and legislatures have to harmonize with national statutes and regulations; otherwise they may negatively impact the quality of services and the achievement of MSS.

To effectively manage their finances and deliver quality services in an efficient way, local governments need to establish well-functioning financial management information systems and invest in adequate human resources managed and administered according to principles of good governance, including transparency and accountability. Currently, differences exist in the Chart of Accounts used by local

[5] See, Gabrielle Ferrazzi, "Obligatory functions and minimum service standards for Indonesian regional government: searching for a model", Public Administration and Development, 02 August 2005.

[6] See, Mohammad Roudo, "Unambitious Average Syndrome? The Ambiguity of Minimum Service Standards (MSS) in a Decentralised Polity", The Indonesian Journal of Development Planning, Vol. 2, No. 1, Bappenas, 2018.

[7] See, Law 25/2009 on Public Services.

[8] See, Indonesia - Law on Public Services, World Services Group, October 2009.

governments with the one used by the central government, and local governments are using different types of financial management information systems.[9] The GoI is concerned with measuring the performance of local governments and how effective and efficient they can deliver services to the people. In MoHA's 2017 evaluation on regional government performance, nine out of 33 provinces ranked "very high" and 24 provinces ranked "high." The same index ranked 195 out of 397 districts "very high", 184 as "high", 18 as "middle", and none as "low."[10] From the evaluation, it appears that a large number of subnational governments are effective and efficiently providing services. However, the indicators used do not measure the quality of services delivered.

The Law on Fiscal Balance provides financial and economic authorities to local governments. In 2020 the GoI plans to use the National State Budget to support the improvement of the quality of basic public services, accelerate economic competitiveness, and encourage more productive state spending. One-third (34 percent) of the 2020 public expenditure will be conducted at the sub-national level. Twenty years ago in 2000, provinces and districts accounted for only 16 percent of government spending. However, revenue generation through taxation at the local level remains very low, seriously impacting on the financial self-reliance of local governments. Much of the allocation of central funds to the local level is utilized for routine expenditures like public servant salaries and basic service delivery. Access to services has improved over the past decade, but inter-regional disparity in access to local services has widened and significant variations in service quality remain. A number of oversight mechanisms exist to ensure that districts effectively manage their budgets and deliver key services according to their mandates. Both the MoF and MoHA are leading the effort to prepare the necessary government regulations on regional financial reporting, performance monitoring, evaluation, and organizational structures of regional government.[11]

Women's participation and representation in public life is increasing slowly, thus the inclusive decision-making process leads to more equitable service delivery, improving women's outcomes such as in health and education. Figures show that the increased presence of women cabinet ministers is associated with a rise in public health spending.[12] In 2018, 5-10% of the national budget was reallocated from education to investing in improving women's skills. Furthermore, since the Law on Election 12/2003 made mandatory a minimum of 30% women candidates, the number of elected women in parliament has increased.

To improve governance, effective resource allocation, and quality service delivery, higher levels of government, CSOs, universities and donors have supported local governance improvements and innovations.[13] Meanwhile knowledge hubs from East Java and South Sulawesi provinces have shown that regional cooperation can generate spillovers across districts. In addition, public-private partnerships have explored how standards of service can be achieved when service delivery is outsourced to businesses. Finally, community participation, scrutiny, and feedback have increased, including regional good governance initiatives and integrity pacts.

---

[9] See, "Modernizing the Management of Public Resources in Indonesia through Indonesia's Public Finance Management Multi Donor Trust Fund", Concept Note for PFM-MDTF Phase III, The World Bank, 2 May 2019.

[10] Evaluasi Kinerja Penyelenggaraan Pemerintah Daerah, EKPPD, Ditjen Otonomi Daerah, Kemendagri, Jakarta 2018.

[11] Related additional government regulations have been prepared under the leadership of Bappenas regarding to the performance of the implementation of regional government planning, as a follow-up to Law 25/2004 on National Development Planning. In addition, the MoF has addressed the reporting for regional finances, based on Law 1 on the State Treasury, resulting in GR 8/2006 regarding Financial Reporting and the Performance of Regional Government Units.

[12] See, Better Governance for Gender Equality, OECD, 2017.

[13] See, for example, "Top 99 Public Service Innovations 2018", Ministry of Administrative and Bureaucratic Reform.

Problem Statement

Mandatory local government functions, including planning, budgeting, and procurement of services in accordance with MSS, continue to pose critical technical constraints. Good democratic governance is the basis for delivering quality government services, but weak local governance continues to negatively impact sectors like health, education, and the environment. Despite a relatively sound regulatory framework and substantial fiscal transfers from the national level to the local level, access to services varies and quality standards remain unmet.[14] According to MoHA data from 2017, the implementation of MSS in six areas (education, health, public works and spatial planning, public housing, public order, and social affairs) as measured by their integration into regional planning documents, showed a regional variation from 100% in Yogyakarta Province to 60.34% in Papua Province. Among the six areas, the highest achievements were in education, and the lowest in public housing, public order, and social affairs.[15] The local governance challenges in implementing the Law on Local Governance and the Law on Public Service can be identified in three areas: 1) inadequate governance systems promoting quality service delivery; 2) local government capacity challenges to manage the delivery of key services; and at the core of good democratic governance 3) limited oversight mechanisms for improved and accountable services. In addition, all areas suffer from limited attention to gender equality.

Inadequate governance systems promoting quality service delivery

Under decentralization, the GoI introduced a complex set of legislation and implementation regulations for planning, budgeting, and procurement of key services. However, Public Financial Management (PFM) at the local level is negatively impacted by a lack of consistent financial information from local governments. This situation prevents effective monitoring and evaluation of local government budgets, and therefore the quality of their spending and development outcomes. The magnitude of the challenge and a proliferation of varying governance practices affect particularly the operationalization of service delivery. To improve the effectiveness of regional financial management, the GoI completed the revision of its Government Regulation on Subnational PFM, replacing Government Regulation (GR) 58/2005 with GR 12/2019. Subsequently, the details of the subnational PFM implementation, such as Chart of Accounts and Information Systems, shall be further elaborated in a regulation to replace the related MoHA ministerial decree (Permendagri 13/2006). Despite this change, weak PFM systems and lack of GoI capacity hinder proper budget planning and execution.

In addition to weak sub-national PFM systems, incentive systems are underdeveloped to promote the procurement and delivery of quality services at the local level. The Law on Public Services is too general, has limited scope for public participation, does not target marginalized groups, contains an inadequate complaint mechanism, and does not encourage the free flow of information.[16] According to the World Bank, a number of options can be pursued to align incentives to promote service delivery performance. This includes implementing good practices for evaluating local government performance; embedding results-orientation into intergovernmental fiscal transfers; and using transparent and comparative local government performance data to stimulate citizen engagement.[17]

The standard-setting process is considered essential to clarify and operationalize obligatory functions. In addition, by regulating MSS, the central government has not sufficiently developed incentives for local governments to improve and maintain local public service delivery performance. The need to consider the fiscal implications of setting minimum standards of service delivery at the district level has not been

[14] See, "Annual Local Service Delivery Trust Fund Report 2019", The World Bank, 2019.

[15] See, Penerapan SPM 2017, Ditjen Bangda Kemendagri, in Data Statistik Desentralisasi dan Otonomi Daerah, Direktorat Otonomi Daerah, Bappenas, Jakarta 2018.

[16] See, Stocktaking on Indonesia's Recent Decentralization Reforms, USAID Democratic Reform Support Program (DRSP), 2006 Report and 2009 Update Report.

[17] See, "Decentralization that delivers", Indonesia Economic Quarterly, The World Bank, December 2017.

obvious to many involved in the process. The prevailing attitude among officials from MoHA seems to have been that the MoF would necessarily have to make funding available to achieve minimum standards once they became legally authorized - through the creation of new special purpose grants which would be managed by MoHA itself.[18]

The GoI is concerned with the need to increase the effectiveness of governance and quality of services and government agencies have devised a number of approaches to highlight the need for improvement of outcomes and performances. For example, awards for excellence in governance performance and service delivery have been handed out by a number of ministries and agencies, like MoHA, KemenPAN-RB, and Bappenas. Additional, attractive and effective incentive structures are the key for local governments, local leaders, and potential issue champions to improve local governance and local service delivery. However, challenges to devise effective incentive systems remain.

Local government capacity challenges to manage basic services

Beyond insufficient governance systems, weak capacity of local government creates constraints for financial management and the delivery of basic services. The lack of capacity is most visible in the planning, budgeting, and management of governance processes related to the delivery of key services. For example, health governance is a challenge in particular, because poor management and procurement systems as well as poor food and drug control performance contribute to an uneven distribution of pharmaceuticals and medical equipment. Adequate budgeting and well-administered health financing are central cross-cutting issues. The local fiscal capacity to fund medical services remains limited and the efforts to increase financing effectiveness continue to be a concern.[19] In addition, weak capacity for environmental governance negatively impacts the much needed control and coordination by authorities at the national and sub-national level for managing resources and access to clean air, water and energy. Weak environmental governance can lead to overexploitation and unsustainable use of natural resources, unregulated ‘illegal’ activities, such as ‘timber laundering’, and land mismanagement for agricultural, mining and coastal development, all of which pose serious threats to Indonesia’s forests and biodiversity.[20]

Effective and efficient local governance systems include the set-up of an adequate number, size and structure of government offices (*dinas*), adequate human resources, as well as established networks and support systems. Local government heads have the authority to work together with the local legislatures to establish the civil service (*formasi*) and set the qualification for civil servants to fill the determined posts. However, at the local level, administrative and human resource management capacities remain low to implement necessary bureaucratic reforms. An evaluation by Kemenpan-RB in 2017 shows great variation of service reform across provinces, with some areas receiving a B score, like Jakarta, West Java, East Java, Bali; and other areas receiving a CC score, like Banten, Gorontalo, Kalimantan Selatan, Papua.[21]

The development and subsequent implementation of consistent local policies is crucial for collecting taxes, delivering higher quality services, improving economic opportunities, and alleviating poverty.

---

[18] See, Blane D. Lewis, “Minimum Local Public Service Delivery Standards in Indonesia: Fiscal Implications and Affordability Concerns”, 27 July 2003.

[19] See, Health Sector Review "Strengthening National Health Systems”, Bappenas 2018.

[20] See, M. Voigt et al., “Global demand for natural resources eliminated more than 100,000 Bornean orangutans”, *Curr. Biol.*, 28(5):761–769, 2018 DOI: https://doi.org/10.1016/j.cub.2018.01.053; “Forest Trends and the Anti-Forest Mafia Coalition”, Indonesia’s Legal Timber Supply Gap and Implications for Expansion of Milling Capacity, February 2015; “Environmental Investigation Agency”, Permitting Crime: How palm oil expansion drives illegal logging in Indonesia, December 2014.

[21] See, “Nilai Evaluasi Reformasi Birokrasi 2017”, Kemenpan-RB, in Data Statistik Desentralisasi dan Otonomi Daerah, Direktorat Otonomi Daerah, Bappenas, Jakarta 2018.

However, capacities for sound policy making based on data and evidence remains a challenge for government offices.[22] Locally issued regulations and bylaws proliferated during the decentralization period, frequently having a detrimental impact on the realization of national programs and policies. Research has shown that each local legislature has enacted on average more than 30 local regulations per year. Some of these regulations are designed to further political interests or increase taxes and levies without establishing a direct link to better services or local development. The MoF has reviewed problematic local bylaws issued between 2002 and 2010. Of 11,570 bylaws issued in this period, 2,285 were cancelled, with more than 800 in 2009 alone.[23] In order to improve the quality of local regulations, the legal drafting capacities at local legal offices and local legislatures need to be improved. In addition, citizen involvement in planning and budgeting needs to be increased further.

Studies have described the negative impact of decentralization on investment since 2001 in Indonesia. Local governments do not have the capacity to establish harmonious policies, resulting in regulations introducing cumbersome requirements that make the license approval process difficult for local businesses. In 2019, the GoI introduced the Law on Local Taxes and Levies in order to reduce and limit the negative impact of local regulations. The law has been successful in committing local governments to comply with a streamlined standard of tax and levies in the regions. However, there remain many instances where local regulations and bylaws create barriers for innovation and effective governance.

Limited oversight mechanisms for improved and accountable services

Finally, oversight mechanisms at the local level for improved and accountable services remain underdeveloped. Institutional reforms introduced after the collapse of the New Order regime have brought state-society relations in Indonesia under increased public scrutiny. A participatory planning and budgeting process (*musrenbang*) was introduced, to replace the former centralized and top-down government system. Since then, local communities and governments have greater responsibility to shape the future of their districts and neighborhoods. Ten years on, the 2009 Law on Public Services introduced a range of regulations for public service providers. It also expanded the responsibilities of the Ombudsman's office and called for the establishment of citizen committees to monitor public service delivery. However, the legal quality of the law is poor and the broader institutional and political environment is not conducive to its enforcement.[24] Overall, the law aims beyond the capacity of the current political and legal system. Ironically, in order for society to gain greater leverage in politics, state capacity must increase as well.

Currently, there are only a few data sources that could be drawn upon to measure governance and institutional quality across all local governments. One of the few is the Audit Board of Indonesia (BPK) audit, which largely measures the compliance of local governments with financial reporting standards and the adequacy of internal control systems. However, as the majority of local governments tend to receive good audit results, it has become less useful as a comparative measure of governance quality. Other data sources include performance evaluations by the MoHA and Kemenpan-RB. Unfortunately, detailed data used for these evaluations are not accessible to the public. What remains are a few datasets generated through surveys by local research institutions or NGOs, for example the survey on economic governance by KPPOD (Regional Autonomy Watch). However, the survey is not conducted regularly and does not cover all districts.

---

[22] See, Agung Wasono and Muhammad Maulana, “Critical Study on Development Planning and Budgeting in Indonesia”, Knowledge Sector Initiative, Working Paper 27, January 2018.

[23] See, “Rekapitulasi Perda Masalah”, Ditjen perimbanganKeuangan, Kemenkeu, in Data Statistik Desentralisasi dan Otonomi Daerah, Direktorat Otonomi Daerah, Bappenas, Jakarta 2018.

[24] See, Michael Buehler, “Indonesia's Law on Public Services: changing state–society relations or continuing politics as usual?”, Bulletin of Indonesian Economic Studies, Volume 47, 2011, Issue 1.

In addition to the need to further increase the leverage of the citizenry over the state through bottom-up mechanisms, reporting must also be improved to higher-level government agencies and local legislatures. Currently, there are no regulations in place on how local legislatures should respond to the periodic accountability reports of the regional government heads, and how to make them accountable for the report or for issues not reported.[25] Further, supplementing improved performance mechanisms to advance accountability, an expanded incentive system can be developed, either with financial rewards for public servants and bureaucracies, or non-financial incentives, like appraisals by citizen groups and performance reviews.

USAID's competitive advantage in local governance

Previous USAID efforts to advance local governance and decentralization have improved public service delivery in Indonesia and provide a strong platform for additional support. Activities by the Local Government Support Program (LGSP) from 2005-2009 and the Kinerja Local Governance Service Improvement Program from 2010-2016 generally focused on building capacity of subnational partners to foster integrated planning and budgeting, citizen-focused service delivery, and participatory governance through local councils and civil society. Such activities have positively contributed to the better delivery of key services and development targets in health, education and environment, and future support will be in parallel to USAID's technical priority areas. A key lesson learned from Kinerja was to ensure the incorporation and mainstreaming of good governance within all technical sectors. Furthermore, sufficient technical capacity must exist as a foundation to improve the quality of any public service. USAID has seen some success in working with local governments in becoming more democratic, more competent at the core task of governance, and more capable of supporting improved service delivery and management of financial resources.

Whereas in recent years most other donors in Indonesia have phased out local governance assistance, USAID is committed to address critical constraints to local governance at the district and province levels. DFAT continues KOMPAK, a program in partnership with Bappenas that focuses on improving basic services and economic opportunities for the poor and vulnerable at the district and village levels. The World Bank is addressing PFM issues at the central level and USAID's support to sub-national PFM will complement these important efforts. USAID assistance will help build Indonesian self-reliance by improving the governance of service delivery systems, enhancing country capacity to deliver its commitment on public services, and building inclusive communities of stakeholders to oversee and benefit from an improved governance system.

Development Hypothesis (Theory of Change)

If local governments are guided by governance systems promoting quality service delivery, have the capacity to manage governance processes of key services, and are subjected to oversight mechanisms providing actionable data points for improved and accountable services, THEN they will substantially improve the provision of quality services to the public.

Goal

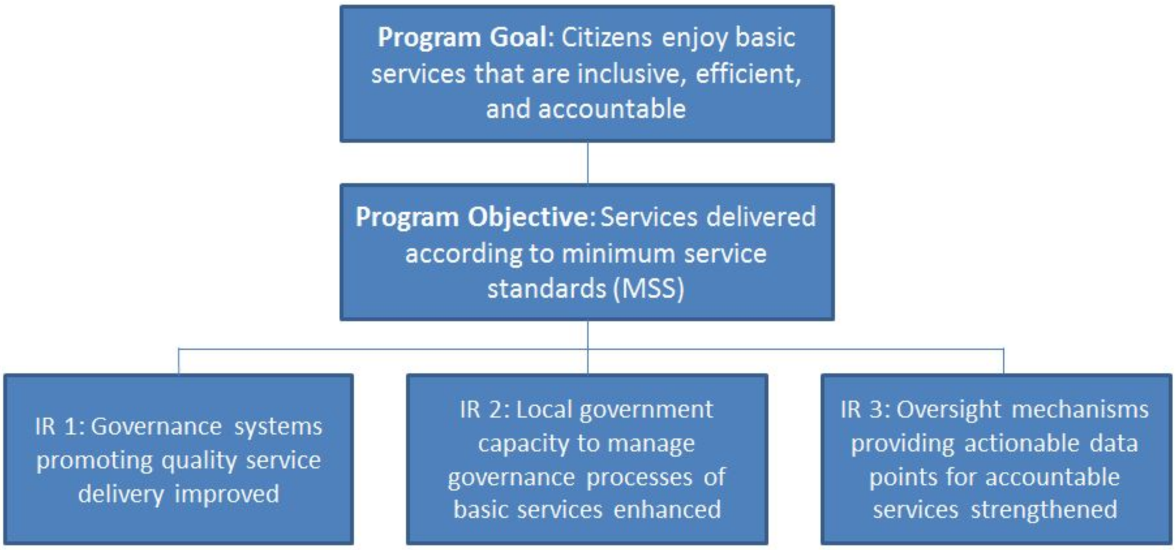
USAID seeks to achieve the following goal:

By the end of the program, citizens will enjoy improved service delivery, in particular due to governance systems promoting quality service delivery, local government capacity to manage governance processes of key services, and enhanced oversight mechanisms that provide for improved and accountable services in health, education, and environment.

---

[25] See, Stocktaking on Indonesia's Recent Decentralization Reforms, USAID Democratic Reform Support Program (DRSP), 2006 Report and 2009 Update Report.

Program Results Framework



Objectives

To achieve the overall goal, USAID will pursue three main objectives: 1) improved governance systems to promote quality service deliver; 2) enhanced local government capacity to manage governance processes; and 3) strengthened oversight mechanisms to provide data points for accountable services. These three objectives are critical to the long-term success of Indonesia's self-reliance in sound governance and sustainable development. Decentralized governance and accountability are by nature cross-sectoral. Therefore, DRG will coordinate closely with other USAID/Indonesia offices to complement their work in health, education, environment, and disaster management, and to support cross-sectoral outcomes. USAID brings an established reputation for impartial high-quality technical advisory services in the field of local governance and thus obtains the trust and respect of key stakeholders within the sector.

Objective 1: Governance systems promoting quality service delivery improved

Through this objective, USAID will work with Indonesian partners to improve the governance systems that promote quality service delivery. USAID will support the refinement of existing reward and disciplinary systems executed by national-level agencies, and will work in partnership with local governments to continuously improve their own local governance systems. Options for this include implementing good practices for evaluating local government performance, embedding results-orientation into intergovernmental fiscal transfers, and the use of transparent and comparative local government performance data to stimulate citizen engagement.

The proposed activity will address the lack of consistent financial information from local governments that prevents effective monitoring and evaluation of local government budgets, and therefore the quality of their spending. To improve the effectiveness and efficiency of subnational PFM systems, the activity will provide expert input to the regulatory revisions, analysis of Chart of Accounts (COA) variations and support Financial Management Information Systems (FMIS) integration that will help to integrate budget information at the national level. The activity will also assist local governments to implement the 2012 National Strategy on Gender Responsive Planning and Budgeting, including production of the required Gender Budget Statements (GBS), and the translation into specific gender outputs.

Further, at the national level and where appropriate, USAID will partner with MoHA, MoF, Bappenas, Kemenpan-RB, and Ministry of Village, Development of Disadvantaged Regions, and Transmigration (Kemendes PDTT) to analyze, provide reform options, and support implementation of incentive systems. These systems may include a replication of financial incentives for public servants as pioneered by the MoF Fiscal Policy Office (*Badan Kebijakan Fiskal*), or the Regional Incentive Fund (*Dana Insentif Daerah* or DID) as part of a transfer from the central government to the regions under the national budget (APBN). The GoI uses the DID to provide local governments with a fiscal reward for good performance, especially in financial management and public services. At the local level, partners include provincial and district governments, including their secretariats and Bappeda local planning offices, as well as research, media and citizen organizations as needed. Development and dissemination of incentive structures for local bureaucracies can rely on cooperation with representatives from the State Administrative Agency (LAN) and the State Civil Service Commission (KASN) at the national level. At the citizen level, this may include greater citizen engagement through multi-stakeholder forums to identify community needs for service delivery and conducting appraisals of governance performance.

Improved governance systems require greater coordination between bureaucratic levels. USAID will leverage its current and past investments to support governance reforms at the national, provincial and district level. USAID will establish relationships and build knowledge networks that align with the GoI's priorities as formulated in the draft National Mid-Term Development Plan (2020-2024), which aims to achieve better governance outcomes and improved delivery of quality services. In this document the GoI identified effective, transparent, and consistent policies and regulations as a critical element in delivering higher quality services and alleviating poverty. With the improvement of policies and regulatory consistency at the national level, comes the need for greater alignment and coherence at the local level. USAID will work with local governments at the provincial and district levels to develop the local governance systems necessary to deliver quality services effectively and efficiently, and will include relevant national-level entities as necessary.

<u>Illustrative activities:</u>

- Provide TA to national level ministries and agencies to review and refine existing incentive systems.
- PFM capacity support to partner sub-national government bodies and relevant national authorities.
- Provide TA to local governments at the provincial and district level to develop local incentive systems promoting quality service delivery.
- Support development of mechanism on implementing good practices for evaluating local government performance, including service delivery.
- Work with national and local government partners to embed results-orientation into intergovernmental fiscal transfers for enhancing quality service delivery.
- TA to CSOs to utilize transparent and comparative local government performance data to stimulate citizen engagement.

Objective 2: Local government capacity to manage governance processes for basic services enhanced

One systemic liability in the local public finance setting is the lack of skilled civil servants to conduct proper planning and budgeting, financing and procuring goods and services. Through this objective, USAID will work at the province and district levels to augment the technical capacity of local civil servants to conduct planning and financial management related to the delivery of basic services. The activity will support local government offices (*dinas*) to limit the negative impact of capacity shortage on the performance of local government and the delivery of quality services. Sound national regulations and increased funding for specific sectors have resulted in significant improvements in access to services. However, with access to public services being generally less of an issue for the majority of the population living at the local level, the quality of services has become more prominent. For example, despite the increase in access to basic services, there remain significant shortcomings with regard to health and education outcomes.[26]

The USAID Kinerja Local Governance Service Improvement Program has addressed local government capacity needs by focusing on incentive structures, innovative approaches to governance, and replication mechanisms. Incentives included enhancing citizens' understanding of their rights for better services. Innovations included strengthening leadership and management capacity in local governments to test and adopt promising service delivery approaches (communication techniques, information systems, and International Organization Standardization/ISO management systems). Replication focused on expanding successful innovations nationally or additional locations. The USAID Kinerja implementation methodology consists of three interrelated components. First, interventions were based on existing policies and programs. Second, citizens as end users of public services were supported as well as the providers of such services. Third, Kinerja sought to improve the chances of sustainability by implementing its interventions through local intermediary organizations.

A USAID sustainability assessment of Kinerja showed that many innovations introduced by the program in 20 districts in four target provinces have become sustainable due to several key factors, including local government commitment, the support by local champions, the complementarity of local regulations with the national regulatory framework, and the alignment with national policies and programs. USAID will leverage the experience of Kinerja for supporting more effective and efficient local governance systems. Partnering with government training centers at the provincial and district level, USAID will support the identification of local capacity needs and the development of training systems to improve the skills of public servants charged with revenue collection, financial management and the delivery of public services. Such focus will contribute to stronger democratic governance, domestic resource mobilization, and the self-reliance of local governments.

USAID will partner with Indonesian research centers experienced in providing training on regional regulation-making (*Perda*-making) to support local governments as they draft and deliberate locally issued regulations and bylaws as a basis for local self-reliance. Local decrees and bylaws primarily cover institution building, the collection of local taxes and levies, and operationalizing instructions from the central government. However, capacities in local legal offices and at local legislatures remain limited for developing sound regulations in support of local income collection and ensuring quality service delivery. In addition, local bureaucracies suffer from a culture to control that was inherited from a previously centralized system. USAID will work with local government secretariats and Bappeda offices at the provincial and district levels to address the need for coherence between the national regulatory framework and locally issued regulations. The program will work with the law office and DPRD secretariats to augment the capacity of drafters and legislators to develop evidence-based policies and regulations. This includes the improvement of systems to encourage greater public participation and stakeholder consultation when designing policies, conduct planning and budgeting, and review implementation, and support to the implementation of PP 45/2017 on Community Participation in Local Governance, requiring local governments to be more transparent and to involve citizens in decision-making.

<u>Illustrative activities:</u>

- Build the capacity of government training centers at the provincial and district level to better identify local capacity needs and develop training systems for skills development of public servants charged with financial management and the delivery of public services.
- Utilize local government training centers at the province and district level to provide training for public servants, in order to augment their capacity to manage governance processes for the delivery of basic services.

[26] See, for example, Health Sector Review "Strengthening National Health Systems", Bappenas 2018.

- Expand local Centers of Excellence to provide TA to local government secretariats (*Sekretariat Daerah*) and Bappeda offices at the provincial and district levels to address the need for coherence between the national regulatory framework and locally issued regulations.
- Partner with research centers experienced in supporting regional regulation-making to support law offices and DPRD secretariats at the local level towards augmenting the capacity of drafters and legislators for developing evidence-based policies and regulations.
- Improve systems to encourage greater public participation and stakeholder consultation when designing policies, conduct planning and budgeting, and review implementation, and support to the implementation of PP 45/2017 on Community Participation in Local Governance.
- Twinning civil servants from different sub-national governments to increase collaboration and peer-to-peer learning through staff exchanges and temporary assignments.

Objective 3: Oversight mechanisms providing actionable data points for accountable services strengthened

Oversight and accountability are at the core of good democratic governance. Through this objective, USAID will work with national and local partners to strengthen oversight mechanisms at the local level for improved and accountable services. Overall, the capacities for monitoring, oversight, and performance evaluations must be strengthened. USAID will contribute to refine existing reporting and measurement systems from MoHA and Kemenpan-RB currently focusing on different aspects of local government performance that do not reinforce each other and each produce a different list of top performing districts and cities. To this end, USAID may support an Applied Political Economy Analysis (PEA) or review of the evaluation systems in place to better understand why they are not working and to improve their value in driving better performance. So far, the MoHA evaluation of local governments (EKPPD) is focused on local leaders' performance but the system is less effective in either illuminating strengths and weakness, or stimulating healthy competition to improve. USAID will work with the MoHA's Badan Pusat Litbang Inovasi Daerah to drive innovations through incentive systems (PP 38/2017).

Emphasis on strengthening oversight will be at the subnational level. The planned activity will enhance capacity of oversight through learning and replication. At the provincial level, the activity will enhance the capacity of provincial oversight and supervisory institutions. To complement this effort, USAID will partner and if necessary expand Centers of Excellence that have been established at the provincial level, collecting and promoting innovations for improved and accountable services through seminars, workshops and peer learning. Examples are the Jawa Pos Institute of Pro-Otonomi (JPIP) in Surabaya and the Knowledge Bank for Eastern Indonesia (BaKTI) in Makassar. These are good initiatives. However, in order to make innovations that work in one location applicable and workable in another location with similar challenges requires the unlocking of the bottom-up incentives necessary to do so.

Civic participation is not only facilitated by government policies for upstream activities, like policy or regulation making, but increasingly also in the monitoring phase of the development process or in the delivery of services. Hence, USAID will work with local governments to embrace oversight by CSOs and local media as important oversight elements of local government service delivery. This approach also includes greater citizen oversight of local legislatures, given that local government heads have to provide periodic accountability reports to those councils. Civic participation and oversight can take the form of well-structured permanent bodies, such as multi-stakeholder forums that can be further reinforced.

Illustrative activities:

- Support MoHA and Kemenpan-RB with TA to review and refine existing reporting and measurement systems to better understand their value in driving improved performance.
- Work with the MoHA's Badan Pusat Litbang Inovasi Daerah to encourage innovations through incentive systems (PP 38/2017).
- Work with local stakeholders from government and civil society to enhance provincial oversight mechanisms and the effectiveness of supervisory institutions.
- Expand the work of Centers of Excellence at the provincial level, collecting and promoting innovations for improved and accountable services through seminars, workshops and peer-to-peer learning.
- Support local governments to embrace oversight by CSOs and local media as important oversight elements of service delivery, like multi-stakeholder forums.
- Utilize the convening power of local CSOs for achieving greater citizen oversight of local legislatures.

Expected Program Outcomes

- Governance systems, including incentive and disciplinary systems by institutions at the central and local levels aligned to promote quality service delivery.
- Increased governance capacity of local public servants and government institutions at the central and local levels to plan, budget, procure, and manage processes for service delivery in key areas.
- Local public servants demonstrate capacity and commitment for effective and efficient governance processes for the delivery of measurable quality service delivery.
- Consistent transparent and participatory external oversight mechanisms to provide actionable data points for improved and accountable services are established and applied by key institutions.

Illustrative Performance Indicators

- Improvements in the achievement of predefined MSS indicators for six mandatory local government functions, as reported to and measured by the MoHA, Directorate General Regional Development (Bangda).
- Increased performance among local governments to pass and deliver required MSS for the Public Administration in Districts/Municipalities (Minister of Home Affairs Regulation 62/2008 on Minimum Service Standards for Public Administration in Districts/Cities; Minister of Home Affairs Regulation 69/2012 on the Amendment to the Minister of Home Affairs Regulation 62/2008 on Minimum Service Standards).
- Improvements in performance among local governments to pass and deliver required MSS for Health Services (Minister of Health Regulation 741/2008 on Health Minimum Service Standards in Districts/Cities).
- Improvements in performance among local governments to pass and deliver required MSS for basic education (Minister of National Education Regulation 15/2010 on Basic Education Minimum Service Standards in Districts/Cities; Minister of Education and Culture Regulation 23/2013 on Amendment to the Minister of National Education Regulation 15/2010 on Basic Education Minimum Service Standards in Districts/Cities).

- Increased performance among local governments to pass and deliver required MSS in the Environment Sector (Minister of Environment Regulation 19/2008 on Provincial and District/City Environment Sector Minimum Service Standards).
- Improvements in performance among local governments to pass and deliver required MSS for Disaster Management (Minister of Home Affairs Regulation 101/2018 on Technical Standards of Basic Services in the Minimum Service Standards of Disaster Sub-Affairs of Districts/Cities).
- Increased citizen satisfaction with basic service delivery, as measured by citizen satisfaction surveys and scorecards at the local level.

Cross-cutting themes

- Civil society and non-governmental organizations
- Gender equality and social inclusion
- Youth integration
- Private sector engagement
- Science, technology, and innovation

Coordination with GoI

Under the 2014-2020 CDCS, the USAID Indonesia Office of Democratic Resilience and Governance (DRG) has an existing agreement to implement activities through an Individual Arrangement with the Indonesian Ministry of Law and Human Rights. Since the planned new activity will foremost fall under the portfolio of the Indonesian Ministry of Home Affairs, an Individual Arrangement with MoHA should be prepared. Alternatively, an Individual Arrangement with Bappenas could be prepared. Currently, the USAID Indonesia Environment Office has an Individual Arrangement with Bappenas. Future technical links could also be with the Bappenas, Kemenpan-RB, MoF, Kemendes PDTT, and the State Administrative Agency (LAN), or other relevant ministries and agencies.

In implementing activities at the subnational level, links with provincial and district/city governments will be critical for success. The USAID DRG office already has good working relationships at the subnational level through its ongoing activity portfolio. Work under this Concept Note will strengthen the GoI national initiatives or policies, such as the National Mid-term Development Plan (RPJMN) and the achievement of UN Sustainable Development Goals. The RPJMN among others includes as regional strategic issues the fulfillment of basic services and an increase in regional competitiveness.[27]

Relationship to USG Priorities

<u>USAID Journey to Self-Reliance</u>

Establishing democratic, citizen-centered governance is an indispensable requisite for countries seeking a sustainable, self-reliant development path. While USAID assistance seeks to improve outcomes in all of the countries in which it works, USAID's experience shows that a commitment to democratic governance has the greatest potential to reliably "unlock" sustainable improvements in people's lives, to drive higher levels of human capital accumulation and economic innovation, and to moderate social conflict and state-based violence. In addition to recognizing the intrinsic value of democratic governance

[27] "Rancangan Teknokratik RPJMN 2020-2024", Rapat Koordinasi Penerapan e-Planning dalam Penyusunan RPJMN dan RKPD bagi 171 Daerah Pilkada Serentak tahun 2018, Direktur Otonomi Daerah, Bappenas, 8 Oktober 2019.

to a country's journey to self-reliance, USAID's development model is unique in its integration of key democratic principles - participation, inclusion, transparency, and accountability - across all sectors. USAID's assistance will be designed to help Indonesia strengthen its commitment and build its capacity to overcome development challenges and implement its own development solutions in the local governance sector.

General Criteria for Geographic Focus

The new activity will engage selected provinces, districts and cities by considering the following criteria for collaboration:

- USAID Indonesia activities by sectoral offices in the health sector, education sector, environment, and disaster management;
- Verified local governments' high performance in the "Regional Government Performance Evaluation" (EKPPD) data from MoHA; recent achievements in the "Innovation in Public Service Awards" from Kemenpan-RB; high performance in the Bappenas/BPS "Indonesian Democracy Index" (IDI);
- Local governments' commitment to governance reform and improvement of public service delivery and their coordination with national stakeholders;
- Potential to achieve provincial-wide coverage of all districts and cities within the province by the end of the activity.

This activity will be geographically synchronized with other USAID investments. Specific geographic area will be detailed in the solicitation.

Attachment 2

RESPONSE FORM
REQUEST FOR INFORMATION (RFI) NO. 72049719RFI00003

General Information

Name of Organization:

Contact Person:
Name:
Position Title:
Email Address:

Type of Organization:

____ US Organization, Large Business

____ US Organization, Small Business

____ Indonesian Organization

____ Other - Please indicate:

Questions
(Please note that you are not obliged to answer all questions)

1. Does the concept note cover major deficiencies that limit access to quality public services? If not, what additional factors need to be discussed?

2. USAID has strong and sophisticated partnerships with technical ministries at the national level; however, local level partnerships can be less sustainable. Please comment on ways to improve the quality and spirit of partnership with local governments.

3. What incentive instruments should be considered to enhance good governance and improved public services at the local level?

4. What regulatory or administrative tools exist to support the replication of successful innovations in local service delivery?

5. What criteria should be applied for province and district selection? How should such criteria be weighted? What factors should inhibit selection of a province or district?

6. Please provide suggestions of how digital technologies may be utilized in order to provide greater efficacy and project outcomes?

7. Please provide suggestions as to how the private sector could be engaged in order to address the problem statement described in the concept note? What market-based approaches could be incorporated into this activity?

8. Please provide suggestions as to how the activity cost integrate cost sharing practices with the Government of Indonesia (at any level)?

9. Given the anticipated scope of the work, what recommendations for adaptive management would you recommend utilizing?

10. USAID would like to ensure the selected procurement instrument enables the most effective activity implementation. Please offer commentary on limiting factors if the solicitation is either an acquisition instrument (e.g., contract) or assistance (e.g., cooperative agreement).

11. If an assistance mechanism is selected, please comment on possible cost sharing for this activity.

12. How should resources be distributed, by percentage, across the intermediate results, and why?

13. How could USAID target new or underutilized partners to implement the activity (including through sub-award/sub-contracts)?

14. How could USAID target US small business and/or minority-serving institutions involvement in this activity?

[END OF REQUEST FOR INFORMATION]