Different Worlds, Shared Solutions:

Key Messages from World Bank Seminar on Capacity-Building in Economic Management in Indonesia and the Pacific Islands

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Reported by: Tobias Haque (EASPR), with Virginia Horscroft (EASPR)

It might seem that Indonesia and the Pacific Island Countries have nothing in common. Indonesia’s population is more than one thousand times as large as the populations of most Pacific Islands. Indonesia has a huge pool of highly educated bureaucrats while some Pacific Island countries have only a few graduates in key areas. Indonesia has a dynamic and fast-growing economy – already the world’s 18th largest – whereas most Pacific Island economies are very small and face limited growth prospects.

But ensuring that central ministries have adequate capacity in economic management is a key issue in both parts of the world, with macroeconomic policy and good use of public resources underpinning all other aspects of development. In both contexts, the World Bank and other donors are working with local staff to strengthen skills, knowledge, capabilities, and systems for better policies, practices, and outcomes in these areas.

Given the World Bank’s role as a global “knowledge bank”, we in the Pacific Division have been working hard with staff involved in strengthening economic management capacity in Indonesia to ensure that lessons across these very different contexts are being exchanged.

Last month our Sydney-based team was accompanied by a Senior Economist from the Indonesia office on a mission to the Kingdom of Tonga to help the Government manage upcoming expenditure challenges. With capacity-building and local ownership clearly a core priority of the work, new ideas based on what worked within a major capacity-building program within the Ministry of Finance in Indonesia proved invaluable.

And in the Sydney office this week, Jakarta-based Bank economists joint us to discuss their various experiences with capacity building in economic management with a group of NGO representatives, academics, and donor officials. The following points emerged clearly from the varied perspectives around the table:

- **Capacity-building takes time and flexibility.** Successes have been achieved by allowing adequate time for influence and focusing on specific strategic goals. Often, a project can require a timeframe of several years to achieve results, given the inherently slow nature of behavioral change, and the inevitable setbacks along the way. It also helps to have a mandate to focus on well-defined but important goals (such as ‘improving economic monitoring’) rather than focusing on specific outputs (such as developing a specific forecasting model or fiscal plan) which are unlikely to be locally “owned” and may be seldom used once the project has been completed.

- **Capacity-building works best when demand-driven.** Capacity building projects, however well conceived, often represent yet another drain on the scarce time of busy officials. Institutional incentives to obtain new skills and champion innovation need to be strong enough to compensate for the hard work involved. Helping an agency respond to a direct demand from an active and interested Minister is more likely to be effective than trying to implement process improvements that only donors or other external parties really care about. Ensuring that all of those involved in capacity-building are accountable to leaders within their counterparts’ agency is one way of ensuring that capacity-building efforts are focused on addressing genuine demands. It also helps to
integrate capacity-building into the everyday work of counterparts – providing help in doing what already needs to be done, rather than just creating new work.

- **Capacity-building is about relationships.** Open and constructive relationships are vital to capacity building efforts. Building such relationships takes time and effort. Without the trust and openness of a friendly relationship, the right questions will not be asked and answers will not be listened to.

- **Best-fit rather than best-practice.** There is seldom any one way of doing something right. Often the approaches and solutions that suit a particular context will not be particularly helpful in another, due to different priorities and different constraints. An OECD country’s approach to revenue forecasting won’t necessarily be of much use in a country that doesn’t have the data or capacity that are needed to make it work, and there are likely to be alternative approaches that are equally effective and perhaps better attuned to local priorities. Capacity-building is likely to be most effective if the objective is to achieve a particular goal in whatever way works best, rather than to implement a blueprint, ‘best-practice’ approach.

- **In some situations, capacity-building may not be the best approach to addressing capacity gaps.** Even in a country with as many skilled and qualified officials as Indonesia, capacity-building is difficult and takes considerable time. In small Pacific contexts, problems are compounded by the absence of qualified people, high-turnovers of staff, and competition for skills from donor agencies, NGOs, and the private sector. For certain positions that require highly specialized skills and are absolutely necessary for achieving development gains (for example, mining tax specialists) it might be more effective for donors to simply supplement capacity on an ongoing basis, given that qualified local individuals may never be consistently available, and key staff are likely to continue to leave even if specialized capacities can be built. A key question is the kinds of capacities that can be developed using traditional capacity building approaches and those that might best be outsourced to the private sector over the long term or undertaken with the continued support of donor agencies.

Sharing of Bank experiences has already proven incredibly helpful to both Bank teams, while feedback from the discussion sessions shows that NGOs and other donors also have a keen interest in the lessons arising from such exercises. We are looking forward to drawing on the experiences of our Indonesian colleagues in future. And we’re sure that they are looking forward to being back in the beautiful Pacific, however different things might be from home.