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MFM PRACTICE NOTES

SUPPORTING INSTITUTIONAL CAPACITY AND EVIDENCE-BASED MACRO/FISCAL POLICYMAKING: SHARING EXPERIENCE FROM INDONESIA

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Close support to the government, including by an embedded core project team, can help to support improvements in macro-fiscal policymaking as demonstrated by the SEMEFPA program in Indonesia.

Improving the quality of macroeconomic and fiscal policymaking is central to the World Bank’s poverty reduction mission, and is the mandate of its Macroeconomics and Fiscal Policy Management Global Practice. In Indonesia, a key component of technical assistance in this area in recent years has been the Support for Enhanced Macroeconomic and Fiscal Policy Analysis (SEMEFPA) program. SEMEFPA provides close support to the government, spearheaded by a small core team who split their time between the Ministry of Finance and the World Bank’s Jakarta office. This note provides an overview of this program’s strategies and processes, especially its innovative aspects, with the aim of documenting lessons learnt and sharing information that may be useful as an input to program design and implementation in other countries, and stimulating knowledge exchange.

The SEMEFPA program is being implemented by the World Bank as part of its FY2013-2015 Country Partnership Strategy for Indonesia. It aims to contribute to improved macro and fiscal policymaking through analytical work and institutional capacity strengthening. Launched in February 2012, following a predecessor program in 2009, SEMEFPA is a Bank-executed AUS$5 trust fund, financed by the Australian Department of Foreign Affairs and Trade. The program primarily supports the Ministry of Finance’s Fiscal Policy Agency (FPA), the Indonesian government’s main locus of fiscal analysis and macroeconomic forecasting.

Delivering a flexible mix of support, based on a clear program logic

Program objectives are to improve both the supply of, and demand for, quality macroeconomic policy and fiscal sector analysis. The objectives of SEMEFPA are to improve the capacity of FPA officials in providing sound macroeconomic and fiscal analysis, and also to stimulate internal and public policy debates, with the aim of increasing demand for quality, evidence-based macroeconomic and fiscal policies. Underpinning the overall program logic of SEMEFPA is a set of interrelated strategies based

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on a “theory of change”, whereby SEMEFPA aims to contribute to:

- “Supply” of advice and information: capacity building for the production of evidence-based macroeconomic and fiscal policy advice.
- “Demand” for advice and information: influencing the policy environment to support increased and better use of evidence in policy decisions, including by generating external momentum to address policy priorities through contributions such as the Indonesia Economic Quarterly (IEQ) and by dissemination of information and resources to inform and stimulate policy debate.

Within this overall strategy, capacity-building activities are delivered using a graduated approach. The graduated (or “staged”) capacity building model involves high levels of initial support and contact, which are gradually reduced and scaled down to specific assistance as the work is increasingly owned and led by counterparts. Through demonstration effects, demand for continued high quality advice among senior government officials is stimulated.

...using four modes of delivery...

SEMEFPA works to achieve its objectives through four modes of delivery: (1) Embedded support through a core team of consultants and staff located partly in the Fiscal Policy Agency, (2) Highly-specialized technical assistance on specific topics, drawn from the Bank’s extensive network, (3) Facilitating linkages between the government and local research institutes to conduct evidence-based fiscal policy analysis, (4) Support to the Indonesia Economic Quarterly reports, whereby the core team produce on a quarterly basis a set of economic projections and assessment of recent economic developments and the outlook.

...across thematic, institutional strengthening, and policy dialogue work streams...

The activities of the SEMEFPA program are organized into three program areas:

1. Thematic work-streams to support policy analysis, comprising projects and just-in-time support in the areas of public expenditure, revenue and macroeconomic (real sector, prices, external and financial sectors) forecasting and analysis;
2. Cross-cutting skills and institutional support;
3. Policy dialogue and outreach, including through the IEQ reports.

...with program planning activities endorsed and monitored on a regular basis at the governance level...

Overall, the program approach focuses on the supply side on contributing to continual learning and technical improvement at the FPA, based on close support to FPA staff by the core team. On the demand side, the IEQs are a primary tool to contribute to the evidence base for, and to stimulate, public policy debates on economic issues and challenges, complemented by a range of activities including SEMEFPA team involvement in public workshops and seminar events. Activities are planned by the implementing team in consultation with FPA center directors and are discussed and endorsed at the program governance level by the program’s Joint Management Committee (JMC). The JMC meets at least once a year and this formal forum has contributed to the success of the program by ensuring ownership from the top level and facilitating communication as well as coordination with donors. JMC meetings also help create a sense of mutual accountability, with an emphasis on monitoring the program’s progress. This is reinforced also by regular, working level group meetings, providing an additional discussion forum for the donor, client and implementing team.

...and a strong emphasis on maintaining a flexible approach to work planning and implementation, to ensure continued program relevance and responsiveness

There is a natural tension between having sufficient flexibility for the program to be relevant and responsive, and maintaining a strategic approach to program delivery, including well-defined timelines for agreed-upon deliverables. Since inception, SEMEFPA has benefited from a flexible program management approach, based on consistent client feedback concerning the need to be nimble
and responsive to shifts in policy priorities, and also to fluid macro conditions. For example, the change in administration following the 2014 presidential election was a period when SEMEFPA received multiple requests for ad-hoc analytical work that required rapid responses, on issues such as fuel subsidy reform impacts, infrastructure spending and revenue collection. Responding to these requests meant resources had to be diverted from other pre-determined SEMEFPA activities. Flexibility in these instances has helped the program maintain its relevance and the World Bank’s wider standing as a preferred partner of the government for rapid-response analysis and technical support. The constructive role of the program in this regard has built trust with counterparts, and facilitated further support and input including on high-impact and sensitive policy issues (Box 1 provides selected examples).

Box 1: Capacity-building: examples of take-up
The success of a capacity building program is marked by the absorption and leverage of skills and knowledge. Below are some instances where the SEMEFPA program’s uptake has been observed:

- Macro forecasts by the FPA make use of jointly-developed GDP and inflation forecasting models.
- The FPA has taken ownership of a fuel subsidy reform impacts model originally built by the World Bank, and expanded, updated and operated it.
- FPA staff are using skills learned from the fuel subsidy model to model electricity subsidies, and are looking ahead to costing food and interest rates subsidies.
- FPA managers point to staff having improved their basic skills, to the point where they now seek feedback on their own analysis from the SEMEFPA team.
- SEMEFPA trainings also encompass other agencies, providing a platform for information-sharing amongst FPA staff and other relevant institutions.

Embedded support as a defining mode of delivery
Unlike most other technical assistance programs which respond to specific policy issues through a specified time frame and deliverables, SEMEFPA offers embedded support to the client government; core team members spend two to three days a week (sometimes more) in the FPA office. This feature of the program enables SEMEFPA team members to provide support not only to senior policymakers, but also dedicate time to build relationships, provide technical support and conduct joint work with junior and mid-level staff. SEMEFPA team members are approached frequently to provide input to work ranging from editing and presentations to modelling challenges and the development of various macroeconomic and fiscal monitoring frameworks.

This continuous on-site presence effectively plugs the team into the client environment, conferring many benefits that maximize program effectiveness, including through allowing the team to better understand the process, bureaucratic, capacity or technical constraints hampering policymaking processes. For example, in October 2014 the agency was preparing a public expenditure review of the country’s agriculture sector. Following discussions on this topic with SEMEFPA team members, a 3-day workshop on measuring the effectiveness of agriculture spending was conducted. Post-training interviews revealed that knowledge and skills obtained during the training matched participants’ needs. An agriculture public expenditure review report authored by FPA staff was subsequently published.

Strong relationships and team presence provide continual opportunities for FPA staff to ask questions or discuss specific technical issues informally. One-one-one support often leads to individual projects being carried out by FPA staff, a sign of uptake. On-site presence also provides FPA staff with timely access to expertise available within the World Bank’s extensive global networks, facilitated by the core team, making more knowledge available, more quickly, in an often fast-moving policy setting.

Minimizing capacity substitution risks, and monitoring and evaluation
Capacity substitution risks are mitigated by the emphasis on joint work planning and delivery, and close support to government staff. Technical support and capacity-building programs typically face the risk of skills and knowledge not being proportionately assimilated and used, due to lack of institutional support. Worse, there is a risk of the client growing heavily reliant on the support and resources provided, such that the existing skills
within the counterpart organization are substituted instead of enhanced. To minimize these risks, SEMEFPA employs a number of measures. Senior officials are closely involved in work planning, to ensure priority needs are being met and to secure buy-in and endorsement. The close one-on-one support to government staff provided by the team, and joint work, aims to strengthen internal capacity over time. Finally, there is a strong emphasis on training. Pre-training assessments are conducted to ensure that training responds to participants’ needs. The feedback received helps the trainers determine the schedule, coverage and pace of training. Training activities include core practical skills training (“Analyst Bootcamps”), also helping to mitigate substitution risks.

A multi-year program can be expected to undergo many changes in the macroeconomic and fiscal policy, and institutional, contexts. Over time, this may reduce the relevance of the initial program design. While this poses program management and adaptation challenges, such shifts can be positive to the extent that they reflect changes resulting from the success of the program itself (e.g. where capacity is built and where counterparts start to demand more complex types of support). Analytical support on fuel subsidy reform, for example, has shifted from the development and integration of tools to model the fiscal, pricing and poverty impacts of broad reform options, towards international experiences, and implementation considerations. To ensure ongoing program relevance, and that any successes feed into program planning, a comprehensive monitoring and evaluation system therefore needs to be in place.

SEMEFPA benefits from a considerable emphasis on monitoring and evaluation (M&E). The M&E system is based on the program logic summarized above, that articulates clearly how SEMEFPA activities will contribute to-end-of-program outcomes, while recognizing the difficulty of attributing policy reform successes and improvements in the evidence base for policy directly to given program interventions. The program logic was developed along with the assumptions that need to hold true for changes to occur. By having a clear program logic, the monitoring can be focused on behavioral changes that occur as the result of SEMEFPA activities and, as such, successes can be easily identified. Some of the monitoring and evaluation tools employed for this program are post-event surveys, event follow-up interviews (conducted around four months after training), readership surveys for the IEQs, fortnightly activities and outputs reporting and monitoring, request tracking, and influence logs.

This note has provided a very brief overview of the SEMEFPA program, supporting capacity for and contributing to sound macroeconomic and fiscal policymaking in Indonesia. Novel aspects, including a program design aiming to have mutually reinforcing impacts on the “demand” and “supply” sides of the evidence base for policymaking, an embedded core team, and a strong focus on M&E, have been emphasized. More knowledge-sharing across countries and development partners considering or implementing similar approaches could play a useful role, including to help inform the difficult questions of how programs of this type can help to tackle the deep institutional organization and political economy constraints to more effective macro- and fiscal policymaking.

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