

Australia Indonesia Partnership for Economic Governance (AIPEG) Facility

Design Document

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Acronyms and abbreviations

AB	Advisory Board
AIP	Australia Indonesia Partnership
AIPEG	Australia Indonesia Partnership for Economic Governance
AIPRD	Australia Indonesia Partnership for Reconstruction and Development
ADB	Asian Development Bank
ADS	Australian Development Scholarships
AML	Anti-money laundering
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investment Commission
Bapepam-LK	Capital Market Supervisory Agency and Financial Institution
Bappenas	Ministry for National Development Planning
CMEA	Coordinating Ministry for Economic Affairs
DFD	Deputy Facility Director
DFAD	Department of Finance and Deregulation (Australia)
DFAT	Department of Foreign Affairs and Trade (Australia)
DG	Directorate General
DGT	Directorate General Taxation (MOF)
EC	Executive Committee
ECDPM	European Centre for Development Policy Management
FD	Facility Director
FET	Facility Evaluation Team
FRIP	Facility Review and Implementation Plan
GoA	Government of Australia
GoI	Government of Indonesia
GPF	Government Partnership Fund
IPR	Independent Periodic Review (part of AusAID's quality assurance system)
IEI	Immediate and Emerging Issues
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
MC	Managing Contractor

MenPAN	Ministry for State Apparatus Reforms
MIS	Management Information System
MoF	Ministry of Finance
MoT	Ministry of Trade
MST	Management Support Team
MTDP	Medium Term Development Plan
PA&E	Performance Appraisal and Evaluation
PDD	Project Design Document
PM&C	Department of Prime Minister and Cabinet (Australia)
PPATK	Pusat Pelaporan dan Analisis Transaksi Keuangan (Operational Financial Intelligence Unit)
PSC	Public Service Commission
QaC	Quality at Completion (part of AusAID's Quality Reporting System)
QaE	Quality at Entry (part of AusAID's Quality Reporting System)
QaI	Quality at Implementation (part of AusAID's Quality Reporting System)
TA	Technical Assistance
TAMF	Technical Assistance Management Facility
TSP	Technical Support Pool

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Executive Summary

This design document builds on the successful experience of the Indonesia-Australia Technical Assistance Management Facility for Economic Governance (TAMF III). It responds to contemporary economic governance priorities of the Government of Indonesia (GoI), a new Australia Indonesia Partnership framework, emerging policy perspectives in international development cooperation as well as lessons learned from prior experience.

The Governments of Australia and Indonesia have worked collaboratively in the area of economic governance since the major financial crisis of the late 1990s. The rationale for this focus is the clear link between sound macro-economic management and stability and poverty reduction. Over a decade of cooperation, a great deal has been learned and achieved and there is now a mutual commitment to continue for the next six years. In 2008, Indonesia is currently weathering the new challenges which have occurred in the global financial system reasonably well. However, it is possible that economic growth may be less (5%) than expected (over 6%) and there may be increased pressure on the national budget (through reduced revenue and increasing social program costs).

The next phase of Indonesia Australia collaboration will be called the *Australia Indonesia Partnership for Economic Governance (AIPEG) Facility*.

Goal: To improve the quality of the Government of Indonesia's economic management and through this contribute to broad based growth and poverty reduction.

Objective: To strengthen governmental capability for policy formulation, coordination and implementation in areas affecting the national budget and macroeconomic performance.

The facility will operate through a series of sub-facilities providing support in selected areas of economic management. Each sub-facility will have its own goal and objective, and will contribute to the facility wide objective through the provision of high quality analytical and strategic advice that is useful to Government of Indonesia policy makers. Particular attention will be given to harmonize and work strategically with other sources of assistance and advice. The sub-facilities will be expected to engage with key agencies to impact positively on budget and macroeconomic policy settings, and, where appropriate deliver effective support to build domestic capacity for policy formulation, coordination and implementation in areas of strategic importance.

Focus: The AIPEG Facility will undertake collaborative activities in institutional strengthening and policy advice in the following areas:

- Tax administration reform
- Debt management
- Financial system stability
- International trade policy
- Economic policy coordination (e.g. in climate change, food security, energy and agriculture)
- Public financial management (e.g. in budget, decentralisation/fiscal transfers and Public Private Partnerships).

This phase of cooperation, from 2009 to 2015, will extend beyond technical assistance to broader institutional strengthening. This is based on clear direction from GoI agencies that they wish to improve the capacity of their organisations to implement required economic governance policies and programs. Capacity includes technical (economic and financial) aspects of work, and this will continue to be a key element of Australia's cooperation, with a mix of ongoing activities and responses to emerging issues (for example, challenges arising from the 2008 global financial crisis). Indonesia's national economic governance institutions are now in a more stable context (compared with the time following the Asian financial crisis when TAMF was first designed) and are more confident about the selection and development of policies. In recent years, GoI priorities have shifted towards efforts to increase organisational capacity, initially in the form of staff training but increasingly towards broader elements of organisational effectiveness, such as strategic and corporate planning, organisational structure, internal systems (finance, IT, human resource development and management), leadership and performance monitoring.

The Facility will continue to work within four Sub-facilities in selected Directorates General of the Ministry of Finance and in the Ministry of Trade, as has been the case with TAMF III, and will extend to other partnerships for the latter two areas listed in the box above, based on scoping, research and negotiations during Year One of the new Facility.

The next phase of Australian assistance in this sector will contribute up to A\$66 million over a six-year period, subject to annual AusAID budget appropriations. It will continue to operate as a "facility" form of aid, in which high level objectives are mutually agreed upon with GoI partners and then flexible planning and responsiveness to emerging priorities enables participants to undertake a range of activities. Selection criteria and decision-making systems will be carefully negotiated to ensure lessons learned about quality development activities are applied and to promote GoI leadership and ownership, as well as to contribute to a shift towards greater use of GoI systems, over the life of the AIPEG Facility.

Governance of AIPEG will be similar to the arrangements for TAMF III, whereby an Advisory Board (AB), co-chaired by AusAID and GoI senior officials and comprising highly skilled Indonesian economic governance specialists, provides strategic advice across the range of institutions and programs. Decision-making responsibility for plans, allocations across AIPEG and individual activities will be made by both Indonesian and Australian senior officials, with advice from the Advisory Board and others. Consistent with commitments to increase the use of GoI systems in aid management, approvals for individual programs within partner agencies will progressively be made by partner agencies themselves.

A managing contractor will be sought to support activities across multiple GoI partner agencies and to contribute specialist support in areas of mutual interest such as capacity development approaches, gender analysis and programming, monitoring and evaluation and support for a shift to increasing use of GoI systems for procurement, recruitment and monitoring. The AIPEG office will provide secretariat services to the Advisory Board as well as a range of services to partner agencies and advisers to support appropriate capacity development processes. The AIPEG office will liaise with AusAID on cross-Facility planning, monitoring and finances

Consistent with contemporary learning about capacity development, a menu of activities can be supported under AIPEG. The range may include the placement of short and long term international and Indonesian specialists to work alongside officials in partner agencies on

specific tasks, as well as exchanges, tours, a variety of in-house and external professional development programs, joint research, development and piloting of new systems for example. In Year One of AIPEG, the practice of placing Lead Advisers to work within each partner GoI agency will continue, but in future years, will be subject to negotiated agreement.

The approach to monitoring effectiveness and results of the AIPEG Facility will build on the high quality system developed under TAMF III: a team of specialists making periodic detailed assessments of each Sub-facility (selection negotiated annually by AB and AusAID). Monitoring will be based on a set of performance questions covering the quality of Facility processes and the results achieved by combined individual activities. An increased focus on gender analysis and programming in AIPEG will also be carefully monitored throughout the life of the Facility. Coordination of AIPEG with other Australian-funded and other donor-funded activities is critical, given the large and crowded sector. AusAID is committed to donor harmonization and has various mechanisms to promote Indonesian leadership and maximise the benefits of multiple donors in the sector. This will also be closely monitored.

1. Introduction

This design document builds on the successful experience of the Indonesia-Australia Technical Assistance Management Facility for Economic Governance (TAMF III). It responds to contemporary economic governance priorities of the Government of Indonesia, a new Australia Indonesia partnership framework, emerging policy perspectives in international development cooperation as well as lessons learned from prior experience.

The next phase of Indonesia Australia collaboration will be called the **Australia Indonesia Partnership for Economic Governance (AIPEG) Facility**. From 2009 to 2015, the focus of this Facility will extend beyond technical assistance to broader institutional strengthening. This is based on clear direction from GoI agencies that they wish to improve the capacity of their organisations to implement required economic governance policies and programs. The next phase of Australian cooperation will retain the best features of TAMF III and introduce new concepts and practices which are better aligned with the current and future context.

In 2008, a decade after the Asian financial crisis and as a new global financial crisis appears to be looming, Indonesia's economic governance capacity is vastly different. The key national agencies are generally more confident about their policy directions and priorities and the context is more stable and predictable. There is an ongoing commitment to and interest in opportunities to consider different perspectives and experiences in new areas. Agencies now seek assistance in strengthening aspects of their institutions so they are able to apply policies efficiently and effectively, in order to maximize economic benefits, particularly through poverty reduction.

Internationally, many lessons have been learned about development cooperation approaches. Importantly, governments around the world, including the Governments of Indonesia and Australia have agreed to the principles included in the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008) which highlight new ways of operating. In particular these call for increased efforts to promote ownership of development programs within developing countries and increased use of existing Government systems where appropriate. A detailed understanding of the specific context and an analysis of the prospects for success and risks are required for these steps to be beneficial.

The rationale for Australian cooperation in economic governance is the clear link between sound macro-economic management and stability and poverty reduction. Poverty continues to affect the lives of millions of Indonesian men, women and children. Effective national economic management is one of many factors which contribute to poverty reduction over time. In simple terms, sound management provides a basis for increasing national and international investment which leads to increased employment and thus increased household income. Sound macro-economic management also increases the fiscal space for governments to improve delivery of essential services. For example, improvements in tax collection and management in Indonesia have substantially increased revenue and added to the national budget, thereby improving the Government of Indonesia's ability to fund essential services, either through fiscal transfers or directly. At the micro level, increased household income helps families to break the cycles of chronic poverty which are characterized by lack of opportunity, vulnerability to events such as accidents and poor health, and inability to maximize participation in development processes.

1.1 Methodology

At a concept peer review on 19 June 2008, AusAID agreed to proceed with the design of a new program of support for economic governance in Indonesia to succeed TAMF III. A design team established by AusAID consulted with the TAMF III Advisory Board on 3 July 2008 and undertook Australian whole-of-Government consultations during the week starting 7 July 2008. The team then visited Jakarta for two weeks and consulted with a range of stakeholders, including Government of Indonesia counterparts and economic policy leaders including Ministers; Australian officials deployed under the GPF; other donors; TAMF III staff; key academics; and staff from related AusAID programs.

2. Context and analysis

2.1 Economic governance context in Indonesia

Ongoing macroeconomic stability, structural reforms and improvements in the investment climate are essential for addressing poverty in Indonesia. In 2008, approximately 17% of the population lives below the official poverty line and many more (49%) live just above it on less than US \$2 a day. The global financial problems arising in the latter half of 2008 will increase the pressure faced by this large proportion of the population. Government service delivery to those on or near the poverty line requires good fiscal management and is therefore affected by global financial issues and their impact in Indonesia. Macroeconomic stability and improvement in the investment climate creates jobs and opportunities for a wide range of workers. The reverse is true of macro instability and poor investment climate, which leads to a loss of jobs, erodes incomes of, among others, those below or near the poverty line and leads to a loss of revenue required for essential service delivery.

Since the Asian financial crisis, Indonesia has significantly improved its management of the economy. Indonesia has stabilized the macro economy and implemented a series of economic reforms that led to 6.3% economic growth in 2007. Economic growth for 2008 was expected to be in the range of 6.0 – 6.5% although in late 2008, the forecast appears to have reduced to around 5%. The forecast for 2009 is for close to 6.0% growth, but the global financial uncertainty may also reduce this estimate. In parallel, development spending has increased to pre-crisis levels. In early 2008 it appeared likely GoI would have an additional US\$15 billion to spend on development as a result of reducing fuel price subsidies and prudent fiscal management. However, several global and national economic issues remain that are critical for the long term growth of the economy. At the national level, these include underinvestment in infrastructure, inadequate service delivery in education, health, water and sanitation, on going cost of subsidies, a rigid labour market, escalating food prices and the slow pace of sub-national reforms and efficient service delivery.

Central economic agencies are important contributors for macro-economic stability, improving the investment climate and leading structural reform. Decentralization has increased the responsibility of the regions in delivering services. However, the central economic agencies remain important in providing guidance, delivery of national programs, allocation and transfer of funds to the region and management of centre-region relationships. The issues that connect the centre and regions range very widely and include civil service regulations and reforms, Public

Financial Management, socio-economic development policies, as well as coordination and standards of laws and regulations. Therefore, in assisting the GoI to address poverty alleviation, it is important for AusAID to be working both at the central government level and in the provinces.

Four key Ministries play a central role in economic governance. These are the Ministry of Finance, Ministry of Trade, Coordinating Ministry of Economic Affairs and Bappenas. Through a variety of mechanisms, the GoA has worked closely with these Ministries. Since the Asian financial crisis, TAMF has worked in partnerships with GoI Ministries in assisting reform processes. Significant reforms have been achieved and reform processes are ongoing. The findings of the 2008 OECD Economic Assessment Report and Analysis of GoI economic reforms match the GoI's own economic reform program. However, reforms have not been evenly undertaken or achieved across or within Ministries, and ongoing support is required to contribute towards improved self-management. The following is a brief description of each of the four Ministries and some of the ongoing reform processes and challenges.

Ministry of Finance (MoF) is the largest and perhaps the most significant of the four key agencies and also where the pace of reform has been most noticeable. MoF employs over 66,000 public servants and has strategic financial management responsibility. MoF collects the largest amount of revenue for the state budget. Since at least 2004 MoF has undergone several organizational reform processes which have included the formation of the Large Taxpayers Office. Ongoing reform processes in MoF include: a) organizational restructuring, b) improving businesses processes, c) further developing management of human resources, and d) improving remuneration.

Ministry of Trade (MoT) has overall responsibility in matters related to trade and its mandate overlaps somewhat with that of the MoF. In consultation with GoI's other 34 ministries, MoT formulates and implements national trade policy. This includes internal and external trade, standards and weights and measures. MoT has a staff of approximately 3,000 public servants. MoT's main objectives include: a) coordinating GoI's multilateral, regional and bilateral trade position, b) improving effectiveness in pursuit of Indonesia's international trade interests, and c) working with other ministries to develop and implement policies which improve Indonesia's capacity to export.

Coordinating Ministry of Economic Affairs (CMEA) is responsible for effectively coordinating and synchronizing economic development agencies within the GoI. It places emphasis on the coordination of planning and preparation of economic policies and on synchronizing implementation. It does not have a mandate for policy development. It has a small staff of approximately 220 civil servants. Because the CMEA has no permanent status as a Ministry, it has difficulty attracting and retaining staff. The small size of its staff and limited mandate also provide challenges to its effectiveness. Despite these limitations, as a coordinating Ministry it plays an important role in Indonesia's economic governance. In mid 2008, the Minister for Finance also became the Minister for CMEA, and she has indicated that she will adopt a similar bureaucratic reform process for CMEA as has been undertaken by MoF.

Bappenas is the National Development Planning Agency and has a wide ranging responsibility for development planning. This responsibility ranges from the coordination of five year

development plans and coordination of all official development assistance (ODA) to coordination of macro-economic development. Bappenas' roles and functions overlap with a number of other government agencies. It currently is an important agency in the provision of infrastructure and public and private partnerships (PPP). Bappenas employs approximately 800 civil servants who have relatively high levels of academic qualifications and good planning skills. Bappenas has begun a bureaucratic reform process which includes performance based management. It also faces challenges in developing IT and management systems.

The following cross cutting issues apply to all Ministries engaged in macro-economic governance (see Annex 1 for more details):

- key economic Ministries are currently focused on improving their capacity to implement and manage economic reform
- much-needed civil service reforms are beginning to take place
- Indonesia's main decentralization challenge is to ensure effective allocation of its resources towards the improved delivery of public services and pro-poor policies
- effective economic policy coordination across more than 34 Ministries remains a key area for improvement.

The GoI and key economic Ministries' are actively pursuing reforms in these areas (see Annex 1 for more detailed analysis).

2.2 Previous cooperation between Australia and Indonesia

The Governments of Australia and Indonesia have worked collaboratively in the area of economic governance since the major financial crisis of the late 1990s. Since 1999, Australia's program in the economic governance area has been primarily delivered through a program entitled Technical Assistance Management Facility for Economic Governance (TAMF). This flexible Facility has reflected many of the lessons learned about contributing to sustainable development results and working with public sector institutions. Three phases of TAMF¹ have involved collaboration between specialized international Advisers and their Indonesian colleagues within selected Ministries and Directorates General. Annex 6 provides a summary of the Sub-facilities under TAMF III, important background for the rest of this design document.

Activities supported by TAMF have addressed specific aspects of economic governance approaches and practices in the areas of tax administration, debt management, financial stability, international trade policy and anti-money laundering. These areas have been carefully selected over time, based on a number of criteria. A significant criterion was the identification of an opportunity to work with "champions" for reform. TAMF has not attempted to be comprehensive and extensive. TAMF has been well regarded because of the flexibility and responsiveness of the management approach and decision-making systems. Work supported by the third phase of TAMF has been regularly evaluated and consistently commended by Indonesian agencies, external assessors and other donors operating in the sector. This high level

¹ TAMF I – 1999 to 2001, TAMF II – 2001 to 2003 and TAMF III 2004 to 2009

evaluation has contributed to improvements over time and identified achievements and “results.” Given the careful selection of work areas where there is opportunity and impetus for reform, it is not surprising that Australian supported personnel and activities have contributed to some significant changes overall in most areas, alongside their and with leadership from Indonesian colleagues. Given the success of this approach and the ongoing scope and opportunity for collaboration in economic development, the next phase of assistance will continue with the general approach, while incorporating contemporary policy themes and lessons learned.

The facility form of aid has been well suited to this sector and to this era in Indonesia and Australia cooperation. The changing context over the past decade includes the following:

- increased confidence among Indonesian economic policy decision-makers
- reduced need for “crisis management”
- political transformation in Indonesia after the end of the Suharto Government
- decentralization of GoI administration
- shifts towards a focus on how to enable economic governance institutions to best implement their respective policies
- lessons learned about the value of partnership approaches to development cooperation
- new research findings about different approaches to institutional strengthening and capacity development more broadly
- introduction of Australia’s Government Partnerships Fund, which includes substantial personnel and programs in the economic governance sector and beyond
- new global commitments to the principles included in the Paris Declaration on Aid Effectiveness (2005) and Accra Agenda for Action (2008).

2.2.1 Government Partnerships Fund

Australia also works collaboratively with Indonesian public sector agencies, including those involved in economic and financial management, through the Government Partnerships Fund (GPF). This Fund supports direct collaborative arrangements between Australian and Indonesian economic governance agencies. GPF is a \$50 million, 5 year program (commencing in 2005) to strengthen Indonesia’s economic governance and public sector management capabilities. The GPF provides the opportunity for Australian government Departments and Agencies to exchange skills, knowledge and expertise with key public sector institutions in Indonesia, and to build long-term institutional linkages and partnerships. The extent of collaborative activities is limited by availability of staffing and other resources within Australian Departments, so it is often the case that GoI agency requests cannot be met in a timely manner or at all. A major review of GPF in 2008 recommended a continuation of funding based on successful activities undertaken to date. Given the significance and presence of both TAMF and GPF activities in key economic agencies in Indonesia, coordination at various levels has been an important element of Australian assistance in recent years and should be continued in future.

2.3 Australia Indonesia Program

Through the Australia Indonesia Partnership (AIP) Country Strategy 2008-2013, Australia and Indonesia have committed to work in partnership to achieve a more prosperous, democratic and safe Indonesia, focusing on implementation of Indonesia’s National-Medium Term Development

Plan 2004-2009 (MTDP). The MTDP outlines an ‘Agenda for Increasing the Welfare of the People’, the first target of which is to reduce the total number of Indonesians living in poverty and the creation of employment opportunities, supported by the continued maintenance of macro-economic stability.

The MTDP also establishes a target of “good, clean, credible, professional and responsible governance that is manifested in a bureaucracy that is efficient, effective and can provide satisfactory public services.” It highlights the importance of reducing corrupt practices in the bureaucracy and sets policy directions which include “fully resolving the problem of abuse of power in the form of practices of corruption, collusion and nepotism” and “enhancing the quality of public administration.”

In support of the MTDP, the four pillars of the AIP Country Strategy are:

1. Sustainable Growth and Economic Management
2. Investing in People
3. Democracy, Justice and Good Governance
4. Safety and Peace

Pillars 1 and 3 of the Country Strategy provide the rationale for a program of Australian support for economic governance in Indonesia.

The Strategy notes that under Pillar 1, Australia will work with Indonesia to deliver:

- Improved natural resource management, environmental governance and response to climate change
- Reduced constraints to growth in infrastructure and productivity
- Improved economic policy and management

This Pillar of the Strategy commits Australia to work in partnership with Indonesia to address national economic management and policy in areas such as tax administration, debt management, financial sector regulation and fiscal policy. There will be an increased focus on ensuring that the national level economic reforms lead to improvements in planning, budgeting and service delivery at the local level, which is where approximately one-third of all government funds are spent.

The AIP’s Pillar 3 – Democracy, Justice and Good Governance – states that Australia will work with Indonesia to deliver:

- Strengthened capacity, accountability and responsiveness of legal, democratic and oversight institutions
- Improved local government and public financial management, responding to local demand.

Under Pillar 3 the AIP Country Strategy cites the MTDP, highlighting the need for continued efforts in legal reform, enforcement of human rights, reducing corruption and improving the quality of public administration. The Strategy commits Australia to support Indonesia to strengthen the capacity and responsiveness of its legal, democratic and oversight institutions. Assistance to local level governments to strengthen public administration will be complemented by national level interventions around public procurement, budget and cash management reforms, with possible expansion into public sector audit.

The economic governance element of the Australia Indonesia Partnership (AIP) complements other elements which promote poverty reduction and development more directly.

2.3.1 Commitment to increasing use of GoI systems

The Governments of Australia and Indonesia have both signed up to the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008). These commitments include a number of elements which are directly relevant to AIPEG, particularly the emphasis on increasing the use of Government systems and ensuring local leadership of development activities. The design of AIPEG incorporates approaches and steps, relevant to the particular context of national economic governance institutions in Indonesia, to respond to these commitments. Given the dynamic global economic context at the time of this design, it is recommended that during implementation, careful attention should be paid to the pace of any shifts in approach associated with increasing use of GoI systems. The key principle is to ensure there is agreement between GoI and AIPEG on the pace of changes, and that both should be open to slowing or even reversing changes if the joint experience is unsatisfactory. Approaches to increasing use of GoI systems are found throughout this PDD and summarized in Annex 12.

2.4 Other donors

Other donors, including international financial institutions are currently undertaking significant activities in support of improved economic governance in Indonesia and more are planned. Australia's program, spread across various Ministries and Directorate Generals, is relatively small in size, but to remain effective, effective coordination with other donors is required. Consistent with broader commitments, AIPEG should also identify opportunities to harmonise activities and programs where possible. A prime example could arise in the Ministry of Trade (see below).

The most significant multilateral program in this sector is the World Bank's Government Financial Management and Revenue Administration Project (GFMRAP). This project includes US\$80 million in loans and grants to implement a variety of activities covering most aspects of public financial management and revenue administration at the national level.

The Bank is also preparing a Program for Indonesian Tax Administration Reform (PINTAR) as a second phase of Tax Administration Reform in Indonesia. The program is likely to include support for core tax systems, human resource management policy, and project management and management information.

The Bank's Public Financial Management Multi Donor Trust Fund will provide US\$19 million in support of the GFMRAP and PINTAR agendas over six years. A core team of five resident advisors is being provided along with ongoing support to facilitate implementation. In addition to the areas covered by GFMRAP and PINTAR, the Trust Fund supports activities in: bureaucratic reform; the Ministry's shared service centre; a reform road map for the Ministry of Finance; and public financial management in line ministries.

Also Multi-Donor Trust Facility in the Ministry of Trade commenced in 2008 with Dutch Government funding, with the potential to incorporate further funding. Australia should consider contributing to this Fund after 2-3 years if it is deemed an appropriate mechanism and if it is

successful in its efforts to work through GoI systems. The main impetus for starting will come from the MoT when they want donors to use the Multi-Donor Trust Facility more.

Among the other donors providing significant support for economic governance in Indonesia are:

- the Asian Development Bank, providing advisory support for bond market development, syariah capital market and risk management
- the International Monetary Fund, including support for financial supervision and tax
- the Japanese International Cooperation Agency, supporting financial system stability, and capacity building for investment and export promotion policy, competition policy and administration.

2.5 Lessons learned

Experience of TAMF since 1999 and of GPF since 2004 has generated a rich set of lessons for Australians and Indonesians about the factors which contribute to success in cooperation in the economic governance area. TAMF III's 6-monthly Performance Assessment Evaluation (PAE) reports, the mid-term review of TAMF III in 2007 and a 2008 GPF Review all include lists of such lessons. During the design of this new program, to be called the Australia Indonesia Partnership for Economic Governance (AIPEG) Facility, stakeholders further confirmed many of these lessons as they defined their expectations for the next phase of cooperation. This design document reflects many of the detailed lessons, but the major themes are summarized below:

- (i) **Identification of a champion/change agent:** Australian and international experience suggests the presence of a "champion" or change agent in partner institutions is critical to the likelihood of success in terms of achievement of shared objectives. In some cases this was a reform minded Minister and in other instances it was a senior government official.
- (ii) **Demonstration of commitment:** A willingness and commitment by organisations to implement reform is fundamental to success and this may be demonstrated through development of specific policies or recruitment of key reform-minded staff.
- (iii) **Long term relationships:** All Indonesian agencies commended the long term relationships and trust that had been built up through TAMF, particularly with long-term Advisers. The comparison with short-term consultants, who were unable to develop a deep understanding of the context, was noted.
- (iv) **Provision of senior Advisers with excellent technical and country experience:** TAMF III's Lead Advisers are senior people with a range of relevant experience and networks. They have developed high levels of trust with their colleagues and Ministers and senior officials respect their judgment.
- (v) **Working within agencies:** TAMF Advisers are located within GoI offices where activities are implemented, enabling them to work closely with their colleagues and keep in touch with developments.

- (vi) **Flexibility to respond to new opportunities within a focused area:** TAMF Advisers retain flexibility to respond to changes and emerging opportunities, recognizing the dynamic political, economic and institutional environment in which TAMF operates.
- (vii) **Focus on specific outcomes as opposed to more generic capacity building:** Activities funded by TAMF in the form of training, strategy planning or human resource development, took place in the context of specific reforms. For example, training in tax occurred within a focus on capacity to implement new systems and procedures.
- (viii) **Joint Indonesia-Australia governance promotes ownership and provides guidance:** The TAMF Advisory Board, co-chaired by the Deputy Minister from the Coordinating Ministry of Economic Affairs and AusAID's most senior officer in Jakarta, comprising leading economic governance specialists, fosters a high degree of Indonesian ownership. The Board provides guidance on the selection of priority issues including analysis of those issues which could find political resistance. Board members have an overall view of the reform process and reinforce support for it through their own agencies. Their status means they are able to support and promote Australia's work in this sector, thereby contributing to overall effectiveness.
- (ix) **Demonstration of results from long-term engagement:** It has proven important for TAMF to document and communicate measurable successes and promote understanding of the links between these and TAMF activities, as this further builds commitment to reforms and brings other donors to the reform agenda.
- (x) **Advisers should not be overly identified with a particular donor agenda:** A number of GoI agencies stressed the importance of their trust in TAMF Advisers more than other donors' Advisers because they were not promoting loans or other donor products. Other donors also indicated that TAMF Advisers were often seen as more independent than their own. Nevertheless, it was widely acknowledged by GoI that the Facility was funded by Australia within a strong bilateral relationship.
- (xi) **Begin with broad engagement and progressively focus:** Sub-facilities in TAMF started by working in broad areas of potential reform (i.e. there was a process of identifying a champion and a demonstrated commitment to reform), before narrowing the scope of work. This process took more than a year in most cases, so cannot be rushed.
- (xii) **Work with host government's priorities, strategies and systems:** All organisational reform processes were driven by GoI's priorities and strategies. All activities were tailored to respond to contextual issues and reflected joint planning and decision-making. External 'wholesale' solutions or approaches were not imposed on Indonesian contexts.
- (xiii) **Rolling work plans and review processes:** TAMF Advisers identified rolling 6/12-month work programs (detailed 6 monthly and broader 12-monthly plans) and 6-monthly reviews were carried out on Sub-facilities.

Lessons to improve future activities and operations include:

- (i) **Avoid aligning the start of the facility with major political change:** TAMF III started about the same time that the new Indonesian Government was elected. For most of the first year, TAMF III personnel were unable to build effective working relationships with their colleagues in GoI agencies.
- (ii) **Develop end points and exit strategies:** Many TAMF activities have been ongoing and have not included exit strategies or well defined end points. While capacity development is an ongoing process, individual activities should identify what functions or products are expected to be achieved, include a monitoring system that focuses on confirming achievement, and a plan for concluding each activity.
- (iii) **Integrate gender throughout the Facility:** Since the inception of TAMF, GoI and AusAID have made significant commitments to integrate gender into all development initiatives. The new the AIPEG Facility will actively support GoI commitments to improving the economic empowerment of women and integrating gender into government policy.

2.6 Contemporary approaches to capacity development

This section links contemporary thinking about effective approaches to capacity development with the particular context of AIPEG. Sections 3, 5 and 8 below describe how these issues will be applied in practical terms.

Capacity development is now widely regarded as one of the most critical elements in the achievement of sustainable development outcomes or results. There is even some debate about whether organisational capacity development is actually the most significant development result in itself, based on the idea that when organisations have the “right capacity”, they are able to manage all development issues and deliver all the results possible in any particular context, including through their networks and collaboration with partners or other organisations.

Recent international research, undertaken by the European Centre for Development Policy Management² on capacity development, partly funded by AusAID, has identified many issues relating to development approaches and practice, looking through a capacity development lens. The research has identified a number of implications for development practice, which are summarized below.

An important theme from the ECDPM research was the importance of gaining a detailed understanding of the context in which capacity development take place. This is consistent with the finding that externally introduced or “universal” ideas, solutions, tools, strategies, methods, systems etc. are not likely to be applied successfully in different contexts. For example, a method for increasing tax intake in Australia is not likely to work in the same way or have the same results if it were applied directly in Indonesia. The history of TAMF over the past decade has confirmed that a detailed understanding of the context is critical to the success of all capacity development processes and achievement of any capacity development outcomes.

² synthesised in Heather Baser and Peter Morgan’s paper “Capacity, Change and Performance” Discussion Paper 59B, European Centre for Development Policy Management, April 2008.

The new AIPEG Facility will reflect the concept that a linear view of capacity and results, i.e. the idea that capacity development will lead to specific and predictable development outcomes, is somewhat unrealistic. The ECDPM, in its multiple case studies found four patterns: in some cases, improved capacity led to improved results; in others, improved capacity made little or no difference to results; in others improved results led to improved capacity; and in others an imbalanced focus on either results or capacity eventually undermined both. There are trade-offs and tensions involved in balancing capacity development and results, but the hope is that in well managed relationships, the two will reinforce and “feed off” each other in a “rising spiral” pattern³. Experience from TAMF suggests that in the AIPEG Facility such a positive pattern can be achieved within the context of well-supported and healthy collaborative relationships and lesson learned number 7 (section 2.4 above) has identified that where specific reforms (which could be seen as development outcomes or ongoing processes) have been identified by the GoI, capacity development activities have supported the achievement of these outcomes.

ECDPM’s research identified five core capabilities which can be found to a greater or lesser extent in all organisations or systems:

- the capability to commit and engage
- the capability to carry out technical, service delivery and logistical tasks
- the capability to relate and attract
- the capability to balance diversity and coherence
- the capability to adapt and self-renew

(see Figure 1 in Annex 3 for a graphical presentation).

These capabilities, all five of which are needed to ensure overall capacity, can be used by practitioners to help understand existing strengths as well as areas where organisations could value support to be able to deliver development outcomes. They also can be used as a framework for considering how to undertake collaborative efforts aimed at strengthening institutions. Annex 3 includes an excerpt from the ECDPM study which discusses the five capabilities in detail and identifies skills required for each.

Traditionally, many aid activities focused on only one or two organisational capabilities, such as policy development, technical solutions, service delivery, strategic planning or financial management. However, it is now suggested that for organisations to succeed, an understanding about all elements of capacity and the relationships between them is needed. If the objectives of development programs are to focus on capacity development, there is an implication that the program is based on an understanding of existing capacity, of how capacity within particular organisations changes over time and the factors which influence change in that context, and of the organisation’s expectations about its future capacity. In fact, that understanding rarely exists when a program commences and there has not been sufficient open-ness to learning about these issues in program designs and implementation.

In the case of TAMF, the emphasis was initially on technical assistance in specific economic policy development, which in Figure 1 (Annex 3), could be seen as part of *the capability to carry*

³ Heather Baser and Peter Morgan, page 90

out technical, service delivery or logistical tasks, albeit not the whole capability. Over the past decade, GoI economic governance agencies have sought assistance in broader organisational capabilities, including aspects of human resource development and management and other systems development which could be perceived as part of the capability to commit and engage and to adapt and self-renew. While there are many models for understanding organisational capacity, Figure 1 in Annex 3 provides a simple model which is drawn from developing country examples, some of which are public sector institutions, rather than western countries, so is more relevant to the Indonesian context. It is proposed that this is one of several organisational development frameworks that can be used to explain and guide the AIPEG Facility's work at the broadest level, while recognizing that the AIPEG Facility will not comprehensively cover all aspects of such frameworks in its work with partner organisations, given the relative size of Australia's contribution against the size of the organisations as well as the significance of other donor activities in the sector.

The process of changing capacity is very complex. Most people have their own "tacit mental model of change in the form of capacity development"⁴ for example, the idea that training leads to changes in performance (despite the research evidence that suggests it has very little impact in isolation) or that the ability to develop a strategic plan results in a better organisation. These tacit mental models have driven development practice for decades, often poorly based on research evidence.

To some extent, it is possible to argue that individuals and organisations are responsible for their own capacity development, and outsiders can only contribute and support, rather than be responsible for capacity development directly. This is a challenge to donor agencies which seek direct connections between their "inputs" and development results, but reflects the reality of the tenuousness and unpredictable nature of influences on change in diverse contexts.

Current key themes in capacity development include:

- an emphasis on the need to understand the different influences on capacity change in each context – for example in some contexts, "learning by doing" may have the biggest influence on improved practice, while in others, clear instruction from supervisors is more effective and in other contexts, incentives and sanctions may be the key
- a suggestion that building on existing capacity (and therefore understanding/analysing existing capacity and how it has been developed in the past) is preferable to trying to "fill in gaps" or assuming there is a "blank sheet"
- the need to understand the cultural values that affect capacity and changes in capacity over time, particularly in relation to leadership, the avoidance of or taking of risks, the extent of collectivism vs individualism and the differential emphasis on task or relationships as the key to action
 - Issues related to power, allegiances and legitimacy are central to capacity development processes and results in most organisational settings.

⁴ Baser and Morgan page 51

- the idea that a range of approaches is needed to contribute to capacity development, not a single approach
- an emphasis on “joint or mutual learning” rather than one group “teaching” another is more likely to bring about change that is appropriate to the local context. In this context, both external and internal stakeholders bring their respective knowledge and skill to tackle new issues and to find out what solutions will work in each new context
 - importantly, learning in the 21st century is about continuous adaptation to change, and implies a constant need to learn new skills, new ideas and new approaches in order to progress
- the ability of an organisation or system to attract resources is a key element in capacity development⁵
- the ability of an organisation to be receptive to and “absorb” capacity development support is important but highly dynamic and subject to many influences⁶
- the need to understand the nature of supply and demand for organisational performance⁷.
 - this means that there needs to be external demand for organisations to improve, otherwise they inevitably drift towards stagnation, routine, standardization, bureaucratization and inflexibility, but it is not necessarily external supply that can overcome these negative effects.
 - pressure or demand from outside (e.g. the public, the media, politicians, citizens, watchdog groups) will be the key driver for capacity development in many cases
- external people can often create and protect “operational space” for local actors, which is a key contributor to capacity development. This means that local actors are able to experiment, make decisions and establish an identity with professional, advisory support, rather than have to take too greater risks on their own. This can protect them from negative influences and promote ownership, engagement and motivation.
- there is no simple recipe for effective capacity development, no simple series of sequential steps that are need to guarantee success and no consistent timeframe in which capacity development takes place
 - but research suggests a combination of approaches and an open-ness to learning about what works in different contexts and to deal with emerging issues constructively, thoughtfully and within a longer-term but flexible timeframe will be more helpful than the opposite

⁵ As noted in Section 2.3, the fact that many donors are now working in the economic governance sector suggests there has been significant growth in the capacity of institutions already.

⁶ This has implications for AIPEG’s selection of partners and activities in the proposed two new Sub-facilities – what may appear to be an organisation resisting change, may in fact be an organisation lacking in confidence or understanding, both of which could benefit from a partnership based on good development principles

⁷ See Baser and Morgan, page 68

- the need to ensure that external “interveners” in ongoing capacity development processes do not erode the motivation, initiative and autonomy that are the essence of self-help⁸, implying a greater emphasis on “indirect” approaches to capacity development
 - indirect approaches involve TA personnel/Advisers: working indirectly through others rather than achieving their own results; supporting and facilitating rather than action and delivery; promoting self-help and capacity development rather than focusing on their own results or deliverables; promoting ownership by country staff
- men and women may experience capacity development processes and view capacity and capacity development issues differently.

2.7 Implications for the AIPEG Facility

The various changes and lessons noted above suggest that for the next period, cooperation between the Governments of Indonesia and Australia should evolve from that of the last decade. The next phase of cooperation will therefore be based on an approach that:

- more explicitly centralizes the role of GoI leadership in economic governance institutions in decision-making and implementation of Australian-funded activities
- further strengthens the partnership approach, where joint decisions are made about all activities and processes
- further supports Indonesia’s economic governance institutions to maximize the effectiveness of their policies using suitable contemporary organisational development and capacity development frameworks
- supports Indonesia’s commitments to enhancing the economic empowerment of women, and integrating a gender perspective into government policy
- contributes to strengthening and increasingly using Indonesian activity management and procurement systems
- builds on the strengths of previous phases of TAMF, including flexibility in programming and placing a positive value of high quality long-term relationships between Advisers and their colleagues in specialist sectors
- builds synergy between the various Australian activities in the sector, including GPF, scholarships and activities working at sub-national level in economic governance, while recognizing the differences between different programs.

3. Facility Description

The new phase of Australia Indonesia cooperation in this sector will be labeled “Australia Indonesia Partnership for Economic Governance” (AIPEG) to fit clearly under the new Australia Indonesia Partnership. In summary, the AIPEG Facility will:

- reflect the new Australia Indonesia Partnership (AIP) which is closely aligned with the Government of Indonesia’s priorities, including commitment to gender mainstreaming and gender equality in development cooperation

⁸ Heather Baser and Peter Morgan, page 108

- build on lessons learned from the last decade of TAMF cooperation, particularly the need to remain flexible and responsive within a context of long-term commitment and relationships
- continue to work with key economic Ministries at national level
- identify ways to promote and support Government of Indonesia leadership of funded activities
- involve a shift to increasing use of Government of Indonesia systems for decision-making, activity planning, recruitment, procurement and monitoring, as well as support for increasing capacity in these areas as deemed appropriate within AIP overall and AIPEG
- reflect changes in the priorities of economic governance Ministries, particularly a shift towards institutional development issues
- build synergies between different Australian activities in the sector, including GPF, scholarships and other programs
- reflect current and proposed activities of other donors in the sector.

Form of aid

Australia will continue to use a “facility” form of aid in this sector. A facility sets high level objectives and then allows for flexible planning and responsiveness to emerging priorities. In the case of the AIPEG Facility, the focus will be on institutional strengthening and policy priorities determined through joint decision-making, led by senior GoI officials. The determination of specific outputs will be undertaken through the joint development of a series of activities planned each year, within agreed parameters and according to agreed quality criteria and standards. In this case, Sub-facilities within selected Indonesian agencies will continue to be used as a way of jointly planning, implementing and monitoring a series of activities. Each activity will have its own objective, consistent with agency priorities, and a small number of outputs. All activities will be selected on the basis of a judgment they will contribute to Sub-facility objectives.

A critical aspect of this form of aid is the promotion of local ownership of decisions and activities and a commitment to increasing the use of GoI systems for decision-making and implementation over the life of AIPEG. In the AIPEG Facility, overall strategic advice will be provided by the AIPEG Advisory Board (AB). The AB assists the AIPEG to ensure Australian cooperation remains aligned with GoI priorities in economic governance. See Section 5.1 for details of the role of the AB.

In TAMF III, for management purposes, the concept of “Sub-facilities” was developed and applied in each area of work. In most but not all cases, a Sub-facility operated in a single Ministry or Directorate General. In TAMF III, internationally-recruited “Lead Advisers” were the central feature in each Sub-facility. They became responsible for coordination of all TAMF-funded activities in each partner agency. In the AIPEG Facility, this model will continue at least for the first year (see Section 5.4.1 for details).

A Facility form of aid which operates across a number of partners (Government Ministries and Directorates General in this case) creates some difficulties when it comes to using existing Government systems. In Indonesia, while some systems, such as personnel recruitment are generally consistent across Ministries, there is great variation in others. In TAMF, the need for a

central coordination point and a coherent approach to the provision of partnership inputs was met by a Management Support Team, which was contracted to provide a number of services at various levels. For AIPEG, a Management Support Team (MST) will continue to be required, under a contract arrangement, for this purpose. Section 5.2 provides details.

3.1.1 Facility form of aid and GPF

The Facility form of aid (delivered through a contractor) is significantly different from the GPF mode of delivery (see section 2.2.1 above). To promote a degree of coherence and collaboration between the two, it is recommended that two levels of interaction take place. At the strategic level, in addition to directly advising the AIPEG Facility, the AIPEG Advisory Board will also *offer* strategic advice to the GPF Core Group in Canberra. This continues to recognise the decision-making role of the GPF Core Group while providing access to high level strategic economic governance from Indonesian expert advice as required. Secondly, efforts to share information and promote collaboration and coordination between Advisers working at the Indonesian agency level, both through AIPEG and GPF will be made by AusAID.

Personnel from Australian Government agencies and contracted personnel placed under AIPEG will be expected to work as collaboratively as they can with each other. The AusAID Economic Adviser in Jakarta will be responsible for organizing meetings where ideas can be exchanged about different approaches and issues, as well as promoting policy dialogue between GoI and AIPEG and GoA. However, it is important to promote GoI leadership in this regard.

3.2 Goals, Objectives and Rationale

Goal: To improve the quality of the Government of Indonesia's economic management and through this contribute to broad based growth and poverty reduction.

Objective: To strengthen governmental capability for policy formulation, coordination and implementation in areas affecting the national budget and macroeconomic performance.

The facility will operate through a series of sub-facilities providing support in selected areas of economic management. Each sub-facility will have its own goal and objective, and will contribute to the facility wide objective through the provision of high quality analytical and strategic advice that is useful to Government of Indonesia policy makers. Particular attention will be given to harmonize and work strategically with other sources of assistance and advice. The sub-facilities will be expected to engage with key agencies to impact positively on budget and macroeconomic policy settings, and, where appropriate deliver effective support to build domestic capacity for policy formulation, coordination and implementation in areas of strategic importance.

Focus: The AIPEG Facility will undertake collaborative activities in institutional strengthening and policy advice in the following areas:

- Tax administration reform
- Debt management

- Financial system stability
- International trade policy
- Economic policy coordination (for example in areas such as climate change, food security, energy, and agriculture)
- Public financial management (for example in areas such as budget, decentralisation/fiscal transfers and Public Private Partnerships).

Each of these areas will be called a “Sub-facility” and may involve partnership with one or more Indonesian agencies, at Ministry or other levels. Importantly, particularly given the emerging international economic issues in late 2008, provision will be made for support for “emerging and immediate” issues arising during the life of AIPEG. This will include being responsive to requests from GOI or GoA for technical advice for relatively small and short-term ‘one-off’ activities. Funds will be allocated on an annual basis and could be used to support activities with existing or new partners as negotiated within the AIPEG Governance and Management structure.

Within each Sub-facility, senior Indonesian agency officials will develop plans for a range of activities suitable for AIPEG Facility assistance on an annual rolling basis. They will be supported by in-house Advisers (funded by the AIPEG Facility) and a Facility-wide Management Support Team. The MST will be responsible for collating the various plans across Sub-facilities.

Sub-Facility Objectives: The following goals and objectives are proposed for each Sub-facility:

Area	Goal	Objective
Tax administration reform	A tax authority that collects significantly more public revenues, facilitates compliance and is more accountable to its stakeholders	To improve governance in tax administration
Debt management	Less risky and burdensome Indonesian Government debt	To assist Indonesia’s debt management to make substantial advances towards international standards and best practice
Financial system stability	Improved prudential regulation and supervision of the financial sector and stronger corporate governance requirements	To support priority reforms in Indonesia’s financial sector
International trade policy	Lower barriers to and more efficient regulation of Indonesia’s international trade in goods and services	To strengthen policy development capabilities and negotiation skills in Indonesian agencies responsible for regulation of international trade in services
Economic policy coordination (for example in areas such as climate change, food security, energy and agriculture)	Greater coherence and effectiveness of new economic policies	To improve coordination of formulation and implementation of policy across key government agencies dealing with critical emerging economic management issues
Public financial management (e.g. in budget, audit, decentralisation/fiscal transfers, public private partnerships and procurement)	Increased efficiency in public financial planning, expenditure management and service delivery	To extend the benefits of improved public financial management to the sub-national level
Immediate and emerging issues	Goal not necessary	To enable effective responses to immediate, new or important economic governance priorities that may emerge over the next 6 years

* These areas were selected on the basis of consultations during the design process in July 2008, and goals and objectives were developed by the design team. It is expected, given the dynamic economic context between July 2008 and the commencement of AIPEG, that the actual goal and objectives may change following further consultations with GoI and analysis during Year One of implementation.

These objectives and the work programs to be developed to meet the objectives will be subject to negotiation during inception workshops, ongoing periodic reviews and negotiated agreement between Australian and Indonesian partners. The intention is to find a balance between setting clear shared high level objectives and flexibility in the selection of activities and methods on a rolling basis.

Rationale for the AIPEG Facility: The AIPEG Facility is intended to provide a mechanism for Australia to continue to assist Indonesia's key economic governance institutions to implement policies which will, in the long-term, contribute to poverty reduction nationally. The rationale for the AIPEG Facility is that for the past decade, Australian assistance has worked successfully and there is ongoing scope for and commitment to collaboration which contributes towards improved economic institutions in Indonesia.

Rationale for Facility form of aid: The rationale for the ongoing use of a Facility form of aid is that in a dynamic and highly complex institutional and policy context, Australia's cooperation needs to remain selective, strategic and flexible, and to build on existing relationships and partnerships. It also needs to continue to be based on jointly agreed priorities and promote Indonesian ownership of both activities and results within each Sub-facility. These elements are crucial for the sustainability of benefits. The sector is increasingly crowded with other donor activities, many of which are large-scale and comprehensive. Australia's cooperation has been positively regarded as comparatively responsive and selective, long-term and flexible, and these qualities are likely to continue to contribute to strong results in terms of increasingly successful policies, organisations and services/results. There is also widespread support for Australia's assistance working directly within GoI agencies.

Given the complex context and the request by GoI for assistance in increasing organisational capacity, it is difficult to define results clearly from the outset that can be directly attributed to Australia's assistance overall. This is a common area of concern for donors in relation to the facility form of aid and reflects the current international interest in new ways of monitoring capacity.

Rationale for shifting emphasis: In recent years, GoI priorities have shifted towards efforts to increase organisational capacity, initially in the form of staff training but now increasingly towards broader elements of organisational effectiveness, such as strategic and corporate planning, organisational structure, internal systems (finance, IT, human resource development and management), leadership and performance monitoring. The rationale for extending the AIPEG Facility's methodology of engagement beyond a focus on financial and economic technical assistance to broader institutional strengthening is based on clear direction from GoI agencies that they wish to improve the capacity of their organisations. "Capacity" includes technical aspects of work, so these aspects will continue to be a key element of Australia's cooperation. Indonesia's national economic governance institutions are now in a more stable

context and are more confident about the selection and development of policies. Another key emerging issue is the need for coordination across agencies, to minimize contradictory regulations and systems and maximise coherence of policies and practices.

The commitment by the Governments of Australia and Indonesia to the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action confirms an international trend towards increasing use of GoI systems through the life of AIPEG. The shift needs to be deliberate and considered, so as not to lose the benefits of previous collaborative work patterns, while recognizing the benefits to Indonesia's economic governance of increased self-management.

Rationale for extending Australia's cooperation: The decision to extend from five (in TAMF) to six (in the AIPEG Facility) Sub-facilities, including two new Sub-facilities is based on:

- continuing link between economic governance and poverty reduction
- ongoing opportunities to contribute to improved economic governance institutions
- the success of the TAMF approach to date and the positive bilateral partnership
- continuing Indonesian commitment to and interest in collaboration with Australia
- increased Australian aid allocations.

The AIPEG Facility will work in areas where there is a “suitable” combination of demand, ability to respond, opportunity, relationship commitment and demonstrated ongoing effectiveness. The judgment about “suitability” will be made by senior Indonesian and Australian officials on the basis of research, negotiations, shared commitments (e.g. to gender mainstreaming) and open discussions at various levels within a partnership context. Periodic review processes will assess whether the AIPEG Facility should continue, in what form and in which particular areas in each of the four existing Sub-facilities. Joint reviews may result in mutual agreement to cease funding. The commencement of two or more new Sub-facilities will be based on detailed research, negotiations and open discussions during the first year of the AIPEG Facility and later, if appropriate.

3.3 Scope

3.3.1 Areas/Partners

The AIPEG Facility will continue to work within four Sub-facilities in selected Directorates General of the Ministry of Finance (MoF) and in the Ministry of Trade (MoT).

Within the MoF, the AIPEG Facility will concentrate in the following areas:

- Bapepam LK - financial stability
- Directorate General Tax
- Directorate General Debt Management

For the first year of AIPEG, priorities and activities in MoF commenced during TAMF III will continue where appropriate, to avoid the loss of momentum. While there is diversity between activities in the three agencies, it is likely that the focus will continue to be on collaboration in a

range of specialist technical areas including economic/financial management and organisational development systems and strategies to support implementation of economic governance reforms.

Activities within the Ministry of Trade for the first year of AIPEG Facility will continue in Ministry-wide institutional development and policy advice related to trade in services. Leadership within MoT is expected to identify future areas of focus for Australian inputs and decisions about cooperation will be negotiated at high levels between the Governments of Indonesia and Australia, including through parallel collaboration with GPF.

Given the changes in context which are likely over the life of the AIPEG Facility, this design includes processes for ongoing review and planning across partners. The AIPEG Facility will include some element of “contestability.” Eligibility to continue engagement, to phase out or to substantially realign activities will be based on ongoing reviews by a Facility Evaluation Team (FET – see Section 8), the provision of advice from the Advisory Board, and decisions by the Executive Committee.

It is envisaged for design purposes, that there will be a maximum of six Sub-facilities, with four at the commencement and a gradual increase to six after the new GoI Cabinet priorities become clear in 2010. Once the additional two Sub-facilities have been appropriately researched and negotiated with respective GoI agencies, additional Ministries may be included as the AIPEG Facility partners. This does not mean that there is a guarantee of ongoing funding in six Sub-facilities, but there will be a periodic review to develop exit strategies or recommend realignment where appropriate.

Subject to research, scoping and consideration of priorities set by the next GoI Cabinet (following the 2009 National Elections), the AIPEG Facility will include two additional Sub-facilities commencing in 2010 (as listed under focus in Section 3.1 above). During the AIPEG Facility design process, it appeared that two new areas may be appropriate for partnership: *Policy Coordination* (for example in areas such as climate change, food security, energy, and agriculture); and *Public Financial Management* (budget, decentralisation/fiscal transfers and Public Private Partnerships). The areas and their possible elements need to be reviewed by the Governments of Australia and Indonesia through governance discussions in AIPEG in early 2010, given that this design process is occurring at least 18 months before that time and new or different international and national economic governance issues may have arisen by then.

In relation to *Policy Coordination*, it is possible that the AIPEG Facility could work with Bappenas and the Coordinating Ministry on Economic Affairs, depending on the level of interest and opportunities for engagement in early 2010. Issues identified during the design mission (mid 2008) as being relevant to economic governance included climate change, food security, energy and agricultural markets. These current issues are complex and dynamic, both within Indonesia and globally, but it is not clear what role there could be for donor support in policy coordination across these areas by early 2010. The intention of including this area in the design, at least in broad initial terms, is to identify that a number of global and national issues such as the prices of fuel and food may have a significant impact on Indonesia’s economic policies and management, and there may be scope for Australian cooperation. It is easy to see how these issues will have a different impact on men and women, so gender analysis will be a key aspect of broader research.

In relation to *Public Financial Management*, potentially an equally broad and complex area, it is possible that the AIPEG Facility could work in collaboration with several areas in the Ministry of Finance, including DG-Budget, DG-Fiscal Balance and DG-Treasury, as well as the Ministry of Home Affairs which is responsible for decentralization and fiscal transfers to Provinces. While the design process identified these as potential areas for collaboration, more detailed discussions and analysis will be needed before activities and partners could be confirmed. GPF already includes some activities in these DGs in the Ministry of Finance, so this provides a useful starting point if there is demand for additional cooperation with the AIPEG Facility, and careful coordination will be required to ensure complementarity.

3.3.2 Institutional Capacity Development Approach

Section 2.5 provided a capacity development framework for the AIPEG Facility, consistent with the need to take a broader approach to institutional support than the “technical assistance” focus of TAMF III. This means that the AIPEG Facility will focus evenly on the “governance” and economic aspects of “economic governance” by working with Ministries and Directorates General on their institutional development priorities. This does not mean that requests for specific policy and technical assistance in particular areas will not be considered, but these will be seen in the context of contributing to organisational strengthening rather than the primary/sole kind of contribution. Australia’s cooperation with GoI agencies will be framed within the GoI’s overall development and organisational strategies and plans.

The emphasis will be on joint identification of priorities and workplans within each GoI agency and use of a range of institutional strengthening models and frameworks to suit the agency and its status and priorities. A range of activities could be funded through the Facility selected from a “menu” of approaches including long-term or short-term advisers, mentoring, twinning relationships, support for task-focused or general professional networks within or outside particular agencies, scholarships⁹, workplace exchanges, study tours, attendance at conferences, training, etc. Men and women will be expected to benefit equally from participation in these activities.

Emerging international thinking about institutional capacity development approaches should be monitored by AusAID and AIPEG personnel and integrated with lessons learned within the Indonesian context generally and AIPEG Facility specifically. A key approach for all personnel involved in AIPEG-funded activities is to remain open to learning about appropriate ways of working in each specific context and not to assume that a universal or single approach is appropriate.

3.3.5 Budget and timing

The next phase of Australian assistance in this sector will contribute up to A\$66 million over a six-year period, subject to annual AusAID budget appropriations.¹⁰ An AIPEG Facility Trust Fund will be established to meet the costs of technical assistance via the Technical Support Pool,

⁹ This means systematic allocation of ADS and ALA scholarships in AIPEG partner agencies

¹⁰ AusAID would contract on the basis of three years with a three year extension option subject to a favorable mid-term review.

activities in each Sub-facility in accordance with approved annual plans¹¹, costs of the Advisory Board, and an unallocated amount for Immediate and Emerging Issues. Management, monitoring and long-term advisory costs delivered via the MST, Facility Evaluation Team (FET) and Sub-facility Advisers will be met through fund transfers to the Managing Contractor's own accounting system and bank account.

Costs have been based on continuation from TAMF III of four Sub-Facilities in Year 1, and addition of two new Sub-facilities in Year 2 bringing the total to six for Years 2 to 5. In Year 6 it is assumed that two Sub-facilities will have transitioned to full GoI management, so funding is assumed for four Sub-facility Advisers in the final year. The two Sub-facilities which no longer have Advisers in Year 6 are assumed in the costings to remain eligible for activity funding via the AIPEG Facility Trust Fund. However, this would need to be confirmed as appropriate nearer the time. While the number of Sub-facilities has been assumed, the longevity of each Sub-facility will be determined by AIPEG's transitioning strategy i.e. the Sub-facilities in Year 6 may or may not be the same as those in Year 2.

The funding for activities in the Trust Fund is assumed to build up over time, achieving a maximum of \$1 million on average for each Sub-facility by Year 5 in addition to costs of short-term Advisers and the unallocated funds for Immediate and Emerging Issues.

4. Transition

An anticipated overlap of six weeks between the conclusion of TAMF III and start-up of the AIPEG Facility has been factored in to the design. The rationale for the overlap is so that the gap between support under TAMF and support under AIPEG is minimized and the momentum is not lost. During the transition period there needs to be a tight sequencing of activities by each of the Managing Contractors (MC), as well as a clear communication strategy between them. The aim is to have the best outcome for GoI and as smooth a transition as possible in roles and responsibilities.

Each MC will be working at opposite ends of the contracting cycle and will have very different objectives for the period. It will be important for AusAID to foster and support a collaborative relationship. The MCs will ideally meet early on to develop a communication protocol both for internal communications between their two parties and external communication between each MC and other stakeholders, particularly AusAID, GoI and the Advisory Board. They should focus on points of overlap where working in tandem makes sense, such as handover meetings with GoI, determining transition arrangements (if any) for local staff, systems and assets. The lists below indicate key parallel and joint tasks which should occur during the six-week transition.

Current Managing Contractor¹²

- Liaison with AusAID
- Final Board meeting and later disbanding of the TAMF Advisory Board and EC.
- QA of final reporting from Lead Advisers and TSG

¹¹ These will continue to be called Facility Review and Implementation Plans, as has been the case in TAMF – see section 5.2.4 and 5.4.4

¹² The Design Team has not spoken to the current MC about the sequencing but assumes these generic tasks will be part of their work plan.

- Preparing Activity Completion Report
- Finalising database
- Demobilisation of Lead Advisers and final contract payouts, or conversion to short-term contracts if appropriate to be novated to the new MC.
- Finalising accounts and closing bank account
- Final audit
- Finalising Assets Register and disposal action as appropriate
- Conclusion of contracts and final pay-out for MST and Sub-facility local staff
- Closing of MST Office
- Completion of TSG services

New Managing Contractor

- Liaison with AusAID
- Contracting of MST team – international staff
- Establishing management systems including financial system
- Preparing AIPEG Operations Manual
- Team briefing on AIPEG and MC
- Selection and contracting of MST team – locally engaged
- Opening bank account in Jakarta and establishing Trust Fund
- Selection and contracting of TSP Advisers
- Appointment of the AIPEG Advisory Board & EC
- Contracting of FET members
- Preparation for Sub-facility Inception Meetings
- Preparation of selection process for Sub-facility Advisers

Joint

- Liaison with AusAID
- Liaison with GoI agencies – handover meetings
- Discussion of preferred strategy for continuity or otherwise of MST locally engaged staff
- Discussion of preferred strategy for continuity or otherwise of the membership of the Advisory Board
- Discussion of handover or cessation of systems, database

The MCs and AusAID should arrive at a mutual agreement regarding staging of the exit of the TAMF III team and arrival of the AIPEG Facility team. A possible scenario is as follows:

- 2 weeks where the new MC operates out of head office
- 3 weeks where both MCs operate in Jakarta, the TAMF MC from the TAMF office and the new MC from a hotel or new AIPEG Facility office
- 1 week where the AIPEG Facility office is in operation and the TAMF MC operates from its head office (or has a skeleton staff closing the Jakarta office)
- a staggered handover of Sub-facility activities/relationships/Adviser contracts.

Joint meetings with AusAID and GoI would be scheduled from Week 3 onwards.

5. Governance and Management of AIPEG Facility

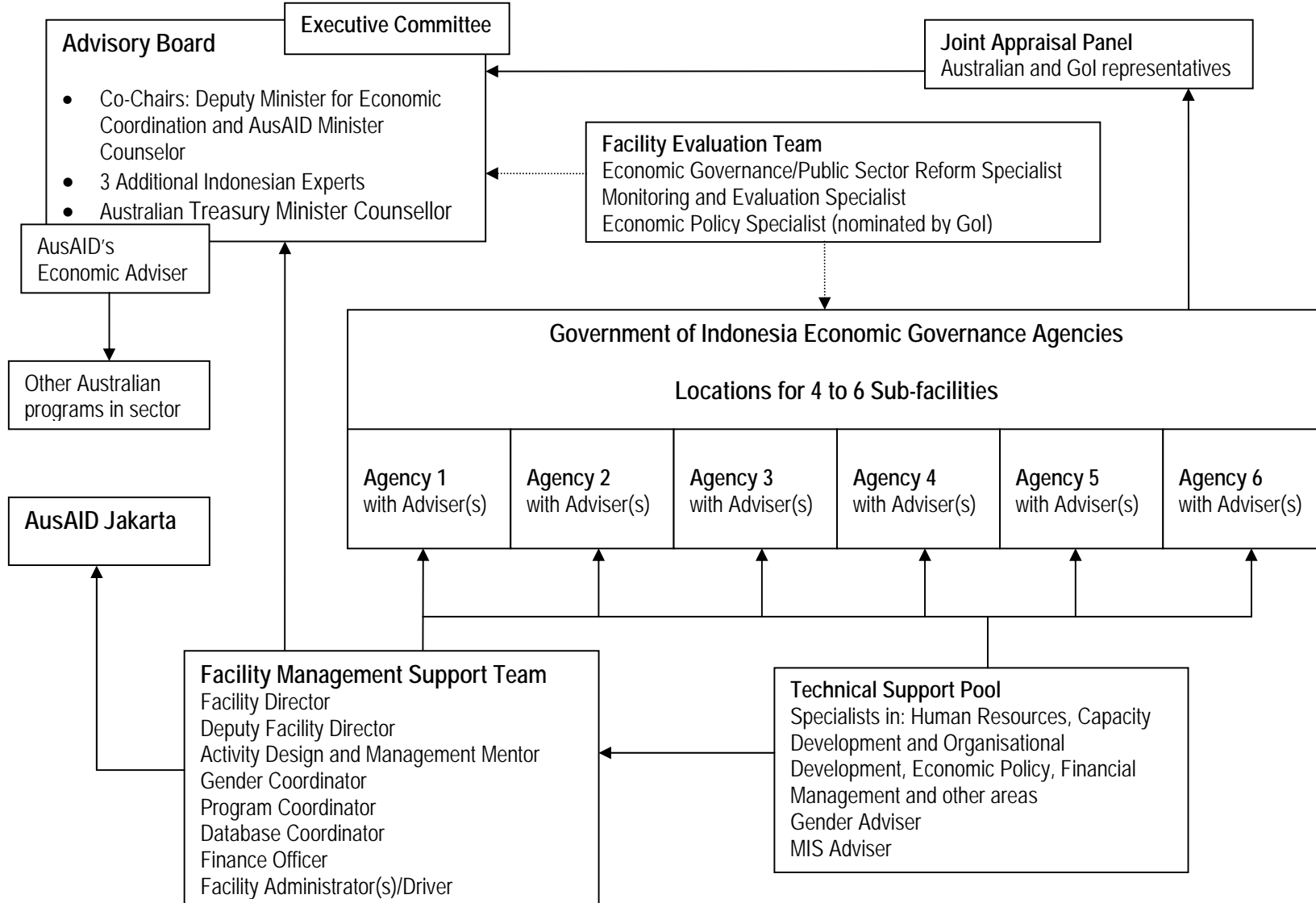
The AIPEG Facility involves a range of stakeholders, and most will be involved to varying degrees in aspects of leadership, management, coordination, monitoring and evaluation. The high profile of TAMF and the complexity and dynamic nature of the context mean that there are some risks associated with governance and management issues in the next phase.

The governance and management structures and systems for the AIPEG Facility reflect the following shared commitments and principles:

- a commitment to increase GoI leadership and ownership of AIPEG supported work
- provision of support for GoI efforts to remove obstacles to smooth policy development and implementation
- a commitment to promote joint decision-making
- a commitment towards transitioning over time from contractor-managed procurement, project management and monitoring systems to use of GoI systems commencing in Year Two of each Sub-facility following discussions and negotiations during Year One
- the need to ensure there is clarity of responsibilities, accountabilities and relationships to avoid confusion or gaps
- a commitment to continue to identify and work with champions for reform, both men and women
- a commitment to support GoI-determined economic governance priorities
- continuing use of a progressive engagement approach, which includes integration between strategic advice, rolling work plans within partner agencies and use of pilot or demonstration activities
- a commitment to long term relationships at the same time as periodic contestability to ensure ongoing relevance and mutual value
- a commitment to continuous learning among all stakeholders to contribute towards ongoing quality improvement
- focused engagement rather than attempts to be comprehensive
- efforts made to complement and support other AIP elements where appropriate
- a commitment to donor coordination
- support GoI commitment to economic empowerment of women
- flexibility and responsiveness
- preference for use, where possible, of Indonesian consultants and service providers
- seek personnel with appropriate mix of technical skills and personal attributes and skills relevant to working collaboratively and cross-culturally
- co-location of AIPEG personnel (advisers) in partner agencies.

Figure 2 provides a summary of the key elements of governance and management of AIPEG Facility and the major relationships between them. Remaining sub-sections in Section 5, and Annex 5 provide more details of the roles and linkages.

Figure 2: AIPEG Facility Governance/Management Structure



5.1 Governance

The AIPEG Advisory Board (AB) will provide *strategic oversight* for the AIPEG Facility. The role of the AIPEG AB will be similar to the role of the AB for TAMF III, but it will not be responsible for decision-making.

In Year One of AIPEG, *decision-making* about plans for focus areas over the AIPEG Facility and approval of individual activities proposed for AIPEG Facility funding, will be the formal responsibility of the two co-chairs of the AB. They will be called the Executive Committee (EC). The EC comprises AusAID's most senior representative in Jakarta and Indonesia's Deputy Minister for International Economic Cooperation from the Coordinating Ministry for Economic Affairs. The Managing Contractor will develop plans and budgets for individual activities based on priorities established by the AIPEG Advisory Board. The Executive Committee will confirm that the plans align with these priorities. A Joint Appraisal Panel (see below) will appraise all activities under the AIPEG Facility. The EC will be accountable for decisions taken about priority areas of work. Formal approval of all AIPEG Facility activities is needed to ensure accountability and transparency.

The AB will continue to be the same size as it was under TAMF and to include a similar mix of representation and expertise. This size and mix has proven appropriate for TAMF governance. The AB will comprise four Indonesian members and two Australian members. The four Indonesian members will be chosen on the basis of their expertise, knowledge and background¹³. They should also have deep understanding about government bureaucracy. They will be drawn from CMEA, Ministry of Finance, Bappenas, academia and the private sector. AusAID will seek guidance from the GoI on appropriate nominees for the AB. The GoA membership will comprise the most senior representatives from AusAID in Jakarta and the Treasury. To assist with cooperation with other Australian activities in this sector, representatives from the Australian Departments of Finance and Deregulation (DFAD) and Prime Minister and Cabinet (PM&C) will be invited to attend meetings as observers. In addition, AusAID's Economic Adviser in Jakarta will attend meetings as an observer.

The principal role of the AB is to provide strategic advice on the economic governance context within which the AIPEG Facility will provide assistance and the priorities for cooperation in this context, including identifying key areas for potential engagement on gender equality and the economic empowerment of women. AB meetings will discuss the findings of Performance Assessment and Evaluation (PAE) Reports with detailed periodic assessment of each Sub-facility's progress and results as well as the forward looking aspects of the Facility Review and Implementation Plans (FRIPs) (see Section 5.2.4), and Gender Strategy reviews (see Section 6). Based on their knowledge of the context and analysis of progress and results to date, AB members will provide advice on areas to work in and may also suggest shifts of emphasis or adjustment to ongoing programs.

AB meetings will continue to be held semi-annually. Informal "in between" meetings may take place if required in person or by teleconference.

¹³ Continuity of membership of the AB from TAMF III to AIPEG would support a smooth transition. AusAID and GoI will be responsible for appointment of AB members.

5.2 Management

5.2.1 Facility Management Support Team

The MST will be responsible for *supporting* all levels of Facility activity and for cross-Facility *coordination*. The MST's responsibilities include (see Annex 5 for more details):

- secretariat service for the AB
- promoting high quality relationships at the cross-facility level, ensuring those between officials and Advisers within each partner Ministry or Directorate General are sound (in terms of contemporary development practice, cross-cultural sensitivity, professionalism etc.); promotion of agreed Facility principles and approaches, including consideration of gender integration across all Facility activities; and quality assurance and monitoring
- support for Ministries and Directorates General, with their Advisers, to produce high quality activity designs and to implement activities through the activity cycle, to agreed standards, with responsibility shifting over time from MST management to GoI management

The MST will be responsible for *cross Facility administration*, establishing joint selection processes for Advisers, procurement, monitoring and reporting. Importantly, in this next phase of Australian cooperation, consistent with a shared commitment to the Paris Declaration and Accra Agenda for Action, there will be a shift in decision-making focus from the MST to the respective senior officials within partner institutions in each Sub-facility. The role of the MST in this context will be to provide support to maximise the effectiveness of relationships between officials and Advisers within Ministries or Directorates General. This support will include the provision of information, advice and additional resources in relation to:

- methods for collaborative planning and design of programs of activities
- cross-cultural communications
- activity cycle management, particularly in relation to design
- complying with Indonesia's commitment to gender mainstreaming
- technical issues related to organisational development and economic policies
- recruitment of specialist personnel

The MST may consider a range of methods to work with GoI agencies on these issues, including quarterly workshops dedicated to one topic, to promote networking and information sharing between Sub-facilities.

Wherever possible, the MST will promote and support the use of Indonesian systems for AIPEG Facility work, increasing over the life of AIPEG, thereby maximizing the sustainability of benefits. For example, instead of AIPEG Facility funding being provided for delivery of one-off training courses, effort should be directed towards strengthening the capacity of existing training units within Ministries or Directorates General, or promoting the use of Indonesian trainers or technical specialists, so they are able to deliver training on an ongoing basis. Joint Indonesian-external facilitation of training is a minimum requirement, but developmentally, it is preferable for all training to be provided by Indonesian people, with varied levels of support from Advisers.

All training supported by AIPEG should use adult learning principles which suit the preferred learning styles in the Indonesian cultural context.

In relation to selection and appointment of short-term personnel as jointly agreed within Sub-facility plans, the MST will ensure GoI personnel are included on selection panels. This includes short-listing, interviews, selection, briefing and mobilisation. Once appointed, Advisers will report to their respective Director in the Ministry or Directorate General. The MST will be responsible for contract and performance management for Advisers and will need to ensure that GoI Directors are involved in direction-setting for Advisers' work.

The MST will coordinate preparation of a six monthly report called a Facility Review and Implementation Plan (FRIP) (see Section 5.2.4 below), based on inputs from Sub-facilities.

Finally, the MST will be tasked with contracting and working collaboratively with the Facility Evaluation Team (FET) (see Section 8 and Annex 5 for details of the FET's roles). This may involve joint planning of evaluation activities, organizing meetings for FET visits, collaboration on preparation of reports to the Advisory Board, discussion on ways of integrating FET recommendations as appropriate and promotion of M&E thinking and practices within AIPEG Facility funded activities and partners.

5.2.2 Sub-facility leadership and management

The MST will initiate a Facility Inception Workshop with partner Ministries and Directorates General at the commencement of the AIPEG Facility. The purposes will be to establish relationships, provide an opportunity for the MST to brief stakeholders on the nature of AIPEG including the changes from the TAMF model and to commence discussions about plans in each Ministry or Directorate General for use of AIPEG funding. During this workshop, smaller sessions with individual Ministry/Directorates General will identify priorities for long-term Advisers or other AIPEG Facility inputs. For example, does the agency need long-term in-house expertise in particular financial or economic issues or in particular elements of organisational development? An expected output of the day will be direction to the MST regarding the types of expertise sought, so that the MST can work with each Partner to develop a draft Terms of Reference for each position and then commence a joint recruitment process.

Within Sub-facilities, the development of annual and 6-monthly work programs requires leadership from senior officials from respective Ministries: these should be Echelon I (at Director General or Secretary General level) wherever possible. This leadership will be important for ensuring ongoing implementation of activities and maximizing the chances of sustained benefits.

Senior officials in each Ministry or Directorate General will be responsible for the work of long-term "embedded" Sub-facility Advisers and for the activities funded by the AIPEG Facility within their respective mandates. Advisers will report to their designated supervisors within the respective Ministry and will support the implementation of activities in ways which promote GoI leadership and ownership. Regular communications events between Advisers, GoI officials and the Facility Director will be undertaken to promote information sharing and relationship strengthening.

If the MST needs to discuss the work of Advisers and AIPEG Facility funded activities, primary contact should be with the respective Ministry officials, rather than always through Advisers themselves. This will help to promote and sustain GoI ownership.

5.2.3 Advisers

As noted above, an Inception Workshop is expected to lead to identification of priorities for Advisers or other AIPEG Facility inputs for the first two years of operations, leading to the generation of Terms of Reference, as appropriate.

The MST will document the recruitment process. Advisers will be selected and appointed according to the priorities of the respective agency and could be placed at various levels. Men and women will be invited to apply for all positions and selections will be based on merit. All Advisers, whether long or short term will be appointed jointly by senior representatives from the Ministry or Directorate General and the MST. The MST will be expected to provide advice on the most appropriate recruitment process to find suitable Advisers.

Within each Sub-facility, based on experience from TAMF III, it is likely an Adviser will be delegated to facilitate planning for each year's program of activities jointly with their colleagues in the respective Ministry or Directorate General. Advisers will need to promote GoI ownership of plans in all circumstances. Advisers are not expected to undertake activities they consider to be important unless there is clear evidence of demand, commitment and ownership by senior GoI officials.

Under the AIPEG Facility, while relationships between Advisers and their colleagues will continue to be crucial and there will be a need to produce a plan and report each 6 months, there is no requirement for a "Lead Adviser" in each sub-facility. From Year 4 of the AIPEG Facility, it may be possible to continue activities without the presence of a long-term adviser. Instead a GoI liaison officer could coordinate the development of a plan and report across several areas – organisational, technical etc. It is possible to envisage that at some times, there could be no long-term adviser in a particular Ministry or Directorate General, but agencies could still submit plans and proposals for funding under the AIPEG Facility. Section 5.4.1 below describes expected transitioning during AIPEG where Sub-facilities can participate in AIPEG without necessarily having a resident long-term Adviser.

5.2.3.1 Technical Support Pool

The MST will also be responsible for coordinating inputs of a Technical Support Pool (TSP) which will be built up and maintained over the life of the Facility. The TSP will comprise a pre-approved selection of specialists in a variety of economic governance and public sector institutional strengthening areas (including gender analysis, capacity development, leadership coaching, monitoring and evaluation etc.), who can be drawn upon at relatively short notice if required within Partner agency activities. It is preferred that specialists be given repeat roles if appropriate, reflecting the value of continuity in ongoing relationships for effective capacity development. People in the pool should be selected on the basis of a combination of specialist skills and their open-ness to learning new ways of working in Indonesia alongside Indonesian colleagues.

5.2.4 Facility Review and Implementation Plans (FRIP)

The MST will coordinate inputs from GoI partners to produce a six-monthly FRIP in March and September each year to inform AB meetings in April and October.

The FRIP contains information about progress of work under the Sub-facilities during the previous six months and plans for activities in the following period. Normally, the September FRIP will take an annual perspective (i.e. for the period January to December in the following year), to provide a broader planning context and horizon. The March FRIP will give greater emphasis to reviewing the previous year's work and documenting lessons for future planning and operations.

The FRIP preparation process will commence once the long-term Advisers are in place. Each agency, together with the MST will convene an Agency FRIP Preparation Workshop to focus and prioritize broad areas where AIPEG can add value over the next two to three years. An output of each workshop will be a detailed analysis of the context and a prioritized list of activities to be designed and implemented in the first year. The first FRIP should be prepared and submitted by late January 2010 and include an Annual Plan for 2010 calendar year. The September 2010 FRIP will prepare for 2011 and from then on the calendar will be correct.

The first FRIP will also report on interim activities which have continued on from TAMF III during the AIPEG establishment phase under guidance of the agencies and interim advisers.

5.2.5 Trust Fund

As noted in Section 3.3.3 above, an AIPEG Facility Trust Fund will be established by the Managing Contractor, to channel Facility funds to meet the costs of Advisers (both long-term and short-term advisers drawn from the TSP (5.2.3.1 above)), activities in each Sub-facility in accordance with approved FRIPs, costs of the Advisory Board, and an unallocated amount for Immediate and Emerging Issues. The MC will develop Trust Fund guidelines as part of the AIPEG Facility Operations Manual which stipulate where the Fund will be held, who the signatories will be, how interest and bank charges will be treated and reporting arrangements. These will include monthly reconciliations to monitor expenditure, and quarterly reporting to AusAID of expenditure, along with a funds requests for quarterly top-ups in accordance with the projected forward commitments. The AIPEG Facility Trust Fund financial statements will also be included in the six-monthly FRIPs presented to the Advisory Board and EC.

There may be a case for locating the Trust Fund in Australia (if the MC is Australian) with a sub-account in Jakarta for in-country expenditure, or the Trust Fund could be located wholly in Jakarta. The decision needs to be made by the MC and AusAID. If the Fund is held in Australia, arrangements will need to be put in place to refund GST payments on a regular basis.

As Sub-facilities 'mature' consideration could be given to drawing down AIPEG Facility Trust Fund money in support of other donor activities of priority to GoI, such as the planned World Bank Trust Fund in the Ministry of Trade, which is expected to be using GoI systems in late 2009.

The MC will contract an auditor selected in accordance with Commonwealth Procurement Guidelines to undertake an annual audit of the Trust Fund and submit the report to AusAID. The cost of audits will be met from the MC's reimbursable expenses.

5.3 Coordination with other AIP elements, including GPF

There are many stakeholders in the AIPEG Facility, including a large number of Australian Government agencies involved in various GPF-supported partnership programs and a large number of Indonesian agencies. The size of Australia's program in this sector and the long-standing relationships at Ministerial level mean that the program has a high profile and attracts a great deal of interest. In addition, other donors play significant roles and provide significant assistance to the economic governance sector. Therefore coordination across these many aspects is important to the success of the AIPEG Facility, i.e. the likelihood that it will contribute positively to Indonesia's economic governance institutions. Of particular relevance is Australia's support for sub-national economic governance programs, including the Papua Public Expenditure Analysis and Capacity Harmonisation Program (PEACH) and similar programs in other areas of Indonesia.

The AIPEG Facility and GPF are quite different in nature, and have their own strengths and limitations. They will continue to work in similar agencies and areas, so cooperation and coordination between the AIPEG Facility and GPF activities is essential at agency level. At the strategic governance level, the AB will provide strategic advice to the AIPEG Facility as well as offer periodic advice to GPF about key issues relevant to policy focus and partnerships. The AB's high level perspective will help to promote coherence. At the operational level, AusAID, including the Economic Adviser, will be largely responsible for initiatives to promote information exchange and collaboration between AIPEG Facility and GPF personnel. The Managing Contractor of AIPEG will be asked to support these efforts. At the individual Adviser level, agency-specific communications systems will be encouraged and supported by both the Facility and GPF leadership. It needs to be recognized though, that the Facility and GPF operate in distinctly different ways, with different emphasis and accountabilities, and are also likely to change over time in different ways. A tolerance for different approaches should be promoted.

The major responsibilities for coordination across and beyond the AIPEG Facility will lie with the AB and AusAID's Economic Adviser. The MST will be required to maximise coordination and coherence within the AIPEG Facility, where appropriate, recognizing the diversity of stakeholders and their priorities. However, the MST must promote GoI leadership of donor coordination and cross-agency coordination wherever possible. This may include provision of funding for an Adviser whose responsibility is to support a GoI agency leader with the task of donor coordination, as has been done by the IMF in the area of tax administration reform. Within Sub-facilities, Advisers working with their senior colleagues will support GoI ownership of donor harmonization efforts.

The AB provides the most critical coordination point at the strategic governance level. Members of the AB will be expected to maintain and regularly share up-to-date knowledge of issues, relationships, programs and emerging priorities so they can both contribute to the success of the collaboration and extend the benefits of the AIPEG Facility broadly and coherently.

AusAID's Economic Adviser will be required to play a key role in coordination within the Australian partners, particularly with those agencies involved in GPF and other AIP activities. The Adviser will also be engaged in policy dialogue across the various activities of AIPEG, so will need to work closely with the MST and Sub-facility Advisers to maximise the likelihood of consistency. The Economic Adviser will be responsible for practical measures to reduce duplication or contradictory advice being given, such as regular meetings between the GPF and AIPEG Facility Advisers.

The MST could invite relevant donor and AIP program representatives to selected Facility-wide quarterly workshops. This would provide opportunity for information sharing and cross-fertilization of ideas. The MST will have regular contact with partner Ministries and Directorates General and their respective teams of staff and Advisers so will be responsible for identifying potential synergies within the AIPEG Facility. As Secretariat for the AB, they will be responsible for preparing agendas and minutes, and generally documenting and sharing information.

In relation to Australian scholarships (including Australian development scholarships (ADS), Australian Leadership Awards (ALAs) and others), AusAID will continue to identify partner agencies in the economic governance sector to which scholarships will be allocated annually.

5.4 Implementation Strategy

The previous sections have described the governance structure, leadership and the key management arrangements. This section describes timing, planning cycles and operational tools. It should be read in conjunction with the two Implementation Schedules at Annex 8. The first is a summary from a bird's eye perspective of the whole six years of AIPEG. The second provides details of implementation for the first six months.

5.4.1 Transition of Sub-facilities

AIPEG has been designed as a six-year Facility with a three-year (plus option of extension) contracting model. It is important that during implementation it is treated as a six-year program and consequences and impacts of decisions made in the early years are considered through a perspective of the full program, not the initial contract.

Planning for the numbers and spread of Sub-facilities is an important example of the need to take a long-term perspective. The AIPEG Facility design anticipates a transition process whereby each Sub-facility progresses through various phases in a transparent and supported manner. The specific reasons for this process are to implement measures to increase the use of GoI systems in aid management over time and to ensure there is room for new Sub-facilities, as deemed feasible and appropriate.

Figure 2 below identifies the features of the typical phases envisaged for each Sub-facility as it progresses through the life of AIPEG, subject to negotiations among all governance and management stakeholders and understanding of the context in each partner Ministry or DG.

In TAMF there was a shift over time in the way activities were supported and coordinated in each Ministry or DG, based on consolidation of relationships, management simplicity and other lessons learned. During the 6-years of AIPEG, it is envisaged that the phases described in Figure

2 will guide partners in each Sub-facility. It is envisaged that any new Sub-Facilities starting in 2010 are likely to start at Phase 2 or 3, subject to negotiation and understanding of the particular context.

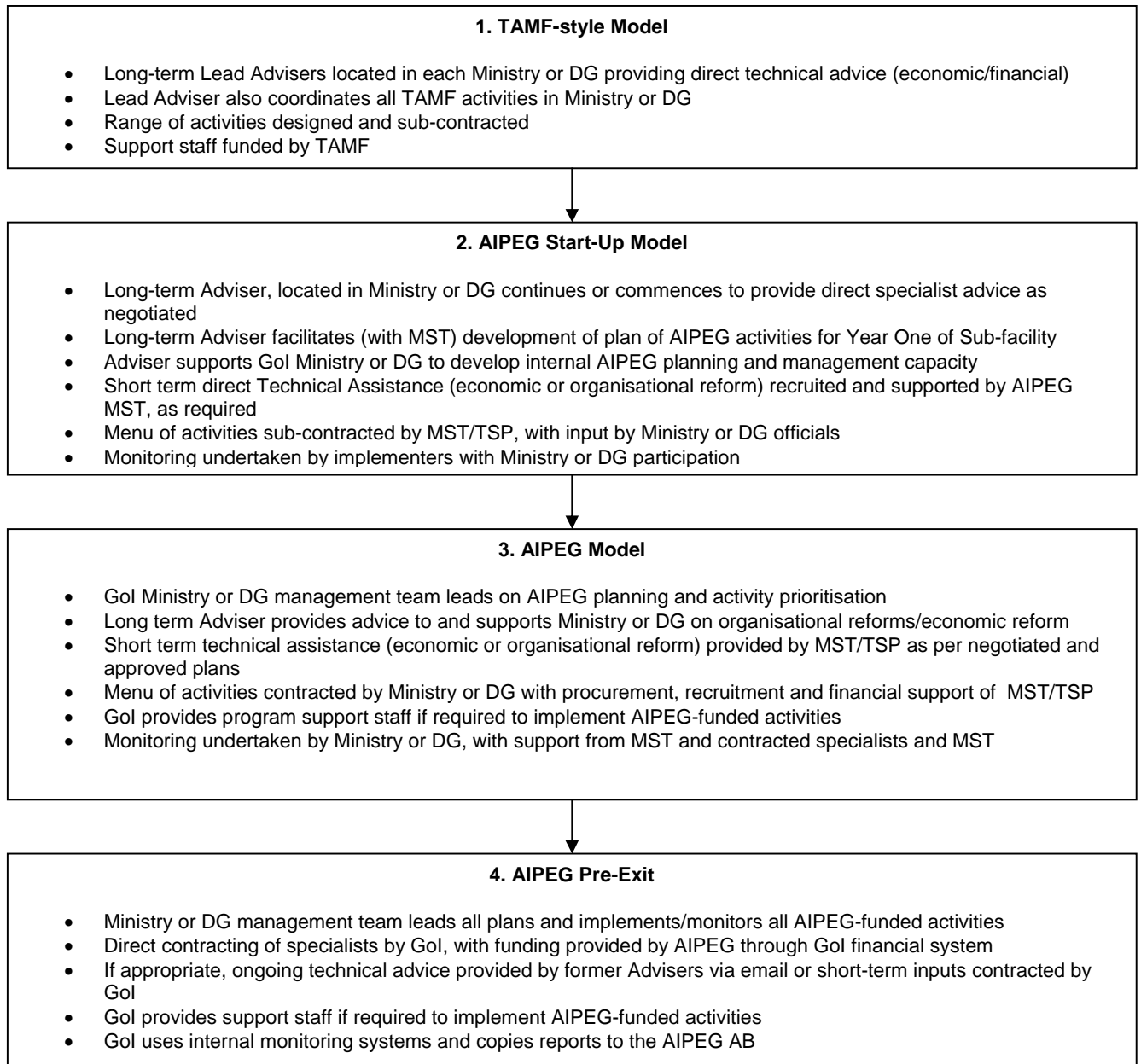


Figure 2: AIPEG Transitioning Model – Phases of Sub-Facility Engagement within Gol Partner Agencies

As Sub-facilities progress, Ministries or DGs may continue to seek specialist economic and financial advice and/or organisational development advice from the AIPEG Facility in various forms. The AIPEG Facility will contribute towards organisational capacity development

contributing to civil service reform including, where appropriate in areas such as leadership, planning, project cycle management, monitoring and gender analysis and planning

This progression through an AIPEG supported capacity development cycle needs to be carefully orchestrated and supported or there is a risk that there will be no graduation of Sub-facilities, therefore blocking the creation of new Sub-facilities in Years 3 to 6 (assuming a maximum of six Sub-facilities are in operation at any one time). This may still happen if priority is considered to remain in the four areas continuing from TAMF. However, this needs to be based on a process of strategic planning and decision-making rather than inertia.

Suggested planning and review processes to support this phased approach include:

- Overall AIPEG Facility workshops to introduce new approaches, shifts in emphasis, proposed phased approach, and any new personnel
- Sub-facility Inception Workshops
- Sub-facility Reviews
- Annual Planning processes, initiated by AIPEG at first, and progressively by GoI
- Facility-wide priority setting led by the Advisory Board
- Periodic Facility-wide Reviews

The MST should work closely with the AB, GoI partners and AusAID during Year One to develop details for each of these processes. The need for flexibility between partners should be prioritized, i.e. it is not necessary to use the same process in each partnership, depending on the context.

5.4.2 Sub-contracting

As Sub-facilities transition through the phases identified above, the MST will also need to factor in transitioning sub-contracting activities to GoI. To date in TAMF III all sub-contracting has been managed through the Facility MST rather than through GoI procurement systems. In line with AusAID's AIP Country Strategy 2008-13, AIPEG Facility sub-contracting is expected to transition from Facility management to GoI management. For this to happen, joint assessments will be made of the readiness, willingness and ability within GoI agencies to take on the extra sub-contracting work, during periodic reviews at the end of Year Two and again at the end of Year Four. Based on this assessment, leadership by the GoI and GoA is required, as otherwise the MC is in a difficult contractual position. A suggested approach is that as Sub-facilities progress through the various phases, efforts are made to establish the systems for introduction of GoI procurement. However, by Year 6, it is expected that GoI procurement systems will predominate.

5.4.3 AIPEG Systems

The Facility by its nature is flexible. The use of rolling annual plans and the provision of an unallocated amount in the Trust Fund (not tied to a specific Sub-facility) illustrate this flexibility. The high level of flexibility implies many decision points and the need for robust planning within an organisational framework understood by all parties.

Whereas a traditional project can be described in greater detail in the project design document, and prescribed through the Scope of Services, a Facility design can define principles, methods and frameworks but not the detail of the content (activity inputs, outputs, outcomes) which will be developed through the rolling design process. To create both an audit trail (for accountability and transparency), and a basis for monitoring and evaluation (M&E), it is therefore essential in Facility management that there be thorough documentation of all the steps taken to both design and implement activities. In addition, in order to operate efficiently and consistently and to create ownership amongst multiple stakeholders, high quality systems and clear processes and timetables for cyclical events are required.

The MC will develop and distribute (in electronic format) an AIPEG Facility Operations Manual including details of activity cycle and other processes and templates. Some parts of the Manual will relate only to MC operations (e.g. AIPEG Facility Trust Fund Guidelines) and some will be relevant to roles and responsibilities of other stakeholders (e.g. reporting templates). The MC will update the manual regularly to take account of new policies and improved practices, and distribute revised versions as appropriate. Considerable time needs to be invested up front in reviewing and adapting current TAMF practices and procedures and either adapting or redeveloping the existing Operations Manual. Report templates will need to be developed to align with AusAID's Quality Reporting System, particularly the Quality at Implementation and Quality at Completion Reports.

An Operations Manual once developed is a "living document." To be useful, MST and Head Office staff, Sub-facility Advisers and relevant GoI staff, TSP and FET personnel and AusAID should be made aware of its contents through various methods (workshops, meetings, training etc.). The extent of training may vary from familiarisation (eg AusAID) to a deep understanding (eg MST staff). Training will therefore need to be delivered at different times to different audiences. Furthermore, because training is delivered in Year 1, with staff turnover and the long-term nature of the Facility, there may be need for training in later years or adherence to agreed practices and procedures may fall away.

5.4.4 AIPEG Facility Annual Calendar

The AIPEG Facility annual timetable will be based on six-monthly back-to-back meetings of the AB and the EC. Ideally, these meetings will be held in the same months each year (April and October) and become the anchors for other planning processes, creating a regular and predictable schedule. Timing certainty will make planning easier for all parties. The AB will set the scene in terms of the broad Indonesian economic governance context and consequent priorities for AIPEG while the EC will have a hands-on role to approve the Facility Review and Implementation Plans (FRIP). The April meeting will be the main planning meeting where the annual plan for the following Australian financial year (1 Jul - 30 June) will be considered. The October meeting will be an opportunity to update the plan, review progress and set the priorities for the next FRIP due for submission the following March.

FRIPs will need to be submitted by mid-March and mid-September to allow screening of activities by the Joint Appraisal Panel plus submission of FRIPs and JAP Recommendations to the AB and EC ten days before the meeting. This would lead to a downstream cycle of activity planning within each Sub-facility and across the whole AIPEG Facility.

5.4.5 Implementation Schedule: First Six Months

It is assumed that the Subsidiary Agreement between the GoI and GoA will be signed before the contract between AusAID and the MC is negotiated and signed. This means mobilisation and start-up can proceed smoothly (e.g. visas for long-term international staff, rental of office space).

The AIPEG Facility has the advantage of continuity from TAMF, but it will also be important to clarify the differences and ensure there is a good understanding of AIPEG Facility issues among stakeholders and a cohesion of effort to achieve its goals.

The Implementation Schedule at Annex 8 assumes that the MC will contract the core MST team and provide an interim briefing on essential matters including security from their head office. Full teambuilding and briefing will be conducted in Jakarta once locally engaged staff have been appointed and the handover from the TAMF MC is complete. By this time everyone should be more settled and able to absorb greater detail from the briefing. The briefing will cover a range of subjects including an overview of the AIP and AIPEG, points of difference between AIPEG and TAMF, operational aspects drawing on the Operations Manual and the program of events for the first busy months as the Facility takes shape. The team briefing will also cover the values which will underpin AIPEG success. These include: building and maintaining strong relationships between the various AIPEG parties; a culture where the Indonesian agencies lead and the MST supports; high quality, transparent and cost effective systems, management and records.

The six-week overlap and transition between the TAMF and AIPEG MCs has been described in Section 4. Creation of new systems, appointment of the AIPEG Board, long-term and short-term advisers (TSP) and the FET will necessarily take time. Interim measures to allow continuity of essential or urgent activities will be approved under TAMF and continued under AIPEG. If it is essential that advisers continue, short-term interim contracts will be negotiated. There will need to be flexibility around what is really considered to be essential and decisions will be made on an agency by agency basis.

During the first six months there will be an intensive period of recruiting, contracting, mobilising and briefing of personnel including the long-term Sub-facility Advisers and short-term advisers in the Technical Support Pool. It will be essential that clear processes are articulated in the Operations Manual and followed by the MST. While AusAID will select the FET members, the MST will contract them

5.4.6 Activity Cycle

The activity cycle will include the following steps and decision-making elements:

Step	Decision making responsibility
Concept	Proposed by Gol agency to/with Adviser or direct to MST; Included in FRIP (depending on timing)
Design	Developed by Gol agency with Adviser and input from MST

	Included in FRIP (depending on timing)
Appraisal	Joint Appraisal Panel
Approval	By EC (or MST if under \$100,000 and between FRIPs)
Contracting and Procurement	If required, undertaken by MST up to Year Two Subject to negotiations (and overall review of Gol procurement systems) undertaken by Gol agency from Year Three (determined on a partner by partner basis)
Implementation	By Gol agency, Adviser(s) and Sub-contractor, depending on needs
Monitoring	By Gol agency, Adviser(s) and Sub-contractor, depending on needs
Completion	By Gol agency, Adviser(s) and Sub-contractor, depending on needs
Spot Check	By MST

5.4.7 Selection criteria, quality assurance and appraisal

As noted above (5.4.1), it is envisaged that participating Ministries and DGs will identify concepts for activities, which will then be negotiated and further developed within the AIPEG Facility. Selection criteria will need to be negotiated by AIPEG Governance stakeholders early in Year One of the Facility commencement. Annex 13 provides a suggested basis for discussions. Once these are confirmed, they should be distributed and explained to all stakeholders during inception and other workshops and through other communications strategies.

A Joint Appraisal Panel, chaired by the Facility Director, will be tasked with appraising proposals against agreed criteria and making recommendations to the EC for approval. The Joint Appraisal Panel, comprising AusAID officials, the MST DFD and a Bappenas representative (for their project management expertise and responsibility) will be responsible for reviewing proposals included in FRIPs (and those received outside the approved plan period) to make recommendations for approval or non-approval, based on compliance with selection criteria, quality assurance guidance, judgment about feasibility and AB advice. The JAP will be given delegation to approve small activities (under \$100,000) to avoid delay and to avoid taking up the time of the EC if the activities are considered to be both beneficial and low risk.

This model could continue to operate as the shift is made towards decision-making about activities within partner Ministries and DGs.

6. Gender

The AIP is built around four high priority issues that cut across the Country Strategy for Indonesia: partnership; gender equality; combating corruption; and performance. This section identifies how the AIPEG Facility addresses gender equality¹⁴.

A key area for improvement in Australia's work with the Government of Indonesia in economic governance is the integration of gender considerations. The AIPEG Facility will include a Gender Strategy which will identify how Facility supported activities will assist with meeting Government of Indonesia and Government of Australia commitments to mainstream gender throughout all public service work and development assistance respectively (see Annex 2).

¹⁴ Section 7 addresses partnership and combating corruption and Section 8 addresses performance.

Indonesia continues to lag behind its neighbours in terms of women's economic engagement and slow progress towards gender equality has had a significant economic cost. Several issues in the economic empowerment of women relate specifically to economic governance, in particular access to financial services, access to land and property, the level of women in the labor force and the status of women in the civil service.

The AIPEG Facility has been designed in a way that integrates gender considerations throughout. All Advisers and staff will have some responsibility to ensure that the concerns of both women and men are considered in their work, and to work to support existing GoI systems which support women's empowerment. Until Advisers are working directly with their colleagues, have built up relationships and understanding, it is not possible to be prescriptive about what is possible to achieve in terms of Australian support for Indonesia's efforts at agency level.

The Advisory Board's view will be sought with identifying key areas for potential engagement on gender equality and the economic empowerment of women. This advice may refer to issues within current or suggested areas of engagement, or new areas to support Indonesia's commitments to gender mainstreaming such as the current interest in gender sensitive budgeting.

Advisers will hold the key responsibility for ensuring that the technical advice that they give and the programs they implement with GoI colleagues are aligned with the AIPEG Gender Strategy (see below), which will be consistent with GoI decrees and practices in relation to gender mainstreaming. Selection criteria for AIPEG Facility Advisers will include demonstrated experience in or capacity to engage in gender integrated programs and advice and an understanding of the importance of gender issues for the work of the AIPEG Facility. Advisers will be supported in this gender integration mandate by the AIPEG Gender Coordinator and short-term Gender Advisers contracted for specific initiatives.

A full-time AIPEG Gender Coordinator will report to the Deputy Facility Director and work closely with a part-time Gender Adviser who will visit regularly and be available between visits as a mentor (see below) and other short-term Gender Advisers if needed. The role of Gender Coordinator is expected to be filled by an Indonesian gender specialist, familiar and experienced in gender issues in economic governance and the Indonesian civil service. The Gender Coordinator will support Advisers to mainstream gender analysis and programming both in terms of economic policy and institutional support. They will also work with all staff of the MST and the FET in identifying opportunities, integrating gender in AIPEG Facility work and monitoring progress and performance.

The Gender Coordinator will work together with a Gender Adviser to develop an AIPEG Facility Gender Strategy to accompany the first FRIP. The Gender Strategy will identify gender issues involved in the AIPEG Facility's work overall and within each Sub-facility, and set out practical and integrated approaches to addressing gender equality. The Gender Strategy will be reviewed annually in conjunction with the evaluation team. The Gender Strategy annual reviews will accompany the FRIP as required, reporting to the Advisory Board.

The Gender Coordinator will establish a network of relevant contacts in gender empowerment in GoI agencies and the Ministry of Women's Empowerment. They will provide a point of reference for initiatives to address gender inequality that apply across the Sub-facilities, for

example training programs. They will need to keep up to date with the work of the Sub-facilities in order to highlight good practice on gender in one Sub-facility to the others. The Gender Coordinator will work with Advisers to identify when additional gender expertise is required and how it can be provided and integrated.

As integrating gender into the work of the AIPEG Facility is primarily the responsibility of Advisers (supported by the Gender Coordinator and Gender Adviser(s)), financing of these commitments on gender will be largely part of the budget allocation for each Sub-facility. However, the Gender Coordinator will have access to an appropriate budget to support gender equality related cross Sub-facility activities.

The part-time Gender Adviser and any short-term Gender Advisers will be contracted through the TSP (see 5.2.3.1 above). The part-time ongoing Gender Adviser will provide inputs according to the Position Description in Annex 9 and any short-term Gender Advisers will work according to agreed Sub-facility plans and lists of activities. Gender Advisers may also be tasked to assist the Gender Coordinator on Facility-wide gender initiatives, or to work with other Advisers on integrating gender into activity designs or broader work. They will also conduct training in gender awareness for AIPEG Facility stakeholders as negotiated annually.

The part-time Gender Adviser will be responsible for development, with the Gender Coordinator, of the AIPEG Gender Strategy during Year One. It is expected they will build close working relationships with the Gender Coordinator, other members of the MST, Advisers and Indonesian stakeholders. Given that the issue is relatively new to economic governance agencies, it may be that a progressive approach is used, to gradually build up awareness, skills and activities over time. Guidelines on implementation of the Gender Strategy will be included in the AIPEG Facility Operations Manual and briefing of Facility personnel.

Gender Advisers may also be tasked to assist the FET to evaluate the success of gender integration in AIPEG Facility work. They may work with FET to develop reports on the implementation of the AIPEG Gender Strategy for the Advisory Board.

The scoping for the two new Sub-facilities will include inputs by Gender Advisers and the Gender Coordinator to ensure that the opportunities for women's economic empowerment and potential gender implications are identified and addressed.

7. Partnership and combating corruption

The AIPEG Facility aligns well with the AIP implementation strategy which promotes partnership between Australia and Government of Indonesia and the use of Indonesian systems. The Facility has been designed to maintain and build on the collaborative approach developed under the TAMF programs. Flexibility and responsiveness are key characteristics of the facility.

The design of the AIPEG Facility is a direct response to Government of Indonesia (GoI) priorities. Advisers will work within Ministries directly with their GoI colleagues on issues deemed as priorities by the Ministries at senior levels.

During the design process for the AIPEG Facility, all GoI agencies expressed a reluctance to use GoI procurement, staff appointment and other systems for the next phase of cooperation in the economic governance sector. This design incorporates a review of this situation at the end of Year Two, to identify steps which can be taken to increase the use of GoI systems within Ministries and Directorate Generals – a Sub-facility by Sub-facility approach should be taken to these reviews, recognizing that some may introduce procurement reforms and monitoring systems prior to others.

In relation to the theme ‘combating corruption’, the AIPEG Facility will continue the TAMF practice of identifying and working with ‘champions’ of reform, as a means both of enhancing the likelihood of success and promoting Indonesia’s own anti-corruption strategies. Guidance from the AB will continue to be important in ensuring that AIPEG Facility support is given in areas where anti-corruption mechanisms are institutionalised and where leaders are champions of reform.

Mechanisms for the approval of Facility activities also provide anti-corruption measures.

8. Monitoring and Evaluation (M&E)

8.1 M&E context

The approaches, methods and systems in this design reflect:

- lessons learned from TAMF’s experience with monitoring and evaluation
- contemporary approaches to monitoring and evaluation of flexible forms of aid, particularly those related to organisational capacity
- AusAID’s current emphasis on Performance Assessment
- the Paris Declaration on Aid Effectiveness and its encouragement to use Indonesia’s existing systems of monitoring where possible
- the need for coherence and feasibility in monitoring and evaluation terms
- contemporary understanding about the link between capacity and results.

Monitoring and evaluation (M&E) are intricately related to leadership, management and implementation of successful development work. Processes for M&E within the AIPEG Facility will therefore involve all stakeholders at various levels and at various times. It is important to note that different stakeholders have different M&E interests and priorities and it is unrealistic to expect one simple system to meet these various needs.

Effective M&E approaches and methodologies increase the quality of work, increase the level of ownership and produce greater results and sustainability of benefits. Undertaking effective M&E also increases workloads for all participants, so it needs to be appropriately resourced, budgeted and scheduled.

As is the case for all flexible funding mechanisms and facilities, it is conceptually challenging to pre-determine what success will look like from the beginning. In the AIPEG Facility, many factors contribute to this challenge, including:

- the spread, size and diversity of partner agencies and the different histories of partnership with Australia
- the relatively small size of the Australian contribution in each agency
- the complexity and dynamic nature of the economic governance context, globally and nationally, and the key institutions operating in the sector
- the large number of donors contributing to various aspects of economic governance and institutional strengthening in partner agencies
- the lack of certainty about specific activities and priority areas before negotiations with each partner agency take place in 2009 and 2010
- a commitment to change approaches over time to increasingly use GoI systems for aid management and reporting
- the long time frame for AIPEG Facility (6 years)

Given these factors, this section proposes some principles to inform M&E for the AIPEG Facility, and specifies some ways of ensuring that the primary purpose of monitoring is met to a high standard and other purposes are adequately addressed. This section also provides details about the “what, how, when, who and where” aspects of monitoring and evaluation for the AIPEG Facility.

8.2 Principles for M&E of the AIPEG Facility

The following principles are suggested to guide M&E for the AIPEG Facility:

- *a commitment to mutual learning over time about what works well and why, and how to improve ongoing management and practice, should apply throughout AIPEG*

There is no “right answer” to the question “how best can Indonesian and Australian people work together to bring about better economic governance capacity?” While much has been learned through TAMF I, II and III, AIPEG is operating in a changed political and economic context, with potentially different people and within dynamic and diverse organisations. The focus of monitoring within activities, within partner organisations and across the AIPEG Facility will therefore be on ensuring that events and processes are organised which allow for reflection and analysis of what has happened, what has worked well and why and what to do next to reflect this learning. A mix of different sources of information and processes for gathering information will contribute to rigour and contestability.

- *GoI monitoring systems should be used and where appropriate, support provided to strengthen these systems*

As the AIPEG Facility represents a shift in emphasis towards greater leadership and ownership of Facility-funded activities, the M&E approach should similarly reflect and maximise the use of existing GoI monitoring systems where possible. This is consistent with the concepts of “alignment and harmonization.” In practice, the use of existing systems is likely to be more feasible at the goal and objective level, than at activity level. The AIPEG Facility should seek opportunities to support the strengthening of monitoring systems within GoI agencies where appropriate over the next six years. These opportunities would be expected to contribute to partner agencies’ monitoring of their own performance and activities as well as their

development results (e.g. better economic performance, reduction in gender inequality, more stable economic management, reduction of poverty), during planning negotiations each year.

At the national level, the GoI has established its own development targets and outcomes as part of its MTDP, linked to MDG goals. Analysis of changes in the overall economic governance context in Indonesia should draw on Indonesia's own assessment against its own plans¹⁵. The challenge of attribution (of Australia's inputs to higher level changes which may occur in Indonesia) is significant. However, consistent with the Paris Declaration and Accra Agenda for Action, Australia is committed to donor harmonization and greater use of existing Government systems, meaning that donor expectations about "clear and attributable results" may receive less significance than would be the case under other paradigms.

When assessing the goal of AIP-EG (the objective to which the AIP-EG Facility is contributing in the longer term), relevant MDG targets include gender equality and women's empowerment in the economic context as well as development of an open, rule-based, predictable, non-discriminatory trading and financial system. Given that women are currently overrepresented amongst the poor in Indonesia; are least represented in many, particularly formal, economic activities; benefit the least from economic opportunities and the access to credit and other productive resources; and experience a significant wage gap,¹⁶ there is an opportunity for AIP-EG to assist GoI efforts to undertake gender-aware economic monitoring and policy design. Other relevant targets in the MTDP should be included as appropriate when evaluating at the goal level.

- *Identify ways to understand the contribution of funded activities towards higher level results*

As noted above, it is conceptually unrealistic to add up the "results" of AIPEG, given the diversity of the context, partners, activities, starting points, contextual factors, relationships etc. but it is possible to identify ways of understanding the overall contribution of AIPEG to Indonesia's own economic governance targets. The use of performance questions (see Section 8.4 below) will generate information that will contribute to an understanding of AIPEG's achievements overall. The placement of this analysis against an analysis of changes in Indonesia's overall economic governance performance will help to generate an understanding of the nature and extent of contribution. Thus, Contribution Analysis is the key methodology proposed for assessing the results of AIPEG.

- *Develop clear objectives at activity level and at sub-facility level*

While it is conceptually difficult to add up "results" across multiple institutions, it will be possible to negotiate an agreed set of high level of objectives for Australian cooperation within each GoI agency, consistent with each organisation's own plans. Annual negotiations of overall plans will include the setting of performance frameworks.

At the activity level, each activity will be expected to develop clear high level objectives, specific outputs and clear monitoring systems. The primary responsibility for internal day-to-

¹⁵ A Landscape Review should be prepared annually by the MST, included in each second FRIP, covering key developments in economic governance and drawing on available GoI assessments

¹⁶ page 4 of AIP Country Strategy 2008-2013.

day monitoring of each activity will be held by the implementers (GoI agencies, Advisers or sub-contractors). The MST and FET will assist with technical guidance, training, quality assurance and advice about M&E processes and methods; and it will also have a role in monitoring the M&E processes of each activity and maintaining a good understanding of progress of each activity, to support triangulation.

- *Remain flexible*

Consistent with a key principle of the AIPEG Facility overall, flexibility in M&E is also required. Effective M&E activities must be relevant to the context and feasible. There is little value in collecting large quantities of data unless it is going to be used. There is little value in spending long periods of time researching the contribution of a single adviser to an organisation of tens of thousands of staff. If monitoring shows that an activity is clearly not progressing well (because of changed priorities, lack of commitment, poor relationships, unexpected issues), there is little value in insisting on it continuing and undertaking a major evaluation exercise to “prove results”, although there may be value in documenting lessons learned and identifying any ways forward.

- *Share monitoring with GPF and with other donors*

GPF supports a range of personnel and activities within partnerships in the same agencies where the AIPEG Facility will be working. GPF therefore has an interest in the work of AIPEG Facility and vice versa. Joint assessment, shared reports, interviews during evaluation events and participation in occasional or regular workshops and seminars will help promote the sharing of relevant M&E information. As a minimum, performance reports should be shared with all major partners. This reflects Australia’s interest in “whole of government” engagement in performance assessment.

As noted in Section 2.3, many bilateral and multilateral donors operate in the economic governance sector, working to various degrees within GoI agencies and under GoI leadership. They are all likely to have their own performance frameworks, again to varying degrees of dependence on GoI or external assessment systems. At national objective levels, and within partner agencies, the AIPEG Facility should draw from these analyses and processes wherever possible, rather than establish its own completely separate, parallel monitoring systems. The AIPEG Facility should also actively share relevant reports and lessons with other donors, through AusAID.

- *Recognise the complexity of links between capacity and economic performance*

Contemporary thinking and practice in relation to assessing capacity and M&E for capacity development is fairly uncertain and undeveloped¹⁷. There are not yet many approaches and tools which have proven to be useful or effective for aid practitioners and programs. Most monitoring focuses on performance and results rather than capacity itself. There are significant methodological difficulties in devising M&E approaches for large and complex systems and the costs of doing it systematically and comprehensively are high. While it may be easier for the AIPEG Facility to undertake M&E of “results” in terms of economic governance, AIPEG Facility is explicitly focused on strengthening the capacity of economic governance agencies to achieve their own results, so M&E of AIPEG should primarily focus on capacity and capacity development.

¹⁷ Baser and Morgan 2008, page 98

- *Find efficient and cost effective ways of undertaking M&E*

TAMF III included high quality evaluations of each sub-facility over the life of the program, reported in Performance Assessment and Evaluation (PAE) documents. Significant research effort and other resources were applied to 6-monthly cycles of evaluation. The high quality reports were useful for those interested in progress and results and for contributing to ongoing improvements in management, approach and activities. M&E efforts generally are expensive, but worth investing in if the information produced by the M&E efforts is well used. M&E which is undertaken solely or primarily for donor accountability purposes is rarely useful beyond compliance with donors' internal requirements and therefore questionable in terms of its value for money, but M&E which is primarily for ongoing quality improvement and for generating increased commitment to change and reform, offers high value for money.

As noted in a recent M&E paper¹⁸ “the success of M&E systems depends on the way they are applied, and whether they can be used in a cost-effective and credible manner. All the evidence suggests that successful evaluation and measurement strategies depend on significant investment to ensure they are of operational value. Performance measurement systems should be seen as a valuable investment rather than a burdensome cost, if they are to be effective and credible”.

8.3 Purpose and levels of monitoring in the AIPEG Facility

The *primary purpose* of monitoring in the AIPEG Facility is to improve ongoing management and practice within Sub-facilities and across the AIPEG Facility. This means that the emphasis in all M&E events and processes is increasing understanding about what works well and why and providing explicit opportunities for stakeholders to identify how to improve future work. The *secondary purpose* is to demonstrate progress and achievements. This means that documentation of M&E events and processes is important and that specialist sectoral and evaluation expertise will be required.

The M&E Framework for the AIPEG Facility overall includes five levels of monitoring (Annex 7 includes a summary of key aspects of these levels):

1. quality of activity processes and progress in terms of the delivery of outputs (including accountability for expenditure by Ministries and DGs and their Advisers, as well as contractors, sub-contractors) and achievement of objectives
2. quality of relationships and achievement of objectives within partner agencies/Sub-facilities (see below)
3. coherence between Facility-supported activities
4. achievement of Facility-wide objectives (which may be adjusted over time)
5. extent of achievement of and contribution to Facility outcomes (including purpose level objective and other outcomes)

¹⁸ Hailey, John and Sorgenfrei, Mia, 2007, Measuring Success: Issues in Performance Measurement, INTRAC Praxis Programme ,Occasional Papers Series No: 44

Each of these levels of monitoring requires specific attention to *lessons learned* over the life of the Facility. This is important because of the “progressive engagement” nature of facilities, whereby information generated through experience is intended to bring clarity to future activities and Sub-facilities. At the first and second levels, lessons learned will influence the selection, design and management of future activities and Sub-facilities in terms of type, context and partnerships. At the third level, lessons about the complementarity of activities across different agencies and the potential for sharing lessons and approaches between them will be sought. Information generated by monitoring at the fourth and fifth levels will influence future and related economic governance programs. At the first and second levels, participating stakeholders (such as participants in professional development, mentoring or exchange programs) should be actively involved in the process of identifying lessons as much as possible. This learning process is critical to building capacity overall, which is the objective of the Facility. Lessons learned at the third, fourth and fifth levels are likely to be generated through more independent assessment which is focused on facilitating discussion among key stakeholders.

In relation to level 2 (quality of relationships and achievement of objectives within partner agencies/Sub-facilities), those from GoI agencies, Advisers and MST who are involved in the AIPEG Facility will need to self-reflect and identify ways of strengthening relationships periodically (e.g. at Annual Planning meetings). This highlights the links between high quality relationships, management and monitoring. The expected objectives for each Sub-facility need to be the subject of GoI and the AIPEG Facility agreement, otherwise there is no value in monitoring them. The table of proposed Sub-facility objectives in Section 3.2 provides a starting point, but should be subject to further negotiations in the first 6 months of the AIPEG Facility, for inclusion in a detailed M&E Strategy.

8.4 Approach to M&E

Monitoring is an ongoing process involving implementers in reflection, checking, analyzing and understanding progress against plans and agreed objectives. *Monitoring of activities* within the AIPEG Facility will be centred within partner agencies. Advisers will be expected to provide advice and support in relation to internal monitoring processes and systems (with specialist support on M&E provided by the MST and or the FET as appropriate). Where existing GoI systems do not exist or cannot be relied upon to generate robust information, Advisers will need to work with their colleagues to develop such systems, preferably to suit their own agency plans and strategies, not only for AIPEG Facility-funded activities.

Monitoring of Sub-facilities will focus on assessment of progress within GoI partner agencies towards the agreed objectives (section 3). The FET will be responsible for periodic reviews at Sub-facility level. A cycle of reviews ensures each Sub-facility will be reviewed in detail at least once per each three years. They will use the questions listed below as the basis for assessing the contribution of Sub-facilities to the objectives. They will lead M&E efforts at levels 3, 4 and 5 and prepare PA&E reports accordingly.

The MST will also play an important role in verifying monitoring reports provided for all facility-funded activities but not for day-to-day monitoring of activities.

*Monitoring questions*¹⁹ that will be central to all monitoring processes within the AIPEG Facility for funded activities and Sub-Facilities will include:

- 1. To what extent is each activity achieving its planned outputs?**
- 2. What are the results of this activity?**
- 3. Is the activity delivered efficiently?**
- 4. What are the lessons learned for future activities?**
- 5. What progress has been made towards Sub-facility objectives?**

In all five of these questions, gender analysis will be included to suit the context. For example, in relation to question 1, monitoring will seek to understand the extent to which each activity has identified where and how it can contribute to gender equality and progress in relation to the particular objectives. In relation to question 4, monitoring will focus on what lessons are learned in relation to gender analysis and gender equality.

For *evaluation* (a process of periodic assessment of the quality of progress and likelihood of contribution to results) the FET will use key *performance questions* as the basis for assessing the AIPEG Facility. The following questions will be used by the FET to generate detailed analysis for stakeholders in the AIPEG Facility:

- 6. What changes have occurred in (and between) economic governance capacity within partner GoI agencies?**
- 7. What is the nature and extent of contribution by Facility-funded activities to these changes?**
- 8. Is there value in ongoing collaboration between Australia and Indonesia in each area, or demand for consideration of new areas?**

All questions will include consideration of gender issues, as well as capacity development issues. So for example to answer Question 2, implementers will need to identify the results for both men and women in terms of capacity gained or other result achieved. And in relation to Question 7, the FET will consider the nature and extent of contribution by Facility-funded activities to changes in economic governance capacity within GoI agencies for both men and women.

¹⁹ The questions will help generate information to feed into AusAID's Quality System, including Quality at Entry (QaE), Quality at Implementation (QaI) and Quality at Completion (QaC) reports. The QaI system requires annual assessment reports by AusAID staff about: key results; summary of objectives; implementation progress; achievement of objectives; quality of M&E; sustainability; as well as gender, partnerships and anti-corruption, risk management and current issues. For AIPEG, this will be completed across the whole Facility.

It is proposed that the FET undertake Independent Periodic Reviews *across the Facility* at the end of Year Two and then again at the end of Year Four. Further discussion is recommended at the AB and EC level to identify whether these above questions remain the key questions for an end of Year Six evaluation or whether other evaluation questions need to be considered. These Independent Periodic Reviews will help inform the transition from the first 3-year contract period to the next 3-year contract period.

Annex 8 is an M&E Matrix with details of each level of monitoring, the respective performance questions, responsibilities, possible tools and other comments.

8.5 Methods and tools

There is no single M&E tool that can be used across the AIPEG Facility. A number of methods will need to be developed to suit the different levels of monitoring. They will need to be detailed in a detailed M&E Strategy for the AIPEG Facility prepared by the M&E Specialist in Year One. The Strategy will be reviewed annually to ensure that M&E approaches remain as flexible as the Sub-facilities. General guidance about methods and tools at the design stage is included in Annex 7.

8.5.1 Management Information System

The MST will develop and maintain a simple management information system (MIS) for the input, collation and reporting of data across the AIPEG Facility²⁰. The MIS data base should enable the MST to:

- input data on the AIPEG Facility-funded activities (code, title, partner, contact details, objective, outputs, indicators, budget and actual expenditure, start and finish date, participants (sex-disaggregated) etc.)
- collate data over time across the AIPEG Facility activities and within Sub-facilities in terms of progress through the activity cycle
- provide information about the AIPEG Facility-funded activities to those involved in giving overall strategic advice (AB), decision-making (the EC, AusAID, GoI agencies), coordination and support (MST itself) and evaluation (FET)

A record-keeping system should enable the MST to keep the following documents in a central location, to support all stakeholders involved in cross-AIPEG Facility work:

- activity proposals
- activity designs
- progress reports
- completion reports
- evaluation reports, if undertaken

²⁰ This proved difficult in the early stages of TAMF III because of different interpretations of what was required, so guidance is provided here to reduce the risk recurring.

- the AIPEG Facility-wide systems and approaches (including Manual of Operations plus Gender Strategy, M&E Strategy, capacity development guidance, HR systems, finance systems etc.)

8.6 Monitoring over-arching issues

The Government of Australia, through AusAID, has identified four cross-cutting principles for aid activities: gender equality, anti-corruption, risk management and sustainability. Strategies related to each of these areas have been incorporated in other levels of this MEF (e.g. financial transparency is referred to in relation to activity quality; gender equality considerations are at all levels; risk management is addressed in level 3 and 4).

The Governments of Indonesia and Australia (see Sections 6 and 8.4) are committed to gender equality and mainstreaming in terms of economic development and development cooperation. All M&E questions will therefore include gender mainstreaming considerations. Indonesia's *Presidential Instruction 9/2000* identifies a commitment to mainstreaming gender into all development initiatives and states that donors must also mainstream gender into all support. This is currently manifested through the establishment of Gender Focal Points and Gender Working Groups within GoI Ministries. The Ministry of Women's Empowerment is responsible for supporting and monitoring this system. Gender equality is as an overarching principle for Australia's overseas aid program. Gender equality includes "participation and leadership in decision making, the human rights of women and efforts to eliminate discrimination against women." All activities funded by Australia are required to report on their approach to gender equality and results.

In the AIPEG Facility, monitoring on gender equality issues will be undertaken at all levels. All activities funded by the AIPEG Facility will be required to:

- Explain how the project will identify and act upon the gendered implications inherent within it
- Explain how it will address these gender issues to promote gender equality and ensure that both women and men benefit equally from the project
- During implementation, describe how the activity addresses and responds to the different economic needs of women and men and/or the different issues affecting men and women in the workplace (e.g. promotions, rotations, participation in learning opportunities etc.)
- Explain direct/indirect benefits of the activity for men and women and how these are being maximized.

They will then be required to report on results for men and women. The Gender Adviser will prepare an annual Gender Assessment of the overall Facility, which will contribute to other reports but also stand alone. The report will provide a response to the overall question:

- what are the implications of the AIPEG Facility for gender equality in Indonesian economic governance institutions?

In terms of contribution of the AIPEG Facility-funded activities to the Facility's goal the MST will include analysis of gender equality aspects of the Facility's work, and this will be confirmed by the FET.

8.7 Monitoring risks

Section 9 below and Annex 10 provide details of the risks associated with the AIPEG Facility at various levels and proposed mitigation and management strategies. Monitoring of the risk environment for the AIPEG Facility is required at all levels as follows:

- the AB will be responsible for providing advice about overall risks within the Indonesian and Australian governance context
- the EC will be responsible for decision-making to respond to risks at the overall AIPEG Facility level
- the MST will be responsible for coordination of risk management responses across the Facility, emergency responses related to Advisers and for updating the Risk Matrix annually
- AusAID will be responsible for managing and monitoring risks associated with the relationship between the AIPEG Facility and GPF (within its mandate as one organisation within a whole of government agency approach)
- the FET will be responsible for analysis and making recommendations on emerging risks within Sub-facilities
- GoI agencies, Advisers and any appointed sub-contractors will be responsible for managing risks associated with activities

8.8 Allocation of M&E responsibilities

Primary *responsibility* for monitoring each of the five levels described in 8.2 above will be allocated to different groups (see Annex 7). Suggested allocations are based on thinking at the time of the design and may need to be reviewed and revised during the first 6 months of the AIPEG Facility's implementation following discussions between the MST's FD, DFD and M&E Specialist and the respective partners.

Overall, while the strengths of the TAMF III approach to evaluation will be retained, there is expected to be a gradual shift in responsibility over the life of the AIPEG Facility towards stronger internal monitoring of activities by GoI agencies, and increased use of any GoI monitoring systems that are developed during this period. This reflects the principles of the Paris Declaration, GoI's own commitment to strengthen its monitoring capabilities and a recognition of the need to consider an exit strategy which maximizes the sustainability of benefits of Australian-Indonesian cooperation.

The FET will have a key role in evaluation of AIPEG, i.e. periodic assessment of performance. The FET will undertake detailed six-monthly reviews, focusing on one or more Sub-facilities. Every two years, the FET will undertake a broader review with a longer term perspective, including reference to the emerging opportunities to increase the use of GoI systems. AusAID officials or other delegated independent specialists will need to join the first periodic review as this will be a trigger for decision-making relating to the extension of the MC's contract.

Over the six year period of the AIPEG Facility, it is increasingly likely that GoI monitoring systems will be better able to respond quickly to emerging priorities and to meet the organisational needs of Ministries. The AB and MST will monitor such changes and identify opportunities to increase the use of Indonesian systems.

Over the life of the AIPEG Facility, a balance will need to be maintained between self-assessment and external monitoring responsibilities. The use of self-assessment and reflection processes will ensure that those involved in implementation and management gain the most and can apply learning to their ongoing work, and the use of joint or independent assessment processes will contribute to triangulation of findings and promote increased confidence in them.

An M&E Specialist will work within the MST to support GoI partners and Advisers in their respective M&E work. They will also ensure systems are in place within the MST to collect, collate and report information appropriately across the AIPEG Facility. Simple data base systems must be used, which can be made accessible to people in a variety of positions. The M&E Specialist will need to have experience with facilities (or at least the management of multiple activities) and with using contemporary M&E approaches.

8.8 Reporting

Reporting across the AIPEG Facility will include the following elements:

- an Inception Report three months after AIPEG commencement, to report on the early establishment phase and fill the gap until the first FRIP is due
- 6-monthly Facility Review and Implementation Plans submitted in March and September each year, the latter one including a broad 12-month plan (see also Section 5.2.4 regarding the timing of the first FRIP)
 - compiled by the MST with inputs from each Sub-facility with information on plans, activity concepts, activity designs, progress and completion reports and other sources
 - financial statements including expenditure to date and over the previous six-month period, and projected expenditure and Trust Fund draw-downs for the following period
- Quarterly financial statements to be submitted in June and December each year (between FRIPs)
- 6-monthly PA&E reports
 - compiled by the FET on the basis of detailed assessments of individual Sub-facilities and/or the whole Facility
- annual Gender Strategy Review
 - compiled by the Gender Adviser and Gender Coordinator
- annual Quality at Implementation Reports
 - compiled by AusAID on the basis of above reports, and shared with MST and GoI
- Completion Report

- as determined by the contract between AusAID and the MC, late in Year 6
- Independent Completion Report
 - as determined by AusAID in consultation with GoI

Consistent with the principles of this Facility, effort must be made to ensure the content of all Facility reports describe both the Indonesian and Australian perspectives of issues. The MST will also need to respond to AB, EC and AusAID requests for information on an ongoing basis, which may involve coordinating information from Sub-facilities and partner agencies.

9. Sustainability

There are a number of ways in which this design maximizes the likelihood of the sustainability of the benefits generated within AIPEG Facility including:

- efforts to promote and maximise the leadership and ownership of AIPEG Facility activities within GoI agencies
- ensuring Advisers work within GoI agencies and alongside senior officials
- commitment to a long-term time-frame
- placement of long-term advisers if deemed appropriate by GoI agencies
- progressive engagement approach to use of GoI systems for procurement, management and monitoring of Facility-funded activities
- joint provision of strategic advice to the overall Facility
- joint decision-making by GoI and GoA officials about proposed activities
- selection of activities and development of workplans on the basis of GoI agency priorities
- identification of “reform champions” with whom to work
- use of regular joint reviews of progress at Sub-facility level
- use of implementer-based monitoring, supported by spot-checks for triangulation purposes
- provision of a pool of short-term advisers (both local and international) to meet priority institutional strengthening and technical advice issues identified by GoI agencies
- adoption of AIPEG-provided training courses by Indonesian agencies into ongoing programs
- promotion of cross-agency coordination and collaboration

A number of factors in the Indonesian context also promote the likelihood of sustainability of benefits:

- the clearly enunciated MTDP, linked with globally-accepted MDGs
- a history of positive experience among Indonesians with TAMF
- clear, strong and very senior leadership (at Ministerial and Secretary General level in the case of TAMF) of activities and priorities
- experience with donor harmonization principles and practices
- broad political support for civil service reform
- the existence of many officials with a commitment to bringing about reforms in the civil service generally and their respective agencies.

With its focus on contributing to ongoing, Indonesian-led economic governance reforms and capacity development processes, AIPEG is designed to emphasise and support the sustainability of the benefits of activities for partner organisations. The long term nature of collaboration in this sector helps to support the application of new technical or institutional development approaches and allow for the testing and refinement of them, as well as efforts to build on previous experiences.

10. Risks

Many of the risks identified for the AIPEG Facility remain the same as those for TAMF, but the shift in focus, larger scale and longer-time frame introduces a few more. Annex 10 provides details of risks identified within the design and external environment for the AIPEG Facility.

The substantial increase in the size of the budget for the Facility compared with that available for TAMF also increases several risks, including the risk of not being able to find sufficient activities that meet the selection criteria in each planning period and the risk that even if activities are identified, they will not absorb the funding available. Capacity development activities are generally not very expensive compared with other kinds of aid, beyond the costs of advisers and travel, and with so many other donors in the sector, it may be difficult to generate sufficient and steady flow of activities to fund. While a Trust Fund will help to mitigate against this risk, it should be monitored closely.

Changes in the global economic context in late 2008, while of concern, are not likely to negatively affect AIPEG Facility operations because the flexibility required to respond to emerging issues is built into the Facility form of aid and processes.