

**Australia Indonesia Partnership for Economic Governance  
(AIPEG)**

**INH 848**

**INDEPENDENT PROGRESS REPORT**

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**John Winter**

**Murray Edwards**

**Ninasapti Triaswati**

## *Abbreviations*

AIPEG	Australia Indonesia Partnership for Economic Development
BPS	Statistics Office
CMEA	Coordinating Ministry for Economic Affairs
FET	Facility Evaluation Team
GoA	Government of Australia
Gol	Government of Indonesia
IEI	Immediate and Emerging Issues
JAP	Joint Appraisal Panel
INDII	Indonesia Infrastructure Initiative
MP3EI	Master Plan for Acceleration and Expansion of Indonesian Economic Development
MST	Management Support Team
PFM	Public Financial Management
PINTAR	Project for Indonesian Tax Administration Reform
RPJMN	National Medium Term Development Plan
TAMF	Technical Assistance Management Facility

All dollar figures are Australian dollars.

## *Aid Activity Summary*

<b>Aid Activity Name</b>			
AidWorks initiative number	INH 848		
Commencement date	1 December 2009	Completion date	30 November 2012 (First phase)
Total Australian \$	31,000,000		
Total other \$	None		
Delivery organisation(s)	Norton Rose Australia		
Implementing Partner(s)	The Coordinating Ministry for Economic Affairs (CMEA)		
Country/Region	Indonesia		
Primary Sector	Economic Governance		

### *Acknowledgments*

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## *Executive Summary*

AIPEG was designed as a six year facility from December 2009, with a commitment of \$31 million for the first three years. It is the successor to the Technical Assistance Management Facility (TAMF) which ran in Indonesia from 1999. Under both programs a variety of Australian support has been provided over a broad area of economic governance. Where TAMF often provided short term assistance with specific reforms, AIPEG was intended to move towards building the capacity of Indonesian economic governance institutions for the longer term. AIPEG is presently centred on long term relationships with three agencies - DG Tax, Bapepam-LK, and the Ministry of Trade (known as sub-facilities). The remainder of the program is spent on so-called Immediate and Emerging Issues, a mixture of exploratory activities for future relationships, specific inputs to economic policy, and program support.

The main conclusions of the review and its recommendations are set out below.

**AIPEG's strategy for relevance:** AIPEG is working in an area known to be one of the key determinants of economic success. But there is no Government of Indonesia policy that guides choices within the area or a single organisation within Indonesia with which development partners can decide their support. In economic governance development partners have to proceed by unilateral judgements – there is no perfect match to Indonesia's needs. Provided there is a basic economic rationale for significant choices, basing those choices on existing knowledge and relationships, willingness to reform and due diligence over the likelihood of influencing change, as AIPEG is doing, are all legitimate factors justifying relevance.

**New directions:** There has been little track record of developing new sub-facilities within AIPEG. The responsibility for doing this lies with the contractors, but a number of structural obstacles have contributed to lack of progress on this obligation, and AusAID has not enforced it. If AIPEG management is to play this role effectively, it will need enhanced economic expertise and AusAID will need to provide support to overcome the structural obstacles, including facilitating contacts with the Indonesian government and Australian government economic expertise in Indonesia.

## **Recommendations**

- That the Advisory Board, AusAID and the Management Support Team explicitly recognise that the primary responsibility for scoping new substantial AIPEG investment rests with the contractor, with AusAID providing strategic input, including through a clearer definition of its objectives for AIPEG, and helping the MST get sufficient access to Government of Indonesia agencies and other Government of Australia resources, and with the Advisory Board providing strategic oversight and guidance.
- That the skills mix of the MST be revised, in particular through the recruitment of sufficient economic expertise.

**The case for a Facility:** The design of AIPEG held a tension between concentration on a few partnerships in which capacity was the main concern, and continuation of the TAMF (facility) model of flexibility and responsiveness. The expectations of AIPEG currently sit between the two models of operation. The two have important differences: the former will lead to a series of successes in strengthening agencies to do their job, while the latter will define success more in terms of influence, knowledge and partnerships. The distinction has not yet been addressed at a strategic level. In practice, the emphasis has been on the long term relationships. The facility has settled around three main sub-facilities led by long term lead advisers, with a fourth under preparation. Support for long term institutional change is resource intensive and tends to lead naturally to a concentration of resources. Recognising that AIPEG has evolved a model of support which addresses long term change but which is not expected to have the same level of opportunism and variety of interventions as TAMF would help to simplify expectations. This does not mean that flexibility is excluded but a flexible contingency (a revised form of the Immediate and Emerging Issues category) should be subject to more rigorous allocation and reporting.

## **Recommendations**

- That the Advisory Board confirm AIPEG's current direction as a provider of long term capacity building assistance linked to improving policy formulation and implementation.
- That in any continuation of AIPEG, the use of funds to explore new relationships and to meet urgent needs for policy advice to GoI should be firmly linked to the objective of AIPEG and subject to close consultation with AusAID and the Advisory Board and annual reporting to the Advisory Board on commitments made under this category.

**Relevance: the AusAID perspective:** AusAID is presently reviewing its economic governance approach and portfolio. As part of this process it will aim to redefine the level at which it can reasonably have an impact across all its related activities. This should have an effect on the current AIPEG goal, which is pitched at a general level, with a further link to economic growth and poverty reduction. The AIPEG objective also needs greater precision. Any revision should aim to settle the question of where capacity development for economic governance should be aimed. AusAID argues that policy improvement is a higher order objective than institutional capacity for policy formulation and implementation. While this is true, there is a risk of opening up an unproductive distinction between the two. AIPEG's comparative advantage is that it has the insights and adaptability to match institutional change with policy reform.

**Evaluation:** Monitoring and evaluation to date has taken place over short periods, so missing the full story of change that Australia has contributed to. AIPEG needs evaluation

over a longer period to develop the case for AusAID's involvement in slow change institutional capacity development processes.

### **Recommendations:**

- That AusAID Jakarta management, under the guidance of the Advisory Board and with the participation of AIPEG staff, revise AIPEG's goal and objective following the review of economic governance.
- That the AusAID economic governance team direct the MST to institute long term evaluation of AusAID support to particular agencies under both AIPEG and its predecessor TAMF.

**Effectiveness:** It is not possible at this stage to make an assessment of progress towards objectives, partly because the facility and sub-facility objectives are not well defined and partly because AIPEG is only in its second year. However, there are examples of successful activities; the monitoring and evaluation system will give an increasingly better idea of what works. The fit between AIPEG activities and agency objectives varies by sub-facility and with the quality of agency plans. However, there is documented evidence of efforts to align activities with agency priorities and to get senior management sign off. An examination of a sample of activity designs suggests that there is an increasingly consistent activity design process aimed at ensuring that activities contribute to the program objective. This works better in the sub-facilities than in the Immediate and Emerging Issues category.

**Advisory Board:** It is accepted by all that the Board is a valuable resource which could be better used. Members thought that the functioning of the Board would be improved by better preparation, snappier papers, de-cluttering of the agenda (the recently implemented removal of the requirement to approve activities is a good start) and having fewer people in the room. The primary incentive for ensuring that the Board is used to its full potential, and not mainly as a facilitator of AIPEG operations, lies with AusAID. AusAID has already taken a greater role in the preparation of Board meetings.

### **Recommendation**

- That ensuring the strategic input and engagement of the Advisory Board be made the explicit responsibility of the AusAID Economic Governance team, who will direct the MST accordingly. The MST would remain responsible for all reporting, logistics and administrative matters, while responding to AusAID directives to ensure Advisory Board needs are met and its full strategic contribution realised.

**Communications:** The substantial communications flows between AusAID and AIPEG can be rationalised by clarifying the points at which AusAID's supervision responsibility is exercised.

## **Recommendation**

- That the economic governance team and AIPEG staff institute regular sub-facility monitoring meetings with partner agencies at pre-determined intervals (e.g. quarterly or prior to Advisory Board meetings).

**Cost effectiveness:** Overheads in AIPEG are not much different from the smaller TAMF III and above some comparator AusAID programs. Further benchmarking is needed for the next contract.

## **Recommendation**

- That the Economic Governance team restructure the next contract so that core support is fully reflected in overhead costs and ensure that these costs are compatible with experience elsewhere in AusAID programs.

**Sustainability:** The sustainability strategy being followed in AIPEG is appropriate and reasonably consistent. There are risks to sustainability which AIPEG can affect only marginally in the short term.

**Monitoring and evaluation:** AIPEG's monitoring and evaluation systems at the activity level are comprehensive and should start to produce good evidence of what works and what lessons are being learned. The Facility Evaluation Team provides a professional oversight for the program. But it was intended to measure success at the facility level. If it is accepted that AIPEG is working as a series of programs (which are monitored internally) rather than a facility, then the Team will not be bringing a unique contribution or methodology to program oversight, and the money could be redirected to the long term evaluation recommended earlier.

## **Recommendation**

- That the Economic Governance team wind down the role of the Facility Evaluation Team in 2012 and apply the savings to the evaluation recommended earlier.

The additional resource implications of the recommendations for AusAID should be modest. There will be a period of high demand on AusAID in 2012 as the recommended changes are introduced, but this would be expected in any transition between phases of the program. The recommendations should enable AusAID to plan its program supervision more effectively around key events with greater clarity of roles.



## Evaluation Criteria Ratings

Evaluation Criteria	Rating (1-6)	Explanation
Relevance	4	The sub-facilities where AIPEG is spending most of its money have a basic economic rationale, an understanding of the agency and an assessment of the likelihood of momentum for reform. Since there is no ideal portfolio, these are the elements of an adequate strategy for assuring relevance to GoI needs. Relevance would be improved if AusAID's objectives for the sector were clearer and the outcomes of AIPEG related more closely to a revised set of changes which AusAID can more feasibly contribute to.
Effectiveness	4	The sub-facilities have a clear process for linking outputs to agency level outcomes and priorities. The AIPEG objective needs to be recast to capture the set of changes to which AIPEG is capable of contributing through the sub-facility mode. Expectations will be clarified and effectiveness improved if this mode is accepted as the dominant direction for AIPEG.
Efficiency	3	Inefficiencies have arisen from a lack of clarity over roles and responsibilities, although there have been recent attempts to overcome these. Potential contributors to better quality and direction, including the Advisory Board and Australian economic expertise, have not been fully used. Overhead costs are high in relation to a limited number of other AusAID funded facilities for which information is available.
Sustainability	5	Sustainability is built into all activity designs, and a variety of approaches adopted. Actual sustainability will be tracked through the monitoring and evaluation system, and may be subject to factors beyond AIPEG's control.
Gender Equality		Not marked.

Evaluation Criteria	Rating (1-6)	Explanation
Monitoring & Evaluation	5	The systems now in place to monitor and evaluate activities represent good practice and are being consistently applied. As with all such systems, the financial and transactional costs need to be kept under review. The role of the Facility Evaluation Team should be wound down.
Analysis & Learning		Not marked

## *Introduction*

AIPEG was designed as a six year program from December 2009, with a commitment of \$31 million for the first three years. It is the successor to the Technical Assistance Management Facility (TAMF) which ran in Indonesia from 1999. Under both programs a variety of Australian support has been provided over a broad area of economic governance.

Where TAMF often provided short term assistance with specific reforms, AIPEG was intended to represent a shift towards building the capacity of Indonesian economic governance institutions for the longer term. While keeping some of the flexibility and responsiveness of TAMF, AIPEG envisaged a set of sub-facilities built around relationships with key agencies. There are three of these at present (with DG Tax, Bapepam-LK, and the Ministry of Trade); commitments to the three amount to about 70% of programmable resources<sup>1</sup>, with the remainder being spent on smaller activities and cross-program support (the category of so-called Immediate and Emerging Issues (IEIs)). A sub-facility based on DG Debt Management has been wound down from January 2011. A new sub-facility, public financial management, will begin shortly. AIPEG is managed by a contractor, Norton Rose Australia, who employs a central Management Support Team (MST) in Jakarta as well as advisory staff in the main partner agencies. AIPEG is supervised by an Executive Committee comprising the AusAID Minister-Counsellor and the Deputy Minister in the Coordinating Ministry for Economic Affairs (CMEA), who also co-chair the Advisory Board which is made up of equal numbers of Indonesians and Australians. Activities are approved by a Joint Appraisal Panel (JAP) made up of representatives of AusAID, the CMEA and the MST.

Most of the programmable funds for the initial phase ending in November 2012 were, nominally at least, committed by the end of the first year, although there is a possibility that underspending on some current activities may free up funds for new initiatives and that the budget may be increased.

The goal of AIPEG is improving the quality of Indonesia's economic management (with a link to broad based growth and poverty reduction). Its objective is

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

The other major Australian activity contributing to economic governance and reform is the Government Partnerships Fund (GPF), which finances partnerships between Indonesian agencies and their Australian counterparts through training, visits, internships and long term

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<sup>1</sup> ie the facility budget minus overhead costs, a programmable amount of around \$19 million.

personnel deployments. GPF shares an Advisory Board with AIPEG. AusAID is currently reviewing the reach and direction of its overall economic governance program.

The terms of reference for the review highlighted the major concerns in AusAID about the way that the facility is now operating. The composition of the portfolio is a significant concern. The design envisaged a spread across six sub-facilities, with equal flows of expenditure. As noted above, there are now three, and two of them have commitments of over \$5 million. This is felt to represent both a risk (too many eggs in three baskets) and a failure to develop into other areas. Moreover, an emerging emphasis on organisational and human resource development was felt to be taking the program away from its original intent of focusing on policy change. The perceived focus on a small set of relationships which originated in TAMF days raised the question of how the facility would build up a new activity pipeline and remain responsive to Government of Indonesia (GoI) national priorities. The terms of reference also asked the review to cover the extent to which AIPEG was influencing policy and meeting its objectives, the quality of management, and links to other Australian financed programs.

The objectives of the mid-term review as elaborated by the team were:

- to examine the evidence for progress towards the facility and sub-facility objectives
- to assess the likelihood of the objective(s) contributing to the facility goal and the relevance of both to AusAID's country strategy and current performance measurement systems and GOI national priorities.
- to examine the composition and coherence of the portfolio of activities and the decisions that led to it, and consider alternative mixes, if any, which might contribute more directly to the facility objective
- to review the management structures and the quality of relationships within the program relative to the aspirations of the design

The review terms of reference are at Annex A and the evaluation plan at Annex B. The assumption underlying the review was that AIPEG would continue from 2013 for a further three years.

### *Scope and methods*

AIPEG has been going for less than two years. At this stage a progress report concentrates on the integrity of processes and the likelihood of being able to demonstrate results. At the same time, AIPEG builds on TAMF, and there have been positive results to which both have contributed.

The review did not look in detail at activity implementation under AIPEG. The monitoring and evaluation system instituted in 2010 will provide increasingly comprehensive information on quality at the activity level (including timeliness) and promote accountability

for the balance of the activity portfolio. In line with the evaluation plan, the review concentrated on unresolved questions over expectations and future direction for AIPEG, and on ambiguities in roles and responsibilities. The immediate need was to inform AusAID decisions on a new financial commitment to AIPEG from late 2012. The review, while analysing progress against the standard evaluation criteria, has focused on the implications of progress for those approaching decisions.

In a two week period in Jakarta (17-28 October 2011) the team reviewed Government of Indonesia and AusAID strategy documents, reporting on the Indonesian economy, monitoring and evaluation information from AIPEG, reports from the Facility Evaluation Team (FET), minutes of meetings and a sample of activity designs. It held interviews with AusAID and AIPEG staff, Advisory Board members and co-chairs, representatives of Indonesian agencies who are current and potential users of AIPEG and representatives of other Australian agencies and other donors. Interviews were semi-structured around the questions in the evaluation plan, aiming to ask the same questions consistently of defined groups of informants.

The main limitation related to interviews with GoI officials. Interviews in existing partner agencies were intended partly to test the process for priority setting and alignment to objectives in the agency, but staff at Director level, although familiar with the activity, were not always well placed to explain how priorities were arrived at. Going for a single top level decision maker in each agency would have been an alternative approach, but would have risked using the time of very busy people for some marginal additional certainty in conclusions. Interviews with public financial management agencies as possible users of AIPEG in future were less effective than those with current users.

In selecting GoI interviewees, the review focused intentionally on staff in partner agencies for the sub-facilities, rather than agencies where AIPEG has fulfilled a one-off requirement. This was because the questions for the review were not about whether AIPEG had delivered a good product but whether over time AIPEG was aligning to agency objectives and helping the agency to meet them (a working definition of “strengthening capability”). However, this bias meant that the review did not look in any detail at activities carried out under Immediate and Emerging Issues (IEIs), except insofar as they were part of the sample of activity designs examined. IEIs will be the subject of separate analysis by the Facility Evaluation Team (FET) later in 2011.

## Relevance

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*Does the current portfolio meet high priority needs for Indonesia? What are the present means for judging relevance to priorities and identifying future activity? What information and analysis goes into the choice of activities? Is there sufficient adaptability in the facility to keep abreast of emerging needs? Are there additional steps that could be taken to improve information, analysis and decision making? Are the goal and objective relevant to Australia's country strategy? Does AIPEG fit within the overall performance system for the strategy?*

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Indonesia's macroeconomic situation is more stable than in the late 1990s and early 2000s. The country is estimated to have a GDP per capita of US \$3000 and a 6.5 % growth rate in 2011.<sup>2</sup> Improving macroeconomic conditions over the last decade have allowed the focus to shift to equitable distribution. The National Medium Term Development Plan (RPJMN) 2010-2014 was approved in early 2010 and the Master Plan for Acceleration and Expansion of Indonesia Economic Development (MP3EI) in May 2011. Both of these documents are the basis for policy to the end of the current term of President Yudhoyono in 2014.

Although macroeconomic stability has been achieved, to improve long-term quality growth Indonesia will need to build effective economic policies and institutions. Focus is needed on microeconomic reforms, that is, strengthening laws and regulations on the one hand and changing incentives and constraints through economic policy making on the other.

AIPEG is working in an area (the renewal and effective functioning of economic institutions) known to be one of the key determinants of economic success. But there is no GoI policy that guides choices within the area. Neither the MP3EI nor the RPJMN deals in any depth with economic governance, although improved economic institutions are implicitly required to bring about the changes intended. Nor is there a single organisation within Indonesia with which development partners can plan and coordinate their support. In determining economic governance policy development partners have to proceed by a series of unilateral judgements – there is no perfect match to Indonesia's needs.

The program-level decisions made so far within AIPEG have been

- expansion of the tax and trade sub-facilities (both “heritage” engagements from TAMF)
- closure of the debt management sub-facility (also a “heritage” activity)
- establishment of a public financial management sub-facility (as foreseen in the design)

The last is the only decision on a new direction.

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<sup>2</sup> Ministry of Finance, Revised Budget 2011 (APBN-P 2011 )

In discussing the current portfolio, members of the Advisory Board interviewed separately were consistent in a view that

- it was inevitable, and to some extent a strength, that AIPEG had significant “heritage” activities;
- provided there was a basic economic rationale for significant choices, basing those choices on existing knowledge and relationships, willingness to reform and due diligence over the likelihood of influencing change were all legitimate factors justifying relevance. There were reputational risks in attempting to move into areas which were theoretically important but where change was unlikely;
- the processes for picking up new areas for engagement and ensuring that AIPEG remains relevant and responsive were unclear.

There may well be areas with higher returns than the current set of sub-facilities that AIPEG should explore in future. For example, there is at present no focus within AIPEG on potential reform in areas such as labour markets, competition policy, and consumer protection, all of which are fundamental to improving national productivity.<sup>3</sup> Advisory Board members, when asked, can point to a range of other intervention possibilities (including research on coordination bottlenecks and policy contradictions in the government system, which would be a different approach to policy coordination from working with a nominal coordinating agency). However, assessing ideas and putting them into a priority order is a complex task.

There is little track record within AIPEG of future portfolio development. AIPEG has supported a number of activities within the Coordinating Ministry for Economic Affairs (CMEA) and the Statistics Office (BPS) but these have not yet gelled into a larger capacity development investment. The public financial management sub-facility was an initiative from the AusAID subject specialist in this area<sup>4</sup>. The level of analysis that went into the recommendation to the Advisory Board on this new departure could not be verified during the review since the background and recommendations were conveyed by oral rather than written presentation.

In the AIPEG design, responsibility for future portfolio development is not clearly allocated. The role of the managing contractor is to “manage a rolling annual activity plan and

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<sup>3</sup> The key national Australian regulator in these areas is the Australian Competition and Consumer Commission (ACCC). AIPEG does not offer any obvious entry point at this stage for the ACCC to engage, or become further engaged, with Indonesian counterpart agencies.

<sup>4</sup> Interviews with PFM specialist and MST. The MST put a paper on expansion into public financial management to the first formal board meeting in mid-2010, but the minutes suggest that the matter was referred to discussion with AusAID.

budget". The Advisory Board is to "provide observations and advice ... on issues which may influence the direction of future assistance ... and possible political, institutional and social changes which may require a ... change in program mix." By the scope of services the responsibility had become clearer, with the contractor required to "research, under advice from the Advisory Board, potential for new sub-facilities, partnerships and activities".

There are structural obstacles to a contractor undertaking a forward planning role for a program like AIPEG, all of which have played some part in reducing the incentive to prioritise it:

- the contractor does not know what flexibility there may be beyond the current budget. The AIPEG budget was largely committed in the first year, and although there is some disagreement over whether this should have been a constraint to new activity development, the contractor certainly perceived it as such;
- a contractor works to the planning horizon of the contract, not of the medium term Australian commitment<sup>5</sup>;
- a contractor does not have the same access across a wide range of GoI agencies and Ministers as the Australian Government, unless staff have an exceptional degree of personal credibility and networks in Indonesia;
- there are no formal means by which the contractor accesses the ideas and experience of the significant Australian whole-of-government economic presence in Jakarta (AusAID, Embassy, GPF employees) or the entry points to reform thrown up by other AusAID programs.

A combination of these factors has contributed to the contractor not carrying out the responsibility set out in the scope of services, and AusAID has not enforced the obligation.

AusAID has stronger incentives and is structurally best placed within the triangle of AIPEG management (AusAID, Advisory Board and MST) to provide a forward looking analytical service to AIPEG (as it has done with public financial management). Whether it is adequately staffed to do this is a different question. The review which AusAID is undertaking of its economic governance approach may result in more analytical and management resources being available to take on this function from the contractor. If AIPEG continues to move towards a small number of intensive engagements, then future decisions on substantial new areas of work will be few and high risk (because they will tie up money and risk being open ended if there continue to be no effective exit strategies). This strengthens the case for a more formal AusAID involvement.

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<sup>5</sup> See, for example, p 18 of the second Facility Review and Implementation Plan, January 2011



However, since this review does not aim to anticipate future AusAID staff resources, we restrict ourselves to observing that a renewed emphasis by the contractor on developing the forward portfolio in line with wider AusAID objectives and GoI priorities will require, among other things, a revision of the skills mix in the MST. The mix should include senior level specialist economic skills to provide an analytical service to AusAID and the Advisory Board, and ensure that there are consistently strong links between the capacity development undertaken by AIPEG and medium term economic governance reforms. Making this contractual responsibility work will also require

- a clearer statement of AusAID objectives and ambitions for supporting economic governance reform than is available in the goals of AIPEG and other programs and in the sector performance framework (see below);
- transparent financial reporting and planning so that all parties, including the Advisory Board, know at all times what the scope is within the program to take on new initiatives;
- regular and specific contact between AusAID and the MST on the pipeline, including identifying where AusAID can help to facilitate contacts with GoI Ministries and agencies or integrate the economic resource within AIPEG into networks of Australian economic expertise, and encouraging long term planning beyond the scope of any current contract.

The review team recommends

### **Recommendation 1**

- that the Advisory Board, AusAID and MST explicitly recognise that the primary responsibility for scoping new substantial AIPEG investment rests with the contractor, with AusAID providing strategic input, including through a clearer definition of its objectives for AIPEG, and helping the MST get sufficient access to GoI agencies and other GoA resources, and with the Advisory Board providing strategic oversight and guidance.

### **Recommendation 2**

- that the skills mix of the MST be revised, in particular through the recruitment of sufficient economic expertise.

### *Relevance: the case for a facility*

The design of AIPEG aimed to “retain the best features of TAMF III and introduce new concepts and practices which are better aligned with the current and future context”. It held a tension between concentration on a few partnerships in which capacity was the main concern, and continuation of the TAMF (facility) model of flexibility and responsiveness. The expectations that stakeholders have of AIPEG currently sit between the two models of

operation. The two have important differences in terms of expected outcomes: the former will lead to a series of successes in strengthening agencies to do their job, while the latter will define success more in terms of influence, knowledge and partnerships. The two directions also have differing implications for flexibility. Short term interventions in support of policy development are easier to manage within a fixed budget than longer term capacity development interventions. The distinction has not yet been addressed at the Advisory Board, nor has AIPEG management been given clear direction about which way it should go. Instructions from AusAID to take on important discrete pieces of work<sup>6</sup> have reinforced the facility element, while the momentum generated by the key agency relationships has taken AIPEG in the other direction. Emphasis on the facility dimension has led to an expectation in AusAID that AIPEG will be entrepreneurial in nature, scanning the horizon for opportunities to make things happen, whereas it has in fact been spending its time nurturing the environment for slow and small scale change.

In practice, the emphasis has been on the long term relationships, as demonstrated by the proportion of the budget now being spent on them. Driven by the emphasis in the objective and the design on capacity development (as well as groundwork laid in TAMF III) the facility has settled around three main sub-facilities led by long term lead advisers, with a fourth under preparation. This approach reflects a natural transition of Australian assistance from the post 1997-98 crisis period (where responsiveness and flexibility were crucial) through to consolidation and helping Indonesia build strong institutional foundations to underpin future growth. It also follows the trajectory of the Australian-funded Indonesian Infrastructure Initiative (INDII), which has moved from a facility open to all comers to settle around relationships with two key departments.

International experience is that if transformational change is to be brought about, development partners need to position themselves in long term relationships, understand the political and institutional context, and adopt a variety of approaches to capacity development<sup>7</sup>. The underlying assumption is that effective relationships lead from concentration on the “presented” problem (often lack of technical skills) to the real problems that obstruct agency functioning. As AIPEG has found, such relationships suck in resources, both because they lead to a stronger understanding (in this case by lead advisers) of what needs to be done, and because they often depend on energetic reformers who are impatient to get things done.

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<sup>6</sup> Of the 18 specific activities under Immediate and Emerging Issues, 13 were taken on at the initiative of AusAID and/or the GPF (see table at Annex C)

<sup>7</sup> See “Developing Capacity? An Evaluation of DFID Funded Technical Cooperation for Economic Management in Sub-Saharan Africa”, DFID, 2006  
<http://www.dfid.gov.uk/Documents/publications1/evaluation/ev667.pdf>

Concern was expressed to the review team about the mix of activities undertaken by AIPEG (in particular, whether it was concentrating too much on institutional change rather than on policy); and the terms of reference for the review asked for an assessment of the effects of the facility on policy. Some of the ambiguities underlying these concerns would be dealt with by accepting that AIPEG has evolved a model of support which reduces TAMF-style flexibility and responsiveness (although of course this remains within partnerships); that the aim of the support is to enable agencies to do a better job on issues with a clear line of sight to inclusive growth and poverty reduction; and that AIPEG is a series of agency based programs with individual successes and setbacks with no facility level outcome (ie the whole is not greater than the sum of the parts). Accepting that AIPEG has come to specialise in this way does not exclude the need for flexibility around the margins to allow Australia to get important pieces of work done or for AIPEG to test out the potential for new relationships. The category of Immediate and Emerging Issues was intended to provide this flexibility; but it has grown in an unplanned way through heritage activities from TAMF and a series of directions by AusAID. It has been used to explore two new relationships (with CMEA and BPS), to fund high priority discrete inputs such as the climate change green paper, and to pay for support costs for AIPEG. In practice the engagement with CMEA has yet to deliver proposals which the JAP recognises as having potential effects on policy reform. Monitoring and evaluation will provide evidence in due course for whether the single activities aimed at directly influencing policy reform have been successful (but see below for climate change). As discussed later, the use of the IEI category to pay for support costs for AIPEG is questionable and should be reviewed. In future, the use of something like the IEI category for building new sub-facilities and for single inputs would be justified, provided they were firmly linked to the objective of AIPEG and subject to prior agreement between AIPEG, AusAID and the Advisory Board on areas where the use of such funds has a probable pay-back, and to introduce annual ex-post reporting to the Advisory Board on the cumulative use of the funds. The review team recommends

### **Recommendation 3**

- that the Advisory Board confirm AIPEG's current direction as a provider of long term capacity building assistance linked to improving policy formulation and implementation.

### **Recommendation 4**

- that in any continuation of AIPEG, the use of funds to explore new relationships and to meet urgent needs for policy advice to GoI should be firmly linked to the objective of AIPEG and subject to close consultation with AusAID and the Advisory Board and annual reporting to the Advisory Board on commitments made under this category.

### *Relevance: the AusAID perspective*

As noted in the design, AIPEG activities support parts of Australia's country strategy for Indonesia. But the relationship is not as clear as it might be because Australia's overall aims for the sector, as defined in the sector performance framework, are still a work in progress. AusAID is presently reviewing its economic governance approach and portfolio. As part of this process it will aim to redefine the level at which it can reasonably have an impact across all its related activities. This should have an effect on the current AIPEG goal, which is pitched at a general level, with a further link to economic growth and poverty reduction. The AIPEG objective also needs changing in the light of the arguments in the previous section. Given an opportunity to revisit the objective during the review, AusAID and AIPEG staff had extensive discussions about what AIPEG was actually intended to achieve. It would be worth continuing these discussions when AusAID's overall direction in the sector is clearer.

Any revision of the objective should aim to settle the question of where capacity development for economic governance should be aimed. The previous section suggested that AIPEG is, at its best, enabling Indonesian institutions to do a better job on issues with a clear line of sight to inclusive growth and poverty reduction. Both parts of this description are important. AusAID argues that policy improvement is a higher order objective than institutional capacity for policy formulation and implementation. While this is true<sup>8</sup>, there is a risk of opening up an unproductive distinction between the two. There are examples within and on the margins of AIPEG of attempts to influence policy which struggle to take root because the institutional context needs to be adapted to absorb the policy reform. The difficulties of implementing the World Bank's Project for Indonesian Tax Administration Reform (PINTAR) are a reminder that reform and basic institutional capacity need to happen together. The work on climate change in the Ministry of Finance, though visibly successful at a policy level, has run into difficulties when it comes to integrating follow up work into the fabric of the Ministry.<sup>9</sup> AIPEG's comparative advantage is that it has the insights and adaptability to match institutional change with policy reform. The objective as it stands has not helped AIPEG to articulate and apply this comparative advantage as consistently as it might have done.

In the light of this, an alternative formulation of the objective might be

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<sup>8</sup> There is, for example, a risk of AIPEG being hijacked by pressures within Indonesian agencies to comply with standard central bureaucratic reform requirements.

<sup>9</sup> AIPEG Activity Completion Report, 2011

*Capability strengthened in selected agencies of the Government of Indonesia dealing with the national budget and macroeconomic reform [or whatever other limitations it may be right to put around the choice of agencies] to formulate, implement and coordinate policy that promotes inclusive growth and poverty reduction.*

Such a formulation would make it clear that the program was seeking a series of changes across agencies, not seeking to add it up; that policy is the ultimate aim of capacity development; and that a line of sight is expected to reforms which make a difference to the everyday life of Indonesians. If rigorously adopted, questions about what amount of human resource and organisational development AIPEG should do would be secondary to the question of whether all activities are meeting the objective.

A revision of the objective would also provide an opportunity for reconsidering the narrative for Australian involvement in economic governance. Evaluations to date of outcomes from AIPEG, and the prior TAMF Facilities, have measured success over the lifetimes of funding commitments. The success reported has tended to be small scale. Retrospective agency-specific evaluation over, say, ten years, with continuing research for the future, would capture more meaningfully the significant changes in Indonesian institutions and the points of Australian contribution, allowing a more convincing case to be made for this kind of support (and, depending on who does it, would provide some institutional memory for AusAID and AIPEG management). It is evident, for example, that significant changes have occurred in oversight of Indonesia's financial system since the initial engagements with Bapepam-LK, and that Australia can take some modest credit for these. Such a task would require research skills in the economic field and might best be carried out by an academic institution in Indonesia.

The review team recommends

#### **Recommendation 5**

- that AusAID Jakarta management, under the guidance of the Advisory Board and with the participation of AIPEG staff, revise AIPEG's goal and objective following the review of economic governance;

#### **Recommendation 6**

- that the AusAID economic governance team direct the MST to institute long term evaluation of AusAID support to particular agencies under both AIPEG and its predecessor TAMF.

## Effectiveness

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*What is the evidence of progress towards the objective and sub-facility objectives? What Goal or agency objectives does AIPEG contribute to? Have there been significant changes in the last year in areas where AIPEG (or TAMF before it) have been active? How was the portfolio within each sub-facility arrived at? Do choices about activities turn on their likely contribution to AIPEG objectives? How does AIPEG define capacity development? How have the concepts of capacity development been applied in activity design and monitoring?*

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It is not possible at this stage to make a conventional assessment of progress towards objectives, partly because the facility and sub-facility objectives are not well defined and partly because AIPEG is only in its second year. As noted above, success in a fluid area such as economic governance is cumulative and needs to be measured over a longer time than the lifetime of a funding commitment.

When asked which the greatest recent successes of AIPEG and TAMF were, AusAID and the MST independently cited

- The development of protocols for management of financial crises
- The climate change Green Paper which was used as the basis for the Indonesian position in international forums
- Contribution to the introduction of modern risk based supervision for the pensions industry
- Training in internal investigation for DG Tax, which has improved the confidence and ability of internal investigators
- Development of guidelines for tax base broadening which have contributed to the implementation of a national tax census

This suggests that there is a common understanding of success stories, at least on the Australian side. The last two are the subject of activity evaluations<sup>10</sup> carried out by AIPEG which provide strong evidence for success as well as documenting what went less well and drawing out lessons. In future such evaluations should constitute an increasing body of evidence for achievement at the activity level. They should also become the raw material for a consensus with CMEA as the counterpart organisation for AIPEG, and for reporting to the Advisory Board, about what activities have been successful and less successful and why.

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<sup>10</sup> Evaluation of ADD 10 Tax – TBB and Evaluation of ADD 10 Tax – Internal Investigations, AIPEG, 2011

The review considered the rationale for the choice of activities as an early indicator of the likelihood of achieving the objective of “strengthening governmental capability”. The elements considered were links to partner agency objectives, partner agency participation in the choice and design of activities and the internal logic of the activities.

In the case of the three existing sub-facilities (and also for the debt management sub-facility which has since been closed) inception meetings were held in early 2010 at which the top management of the partner agency approved a set of well-defined proposals arising from discussion between the lead adviser and senior managers. This was a major departure from TAMF, and managing the change of gear with partner agencies was a significant achievement. The fit between agency objectives and AIPEG support is most evident in the tax sub-facility, where AIPEG systematically supports the four result areas in DG Tax’s plan. By contrast, the areas chosen in the Ministry of Trade (with a wider set of responsibilities) have links to the Ministry objectives but were essentially set by direction from the Minister and Vice-Minister. In all three agencies, Indonesian interviewees were clear that they were setting the agenda for AIPEG. In most cases they were able to describe the key priorities for their part of the agency and explain how AIPEG was helping to meet their objectives. It is standard practice for activity designs to be developed with partner agencies, and all designs are signed off by a senior official from the partner agency. However, one of the learning points from the evaluation of tax base broadening is that this does not guarantee understanding among those whom the activity is intended to benefit and that efforts need to be made to spread ownership further.

A sample of 12 activity designs<sup>11</sup> out of the just over 50 approved was also examined. The quality and consistency of activity designs is important to effectiveness because they demonstrate the focus of the overall program on the objective and the recognition of the opportunity cost of each choice in an environment of scarce resources. For this reason the AIPEG design said that it was “essential in Facility management that there be thorough documentation of all the steps taken to design and implement activities”. The review team’s summary comments on the sample are at Annex D. In general

- designs in the three main sub-facilities demonstrate better than the IEs why the activity is aimed at dealing with a key constraint to economic policy or agency performance and why AIPEG support is needed

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<sup>11</sup> The sample was semi-random: the largest activity in financial terms was selected from each of the six groups used by AIPEG to classify its activities (ie one for each of the four original sub-facilities and two for Immediate and Emerging Issues) and six more were chosen by selecting every ninth activity from the list in AIPEG’s Management Information System.

- designs which contain organisational change and development of human resource management capacity have weaker rationale than those aimed at building capacity to do a specific task
- the introduction of results chains from mid-2010 has improved justification for activities and clarified timelines over which different levels of change can be expected
- there is scope to improve consistency of design proposals across AIPEG

*Matching activity to the AIPEG objective: Tax Audit and Collection Capacity*

The Activity Design Document for this capacity development activity explains clearly why the targeted functions are essential to DG Tax's objective of "Improving taxpayer compliance"; gives a brief analysis of the problems; and provides a rationale for AIPEG involvement (putting into practice well accepted prescriptions which no other development partner has been able to follow up with long term support). Immediate outcomes are clear and monitorable. While clarity in design is not a guarantor of success it is a good start.

The observation that links to an objective of strengthening capability are weaker outside the three main sub-facilities is significant because the category of Immediate and Emerging Issues (a misnomer since in fact it is a category for anything that is not in a sub-facility) has grown to comprise 17%<sup>12</sup> of programmable funds. The reason for a less well developed rationale in this category may be that design is an ex post justification for something that has already been decided on. And some activities are intentionally gap filling rather than capacity development. At any rate, if it is accepted that designs within the sub-facilities are more focused on the facility objective, this strengthens the argument made above for preferring the sub-facility model as it has evolved.

*Capacity development*

The AIPEG design contains a good deal of discussion on contemporary approaches to capacity development, using the work of the European Centre for Development Policy Management as its theoretical basis. AIPEG commissioned a capacity development framework, completed at the end of 2010, which aims to provide a practical guide to advisers. The framework uses the AusAID four stage capacity measurement model as its primary tool. Neither of these approaches is visible in activity design, and lead advisers confirmed that they did not make consistent use of the framework. Nevertheless, a concern for capacity development is demonstrated in the activity designs (alongside provision for more directive technical assistance such as making recommendations). Results are

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<sup>12</sup> Including only "specific activities" as opposed to cross program support



expressed in the ability of individuals and the agency to carry out their responsibilities, ensuring that capacity is a key consideration in monitoring and evaluation. However, it is a learning point from all three activity evaluations carried out to date that capacity development approaches can still be misunderstood on the recipient side (who may be expecting the adviser to produce the product, or want technical inputs when it is soft skills which are being targeted) and on the side of the provider, who may still see his or her role as deploying technical expertise first and foremost. The evaluations make recommendations for better activity preparation and briefing of advisers.

## Efficiency

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*Are the management and governance arrangements for AIPEG promoting good communication and relationships? Are management arrangements leading to clear roles and responsibilities and providing good value for money? Are any further changes needed in the governance arrangements? What progress has been made in aligning with Gol systems? How effective is coordination with other AusAID and donor programs?*

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### *The Advisory Board*

It is accepted by all that the Board is a valuable resource which could be better used. Examination of the minutes suggests that Board members do provide advice on the policy environment, the management of risk and the structure of the portfolio. However, this has so far been constrained by the agenda which was dominated for the first two meetings at least by portfolio composition within the sub-facilities and reporting by the Facility Evaluation Team on experience within the main sub-facilities. The minutes record members' concern that they should be given a chance for a wider ranging discussion on priorities. The limited scope for the Board to shape the program is illustrated by the fact that in an effort to keep up the momentum from TAMF, 66% of AIPEG programmable funds were committed before the first Board meeting. The financial position of AIPEG appears from the minutes not to have been fully discussed until the third meeting. In discussion, members thought that the functioning of the Board would be improved by

- better preparation, making it clear what questions they are being asked to consider at an appropriate level of detail. One Board member thought that a "technical team" to prepare papers and define the important points would help;
- related to this, snappier papers;
- de-cluttering of the agenda. This has been dealt with to a large extent by the removal of the requirement for the Board to approve activities; this will create space for wider discussion about the emphasis of the program and new directions;
- fewer people in the room. The sense that meetings are overcrowded has led to a proposal for pre-meetings, but this does not seem to be a good use of the time of board members unless the purpose of the two sorts of meeting is carefully defined.

Board members appreciated the briefing meetings with AusAID and AIPEG staff prior to the Board meetings, but one commented that it could be less of a mechanical run through the agenda and more of an alert to the critical issues.

The frustration with at least the first two meetings seems to have arisen from the need for AIPEG management to get a lot of business through the Board in order for operations to continue (prior to the removal of the need for Board approval of individual activities). This is consistent with AIPEG's early process focus, but also arises from slightly different interests

between the main stakeholders. The primary incentive for ensuring that the Board is used to its full potential, and not mainly as a facilitator of AIPEG operations, lies with AusAID. The Board is the guarantor of the “partnership” in AIPEG’s title above the sub-facility level. Taking the advice of the Board is also a key part of AusAID’s risk management and exercise of its accountability for the best possible use of aid funds. AusAID has already taken a greater role in the preparation of Board meetings. It would clear an ambiguity in responsibilities and be consistent with the recommendation for greater AusAID involvement in developing the forward portfolio if AusAID assumed primary responsibility for strategic input into Advisory Board discussions.

AusAID’s involvement in the forward portfolio and its preparation of the Board discussions should be aimed at strengthening the authority and utility of the Board, particularly by bringing the Board in at an early stage of all important decisions, including AusAID’s review of its economic governance programs, and seeking views on a range of options.

The review team recommends

#### **Recommendation 7**

- that ensuring the strategic input and engagement of the Advisory Board be made the explicit responsibility of the AusAID Economic Governance team, who will direct the MST accordingly. The MST would remain responsible for all reporting, logistics and administrative matters, while responding to AusAID directives to ensure Advisory Board needs are met and its full strategic contribution realised.

#### *Communications*

The review team mapped communications flows between the major stakeholders in AIPEG. The pattern is at Annex E. It shows that while most communication routes are well controlled, that between AIPEG (MST and lead advisers) and AusAID carries a lot of traffic. Some of it is contractual necessity, some of it courtesy (eg sharing AIPEG public communications products). The flow has built up over time with different AusAID staff asking for specific products. AusAID staff confirm that the FRIP was initially not helpful to them as a management tool but that they have worked with the MST on content and format; they also say that they do not have time to read all the material from the AIPEG team. On the other side, the MST note that they are now having to respond to five different members of staff at AusAID (as opposed to two at the beginning of 2010) as well as the Counsellor, which increases transaction costs.

Communications over activity development could be improved. There have been at least three cases where the AIPEG team have worked up proposals and raised expectations with partner agencies in the belief that approval in principle had been given, but where the JAP has subsequently severely cut back the proposal. There may be good reasons for the JAP

decisions, and in exploratory phases some work will always be nugatory. However, it can be kept to a minimum by more regular discussion between AusAID, the AIPEG team and the partner agency.

AusAID pointed out that communications were now much more effective than they had been a year ago. However, the communications burden could be rationalised by having more specific points for the provision of updates, reviewing recent experience and forward planning than at present. The cycle of Advisory Board meetings might be an opportunity for AusAID to engage in regular and structured monitoring exercises at a sub-facility level with the lead adviser and the partner agency<sup>13</sup>, without micro-managing or usurping the key relationship between the lead adviser and the partner agency. Such meetings might substitute for some of the present information flow from AIPEG, allowing the FRIP to be more clearly a product for the Advisory Board. They would be a framework for the consistent examination of monitoring and evaluation data and increase common understanding of the activity pipeline.

The review team recommends

#### **Recommendation 8**

- that the Economic Governance team and AIPEG staff institute regular sub-facility monitoring meetings with partner agencies at pre-determined intervals (e.g. quarterly or prior to Advisory Board meetings).

#### *Cost effectiveness*

The review looked at the overhead costs in AIPEG compared to other facilities financed by AusAID. The picture is complicated by the fact that the imprest or activity account includes the costs of activities (support for GPF and a program in BAPPENAS) which the AIPEG office has taken on but which are not AIPEG activities. On this basis the ratio of overhead costs to imprest is estimated by the contractor at 29% to the end of the contract. However, a more realistic estimate would include the costs of approved cross facility activities (specialist advisers, translation, monitoring and evaluation and communications costs) now paid for from programmable funds; this would take the ratio to around 33%, not far from the ratio for TAMF III (35%). This suggests that the economies of scale in AIPEG have been outweighed by the additional resources required to do a rather different job.

Comparisons with other programs are difficult because all contracts are constructed differently and the work needed to spend programmable funds varies. The overhead cost for the Indonesia Infrastructure Initiative is estimated at 24%. A public financial management support program in the Philippines (with smaller total spend than AIPEG) has estimated overheads of 27% and a public sector reform program in PNG just over twice the

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<sup>13</sup> Or join such meetings where they already exist

size of AIPEG has overheads of 25%. Such a small sample cannot be relied on for firm conclusions but on the face of it AIPEG overheads should be a matter of concern and AusAID should do more benchmarking against other AusAID funded programs in considering an extension.

The rationale for the skills mix within the MST was not clear to the team. The Director and Deputy Director are experienced program managers; the specific skills of other advisers are in activity design, monitoring and evaluation, gender and human resources and organisational development. If choices about skills mix were made when the Human Resources and Organisational Development Adviser was recruited, they do not appear in the activity design or in the FRIP. Recruiting this skill may have been consistent with the direction of AIPEG at the time, but so might the acquisition of other skills, particularly economic. It is important for accountability and learning purposes that such choices are documented. A recommendation for changing the skills mix was made earlier in this report.

The team recommends

#### **Recommendation 9**

- that the Economic Governance team restructure the next contract so that core support is fully reflected in overhead costs and ensure that these costs are compatible with experience elsewhere in AusAID programs.

#### *Use of Indonesian systems*

The AIPEG design envisaged a gradual shift in responsibility for managing inputs to Indonesian agencies. It described a changing model for sub-facilities in which lead advisers would become part time as leadership of AIPEG was moved to partners.

There has been some progress in involving Indonesian staff in activity design and some interest (in DG Tax) in having skills in monitoring and evaluation transferred. But the hard changes, including using Indonesian procurement systems, have seen no progress. Indeed, there is one high profile example of an Indonesian agency having money in the bank to recruit foreign expertise but being unable to do so because of procurement regulations, and considering the use of aid for this purpose instead. One of the reasons for appreciating AIPEG support, according to Indonesian officials interviewed, is the program's ability to do things quickly in advance of budget provision becoming available.

The MST has been tasked with reviewing progress on greater alignment. Its May 2011 report concludes

*The decision to transfer will be largely dependent on the extent to which AusAID, AIPEG and Partner Agencies wish to promote the use of Agency systems. A resolute stance would see AIPEG taking some risks with the expectation that over time benefits would materialise. Capacities are however*

*presently insufficient to comprehensively use Agency systems. Small-scale use will have considerable transaction costs for AIPEG, particularly in the short to medium term, when the need for AIPEG oversight and control will be greatest.*

With the value of long term advisers being strongly endorsed by partner agencies, the difficulty in practice of moving to Indonesian systems, and lack of demand from the Indonesian side, the transition model is rightly not being pursued as a top priority.

#### *Coordination with other AusAID and other development partner programs*

Discussion with GPF deployees confirmed that they saw AIPEG as complementary to their activities. Australian Department of Finance and Deregulation deployees, for example, noted that while they get very good support from their home Department, there are constraints to what can be provided. They noted that AIPEG has been important to alleviating some of this; citing in particular work done by a local consultant hired through AIPEG to assist them with the work they are now doing in embedding new budget processes (Medium Term Expenditure Framework and Performance Based Budgeting) in line Departments.

AIPEG is closely involved in the management of Australian scholarship programs in their partner agencies, and has helped to improve the coherent use of overseas study opportunities.

AIPEG is helping with some preparatory work in DG Tax and the Bureau of Statistics for larger World Bank investments, and to that extent works well with the Bank. In most cases coordination between AIPEG and other development partners is described by partner agencies largely in terms of avoiding duplication and ensuring complementarity. In the medium term there is scope for AIPEG with the changes in skills recommended and with greater direction by AusAID to seek out alliances with other development partners to co-finance programs or to hand on successful activities to others for scaling up, and so bring about more significant results than it can on its own.

### *Sustainability*

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*How is sustainability defined in AIPEG? What is the evidence of consistent application of sustainability principles within activities?*

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Sustainability can often only be judged after the aid intervention has stopped. So in assessing sustainability during implementation the key point is the extent to which there exists a strategy to embed the activity in the systems and processes of the partner agency, and how well it is being applied.

The overall approach of AIPEG is consistent with the move over the life of successive TAMFs away from one-off transactional change to more long term transformational change. The

design process requires advisers to consider sustainability strategies. Examination of the sustainability section of activity designs suggests that AIPEG applies a variety of strategies, including asking for and recording demonstrated commitment from senior managers, integrating recommendations into agency systems and processes, ensuring that new ways of working find their way into staff job descriptions, and investing in agency training capacity. While standards could be more consistent, there is enough evidence in the designs that sustainability is well on the radar of AIPEG management. There are risks to sustainability, such as the turnover of staff, which AIPEG can affect only marginally in the short term.

### *Monitoring and evaluation*

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*How has the monitoring and evaluation system been operationalised? Are the monitoring and reporting meeting the needs of stakeholders? Are the different levels of monitoring and evaluation complementary?*

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The monitoring and evaluation system for activities is comprehensively set out in the AIPEG M&E plan. The system has been slow to take off, only being instituted in the second half of 2010 while AIPEG advisers were also concentrating on delivering a set of agreed activities. However, the systems now in place to monitor and evaluate activities represent good practice and are being consistently applied. Baselines have been prepared for major activities and there is a system in place to ensure evaluation of all activities over \$50,000. A quick look at the management information system suggests that there are 48 approved activities over this limit. While not all will be targets for evaluation, there may be a case for being more selective. As with all such systems, the financial and transactional costs need to be kept under review.

The Facility Evaluation Team has over the last year conducted qualitative assessments of the three sub-facilities and reported to the Advisory Board. The team's contribution is appreciated in AusAID and AIPEG management as a way of focusing on issues that the management team might have missed, and giving AusAID an additional assurance that activities are being carried out in accordance with the program rationale and in line with partner agency objectives. However, its primary role according to the design was to monitor

- *coherence between Facility-supported activities*
- *achievement of Facility-wide objectives (which may be adjusted over time)*
- *extent of achievement of and contribution to Facility outcomes (including purpose level objective and other outcomes)*

In other words, it was to monitor progress at the facility level. If it is accepted that AIPEG is becoming a vehicle for support to agency development, then, as noted above, there is no whole that is greater than the sum of the parts. The FET performs a role of professional oversight, but this potentially duplicates a more proactive role for AusAID in supervision of AIPEG. The cost of the FET may, unless there are compelling reasons for its retention, be

better applied to the long term evaluation proposed above, which offers the prospect of a distinct evaluation methodology which is not available through any existing stakeholder in the program.

The review team recommends

**Recommendation 10**

- that the Economic Governance team wind down the role of the FET in 2012 and apply the savings to the evaluation recommended earlier (recommendation 6).



## Conclusions

The enthusiasm with which AIPEG support is described in partner agencies leaves no doubt that its activities are genuinely valued. To a great extent this is due to the quality of advisers and their willingness to pitch in alongside Indonesian colleagues. Australia was compared favourably during the review to some other development partners who bring “little money but a lot of preaching”.

AIPEG has put a lot of work into developing its basic model, the adviser-led sub-facility, in response to the growing view in TAMF III and reflected in the AIPEG design that this was where most traction was available for supporting long term change. The processes for agreeing, designing and implementing activities are still evolving but give reasonable assurance that coherent portfolios are being developed that will lead to achievement of the objectives at agency level. The evidence from interviews and from examination of activities is that the most coherent and analytical work is being done within the sub-facilities.

The future for AIPEG depends on AusAID’s future direction in the sector and the analytical and management resources it chooses to mobilise. How and to what extent AIPEG needs to be changed to fit any change in approach cannot be anticipated in this review. But the direction of change is clear. The challenges for the Advisory Board, AusAID and AIPEG management are

- putting as much effort into the strategic choices for AIPEG as has been put into developing internal processes;
- agreeing how the program’s success is to be judged.

The lesson from the first two years of AIPEG is that facilities which aim at long term capacity development will mature into a small set of intensive engagements (as INDII has also done). As they do so, the means by which they contribute to policy change will increasingly be through addressing the structural issues that make an organisation resistant to policy change or unable to absorb it. Although this may involve institutional and human resource development, activity choice and design should be clearly linked to the emphasis on policy change in a new AIPEG objective. AIPEG needs to avoid being pushed, as one informant warned us, to the irrelevant “capacity development” end of the corridor.

AIPEG is developing monitoring and evaluation products which should help to tell a progressively better story about change. However, since the change which AIPEG is supporting is typically slow and small scale (though, at its best, with large scale impacts) it needs a better developed narrative and evidence for long term change if it is to continue to earn its place in the AusAID Indonesia program where resources to manage modest programs such as AIPEG will be at a premium.

## *Summary of recommendations*

1. That the Advisory Board, AusAID and MST explicitly recognise that the primary responsibility for scoping new substantial AIPEG investment rests with the MST, with AusAID providing strategic input, including through a clearer definition of its objectives for AIPEG, and helping the MST get sufficient access to GoI agencies and other GoA resources, and with the Advisory Board providing strategic oversight and guidance.
2. That the skills mix of the MST be revised, in particular through the recruitment of sufficient economic expertise.
3. That the Advisory Board confirm AIPEG's current direction as a provider of long term capacity building assistance linked to improving policy formulation and implementation.
4. That in any continuation of AIPEG, the use of funds to explore new relationships and to meet urgent needs for policy advice to GoI should be firmly linked to the objective of AIPEG and subject to close consultation with AusAID and the Advisory Board and annual reporting to the Advisory Board on commitments made under this category.
5. That AusAID Jakarta management, under the guidance of the Advisory Board and with the participation of AIPEG staff, revise AIPEG's goal and objective following the review of economic governance.
6. That AIPEG institute long term evaluation of AusAID support to particular agencies under both AIPEG and its predecessor TAMF.
7. That the responsibility for ensuring the strategic input and engagement of the Advisory Board be made the explicit responsibility of the AusAID Economic Governance team, who will direct the MST accordingly. The MST would remain responsible for all reporting, logistics and administrative matters, while responding to AusAID directives to ensure Advisory Board needs are met and its full strategic contribution realised.
8. That the AusAID Economic Governance team and AIPEG staff institute regular sub-facility monitoring meetings with partner agencies at predetermined intervals (e.g. quarterly or prior to Advisory Board meetings).
9. That the Economic Governance team restructure the next contract so that core support is fully reflected in overhead costs and ensure that these costs are compatible with experience elsewhere in AusAID programs.
10. That the Economic Governance team wind down the role of the FET in 2012 and apply the savings to the evaluation recommended earlier (recommendation 6).

## Annex A: Term of Reference

### TERMS OF REFERENCE

#### INDEPENDENT PROGRESS REPORT (MID TERM REVIEW) OF THE AUSTRALIA INDONESIA PARTNERSHIP FOR ECONOMIC GOVERNANCE (AIPEG) FACILITY

## 1 BACKGROUND

### 1.1 Context

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 economic management and stability and poverty reduction.

Ongoing macroeconomic stability, structural reforms and improvements in the investment climate are essential for addressing poverty reduction in Indonesia. In early 2011, some 31 million Indonesians, or 13.3 per cent of the population, were still officially poverty-stricken, earning below about \$1.50 a day. Another 70 million Indonesians survive on less than \$2.50 a day.

Macroeconomic stability and improvement in the investment climate creates jobs and opportunities for a wide range of workers. The reverse is true of macroeconomic instability and a poor investment climate, which leads to a loss of jobs, erodes incomes and leads to a loss of revenue required for essential service delivery.

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, efficient 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. The quality of GOI's economic management in policy formulation, coordination and implementation through the national budget will significantly contribute to effectively addressing these issues.

Central economic agencies such as the Ministry of Finance, the Ministry of Trade, Bappenas and the Coordinating Ministry of Economic Affairs are important contributors to macroeconomic 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.

There are a number of guiding documents informing the GOI's economic reform agenda such as the Government 2009-2014 Medium Term Development Plan. In recent times some important developments include:

- The Government of Indonesia (GOI) recently released the Master Plan for the Acceleration and Expansion of Indonesian's Economic Development 2011-2025, which aims to move Indonesia into one of the largest global economies by 2025. The first pillar of the plan is the development of six regional economic corridors through investments in sectors with high growth prospects and in regions with comparative advantages. This requires support from the second pillar, namely improving connectivity and strengthening human resources, science and technology. The Master Plan targets investments of USD 468 billion over 2011-2025 of which 45 percent is in infrastructure. One-fifth of the total investment is expected to come from the Government and also State-owned Enterprises. The Master Plan has the potential to be a transformative tool but successful implementation will require the identification of policy reform and investment priorities along with the political commitment and coordinator to address them<sup>14</sup>. As a dynamic emerging economy, Indonesia is playing an increasing role in the international stage through its participation in international fora such as G20 membership and current Chairmanship of ASEAN.
- In May 2011, the Minister of Finance announced his intention to transform the Ministry of Finance. The Minister believes that while good progress has been made on technical progress of reform, the Ministry needed to 'transform' to be a more effective efficient, transparent and accountable MOF to manage state finances and assets and to become a role model for bureaucracy reform in Indonesia.

The first step in the Transformation is the development of a Blueprint, which will contain: (i) the future vision, mission (role) and function of the MOF; (ii) structuring and development of human resources, information and communication technology, and business processes; (iii) the steps to be conducted under this institutional transformation; (iv) an implementation plan, transitional plan and clear activities and schedule; and (v) some quick win initiatives. At the end of 2014, The Ministry is hopeful that this institutional transformation program may support the realization of the following:

- An increase in the GDP to tax ratio from 12% to approximately 18%
- An increase in the ration for the absorption of the APBN to approximately 95% by the end of financial year;
- A reasonable audit opinion, i.e. without exception, for the Ministry's Government Financial Statement from BPK.

## **1.2 Facility Description**

The Australia Indonesia Partnership for Economic Governance Facility (the Facility) provides support for Indonesia's Economic Governance reform agenda under the Australia Indonesia Partnership. It is worth AUS30 million over a three-year period from 1 December 2009 to 30 November 2012, subject to annual AusAID budget appropriations.

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<sup>14</sup> World Bank Indonesia Economic Quarterly, June 2011

**The Facility's goal** is to improve the quality of GOI's economic management and through this, contribute to broad based growth and poverty reduction. **The Facility's objective** is to strengthen government capability for policy formulation, coordination and implementation in areas affecting the national budget and macroeconomic performance.

The Facility has been built on the success of its predecessor, the Technical Assistance Management Facility – Phase III (TAMF III), which had strong support from within the Government of Indonesia (GOI), including at Ministerial level. The Facility currently provides support in selected areas of economic management through 3 main sub-facilities, with some minor support in other areas:

- a. Tax administration reform (Tax Sub-facility) which aims to support DG Tax to achieve corporate goals in tax administration reform as outlined in the Agency Strategic Plan;
- b. Financial system stability (Finance Sector Sub-facility) which aims to improve supervision and regulation in the Financial Sector and strengthened financial sector and market integrity;
- c. International trade policy (Trade Sub-facility) which aims to improve Indonesia's trade competitiveness ; and
- d. Other areas:
  - Debt management;
  - Immediate and emerging Issues e.g. (limited economic policy coordination and public financial management activity)

The sub-facilities are 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.

The Facility is operating as a "facility" form of aid, in which high level objectives are mutually agreed upon with GOI partners and then flexible, responsive approach is taken to emerging priorities. Governance and decision making of the Facility is led by the Executive Committee, under advice from 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 and representation of relevant whole of government agencies.

The Managing Contractor for the Facility is Norton Rose Australia, formally known as Deacons, who was also the Managing Contractor for TAMF III. The Subsidiary Agreement for the Facility is with the Coordinating Ministry for Economic Affairs.

### **1.3 Key Issues**

#### **1.3.1 The Facility Priority Areas**

At the start of the Facility there was an expectation there would be progress towards the development of six core program areas<sup>15</sup>. Eighteen months into the Facility, the core programs have reduced to three (tax, trade, and financial sector) with a significant number of activities conducted in the Immediate and Emerging Issues area. One new sub facility – Public Financial Management (PFM) was approved at the recent Advisory Board meeting in August 2011. Looking forward, there does seem to be a need to pay more attention to new core program development in the portfolio.

### **1.3.2 The Facility Flexibility and Responsiveness**

The Facility needs to strive to maintain the characteristics of flexibility and responsiveness in responding to GOI reform. At the Facility Board Meeting in February 2011, the Facility Evaluation Team raised an issue with the governance arrangements of AIPEG which were said to be causing delays in the approval of activity designs. AusAID and the Facility had since sought to resolve while remaining faithful to the Facility's design. As a result, at the Facility Board Meeting in early August 2011, the new governance arrangement was endorsed. This new governance process would require more strategic guidance from Advisory Board to the Facility and streamline the governance process to ensure more timely and efficient approval of activity designs by the Joint Appraisal Panel.

### **1.3.3. The Nature of the Aid Assistance provided under the Facility**

As AIPEG has progressed there has been less emphasis on policy development and more focus on organizational effectiveness technical assistance e.g. business processes, IT, and human resources in response to partner agencies interest in improving organizational effectiveness.

### **1.3.3 Achievement of Facility's Objective and Goal**

The Facility goal provides a broad boundary for the scope of activities funded through the Facility. The issues are whether the goal is can be achieved through government capacity building and whether there is a reasonable line of sight between the Facility's objective and Facility's goal.

The Facility M&E Plan argued that the relatively small size of activities funded by the Facility and the complexity of the Indonesian environment, makes it extremely unlikely that a contribution of any magnitude to the goal can be attributed to the Facility. By extension it would be unreasonable to argue that any reduction in poverty levels or any increase in growth could be attributable to the Facility during its life.

The Facility objective specifies that support is to focus on strengthening government capability. This must underpin the approach taken to activity implementation. The Facility objective also provides the boundaries to the types of activities that can be supported: only

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<sup>15</sup> This includes the current three sub-facilities, Debt Management sub-facility that had be closed and other areas i.e. Economic policy coordination and Public Financial Management.

those related to policy affecting Indonesia's national budget and macroeconomic performance.

## **2 OBJECTIVE**

The objective of the AIPEG Mid term Review is to help AusAID to assess how the Facility is progressing in achieving its overall objectives and goal, to review the Facility management structures and the quality of relationships within the Facility relative to the aspiration of the design; and inform AusAID of options for the future direction of AIPEG Phase 2 and changes and improvement required from the Phase 1.

The primary audience of the Mid term Review will be AusAID. Other stakeholders include the Ministry of Trade, Directorate General of Taxes of Ministry of Finance, Capital Market Supervisory Agency and Financial Institution (Bapepam-LK), AIPEG Advisory Board Members, AusAID Senior management, and the Managing Contractor and its Management Support Team.

## **3 SCOPE**

The Mid term Review will assess and rate the Facility's performance against AusAID's evaluation criterion of relevance, efficiency, effectiveness, sustainability, monitoring and evaluation, gender equality and analysis and learning. Priority will be given to the following key questions<sup>16</sup>:

### **3.1 Relevance**

- 3.1.1 Does the current portfolio have sufficient regard to the GOI national priorities/policies, GOA's Country Strategy, the Facility's goal and available resources?
- 3.1.2 Is the current spread of reform in the Facility in tax, trade, finance, public financial management and immediate emerging issues (IEIs), with the current emphasis on organizational effectiveness (relative to policy development) sufficiently balanced to constitute a sound economic governance reform Facility?
- 3.1.2 What additional steps are suggested to ensure that the portfolio remains relevant over time to changing circumstances, in particular shifts in GOI economic reform initiatives and Indonesia's transition to a middle income economy?

### **Outcomes (& Sustainability)**

- 3.1.1 How is the Facility progressing towards achieving the Facility's objective and goal? Is there a reasonable line of sight between the Facility's objective and Facility's goal?
- 3.1.2 To what extent is the Facility's objective and goal achievable within the timeframe?

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<sup>16</sup> The other questions in particular those related to gender equality, analysis and learning set in the AusAID standard evaluation questions (see the Attachment 1).

- a) Do we need a re-articulation of the Facility's objective and goal?
- 3.1.3 Has the Facility contributed to the improvement of national economic policy outcomes?
- 3.1.4 What works well and what doesn't work well? Why?
  - a) How effective is the support provided by the Facility? What the quality, coverage and reach does this support have? How useful has the support itself been? Has this support been adequate (in terms of quality, coverage and reach) for the Facility to achieve the objectives?
  - b) What kinds of adjustment (reconfiguration, scaling up, planning down or withdrawal) are required on the current support?
- 3.1.5 How does the Facility define sustainability? What are the factors that will influence sustainability? And are these being addressed?
- 3.1.6 Have there been any unintended outcomes from the Facility?

### **3.2 Efficiency**

- 3.2.1 How is the Facility managed by the Contractor performing in respect of value-for-money and efficiency in the use of time and resources to achieve the Facility's objectives and goal? In particular, consider:
  - a) The management/administrative overheads and staffing arrangements of the program;
  - b) The leadership and management of sub facilities, and the relationship between Contractor stakeholders;
  - c) Quality and impact of M&E system and reporting <sup>17</sup> including how efficient & effective the current M&E is, inclusive of the external (FET) and internal M&E and the relationship between these two M&E components;
  - d) Risk management and management strategic decision making
- 3.2.2 There have been recent changes to the governance arrangements proposed at the Advisory Board meeting to improve the efficient delivery of service in the Facility. Are additional changes required?
- 3.3.4 How well is AIPEG's activity linked into other GOA programs, particularly the GPF, and donors operating in the same agencies?

The structure of the report will be informed by the Independent Progress Report (IPR) template. The ratings will be applied to the 3 criteria only: Relevance, Effectiveness, Efficiency and Sustainability as the priority focus of this IPR. It will use the standard AusAID six-point scale outlined in the IPR template (see Appendix 1).

## **4 REQUIRED EXPERTISE**

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<sup>17</sup> Please consider the key questions set in the AusAID standard question for Monitoring and Evaluation.



The Mid term Review will have two independent team members:

**4.1. Team leader – Evaluation Specialist.** The Team Leader should have the following skills:

- Demonstrated practical experience and skills in research or evaluation (in development of questions, methods and tools, data collection and analysis, interpretation and dissemination of results and reporting);
- Demonstrated ability to breakdown and communicate complex concepts in a simple way to communicate with a range of stakeholders including in multi-cultural settings;
- Previous experience in evaluating the impact of international development programs, preferably in economic governance;
- A high standard of report writing and oral communication skills;
- Strong leadership and facilitation skills.

The role of the Team Leader

- Primarily to apply their skills and experience in evaluation design, methodology, and implementation in order to ensure a good quality evaluation;
- Lead the evaluation team;
- Coordinate and liaise with other team members on the allocations of assignments and reporting arrangements;
- Participate in a telecon briefing with AusAID and other team members;
- Develop the draft evaluation plan in consultation with the other team members;
- Finalise the draft evaluation plan upon receiving feedback from AusAID;
- Lead the in-country field visit in mid October 2011 and ensure the team fulfils the evaluation plan;
- Participate in the initial briefing in Jakarta and lead sessions to present preliminary findings in the field and in Jakarta;
- Be responsible for writing the draft and final review report, with input from other team members.

**4.2. Team Member – Economist**

- Demonstrated experience in economic governance reform in developed and developing countries

The role of the Economist

- Participate in a telecon briefing with AusAID and other team members
- Provide comments to the team leader on evaluation plan; especially on the key evaluation questions that are relevant to macro and micro economic issues;
- Undertake in-country field work in mid October 2011;
- Participate at the initial briefing in Jakarta and present preliminary findings at sessions in the field and in Jakarta;

- Contribute to the preparation of the draft and final review report under the Team Leader's coordination.

#### **4.3. Team Member – Indonesia Economist**

- Demonstrated skills and knowledge on Indonesia economic development issues particularly in the areas of public financial management (revenues and expenditures), trade and investment and financial sector;
- Proven experience and networks with senior officials at national economic agencies e.g. the Ministry of Finance, Ministry of Trade, and Coordinating Ministry of Economic Affairs and relevant donors working in the economic governance area.

The role of the Indonesia Economist

- Undertake field visits in mid October 2011 or another mutually agreed time;
- Participate at the initial briefing in Jakarta and present preliminary findings at sessions in Jakarta
- Contribute to the preparation of the draft and final review report under the Team Leader's coordination.

Apart from the independent consultants, staff from AusAID will also participate in the review:

##### **1. AusAID Economist/ Observer:**

The role of the AusAID economist

- Participate in field visits in mid October 2011;
- Provide input/comments into the draft and final reports under the Team Leader's coordination.

##### **2. AusAID Program Manager for Economic Governance / Evaluation Manager.** The role of the program manager in this review will be to:

- Liaise and coordinate with the Review Team, Implementation service provider and AusAID management on both technical and administrative aspects of the review
- Participate in parts of the field work, in order to manage the evaluation process, ensure the evaluation is of high quality and fulfils the evaluation plan and learn more about the Facility and issues facing implementation.
- Ensure administrative and logistical support for the review process
- Manage comments from internal and external stakeholders on the draft report.
- Prepare the management response and dissemination plan for the evaluation.

## **5 EVALUATION PROCESS**

The review process will be undertaken from August to December 2011. The in-country mission will take around 2 weeks and is planned for 17 October to 1 November 2011.

In undertaking the review, the team will:

- Participate in a verbal briefing with AusAID at the outset of the evaluation process, to discuss background, issues and priorities for the evaluation and AusAID's expectations for development of the evaluation plan (up to 0.5 day)
- Familiarise themselves with all relevant Facility documentation provided by AusAID (these documents are listed below) and advise AusAID of any additional documents or information required prior to the in-country visit (up to 3 days).
- Develop an evaluation plan, which includes: (up to 3 days for team leader, 1 day each for team members)
  - o outlining the evaluation approach
  - o providing more detailed evaluation questions based on this terms of reference
  - o describing the methods that will be employed to gather information to answer each evaluation question, including identifying key respondents to be consulted
  - o providing guidance on scheduling to enable AusAID to develop the itinerary, and
  - o clearly allocating responsibilities between team members.
- Participate in an AusAID briefing session at the start of the in-country visit (up to 0.5 day)
- Conduct meetings in Jakarta (up to 14.5 days)
- Present the initial findings of the Mid Term Review to AusAID Jakarta, the activity implementation team and partnership agencies in separate sessions and locations (up to 1 day)
- Prepare draft Mid Term Review report (up to 7 days for the team leader, up to 4 days each for team members)
- Prepare final Mid Term Review report, incorporating comments from AusAID and other key stakeholders (where the team deems appropriate) (up to 3 days for the team leader, up to 1 day each for team members)

Total estimated consultant input is: Team Leader up to 36.5 days; Members up to 27.5 days.

## **6 REPORTING**

The review team will submit to AusAID the following:

- Evaluation plan (including methodology) – to be submitted in September 2011.
- Draft Mid Term Review report – to be submitted within two weeks of completing the in-country field visit.

- Final Mid Term Review report – to be submitted within one week of receipt of AusAID’s final comments on the draft report.

Both the draft and final reports should be no more than 30 pages of text excluding appendices. The Executive Summary, with a summary list of recommendations, should be no more than 2-3 pages. Where possible, recommendations should be costed.

## 7 STEPS AND TIMELINE

	Step Title	Timeframe
<b>PREPARATION</b>	Key issues/questions for evaluation is finalized	August 2011
	Term of Reference for evaluation team is signed off by the AusAID delegate	
	Contracting of the evaluation team	
	Brief evaluation team through teleconference	
	Evaluation Plan (including Methodology) submitted	September 2011
	Evaluation Plan (including Methodology) approved	
<b>DATA COLLECTION and ANALYSIS</b>	Desk review (analysis of secondary data)	October - November 2011
	In country briefing for Evaluation Team	
	Field visit (primary data collection and analysis)	
	Informal discussion of findings with AusAID and preparation of aid memoire	
	Presentation of aid memoire to AusAID	
	Presentation of aid memoire to GOI Counterparts	
<b>REPORTING and LEARNING</b>	Draft evaluation report submitted	November 2011
	Draft evaluation report checked by AusAID for any sensitivity and TL submitted the revision	
	Evaluation report per review with discussants and relevant GOI counterparts	
	Outcomes from the peer review sent to evaluation team and final evaluation report submitted by the evaluation team	December 2011

## 8 REFERENCES

Key documents include:

1. AIPEG Design Document
2. AIPEG Subsidiary Arrangement
3. AIPEG Contract (only Scope of Services)
4. AIPEG FRIP and PA&E Reports
5. AIPEG Quality and Implementation Reports
6. Indonesia Country Strategy: AusAID
7. AIPEG Internal Mid Term Review Report<sup>18</sup>
8. AIPEG M&E Report
9. Study of Australia's approach to Aid in Indonesia Report
10. AusAID's guidelines on conducting an Independent Progress Review (IPR)
11. AusAID Standards for Monitoring and Evaluation: Draft Version: pilot testing not completed

## **ATTACHMENT 1**

### **Standard Evaluation Questions**

These suggested standard evaluation questions for Independent Progress Reports have been provided to guide evaluation managers in developing questions that get the most value from the evaluation.

They are based on evaluation criteria that provide a comprehensive view of aid effectiveness. The evaluation criteria are: relevance, effectiveness, efficiency, impact (if feasible), sustainability, gender equality, monitoring & evaluation and analysis & learning. The aid activity must be rated against these criteria, excluding impact.

The questions can be used as provided, or can be adapted to be more relevant to the aid activity, country context and the size of the evaluation. The independent evaluation team can be asked to adapt the evaluation questions when they develop the methods design in the Evaluation Plan, including developing evaluation questions that assess relevant cross-cutting issues.

Specific questions should be developed to assess compliance with the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action under the relevant criteria that are relevant to the activity.

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<sup>18</sup> It is an internal Norton Rose Australia's document, Please do not reproduce and attribute any information in the document into the Mid Term Review Report

## Questions for an Independent Progress Report

### Relevance

- Are the objectives relevant to Australian Government and partner government priorities?
- Are the objectives relevant to the context/needs of beneficiaries?
- If not, what changes need to be made to the activity or its objectives to ensure continued relevance?

### Effectiveness

- Are the objectives on track to being achieved? If not, what changes need to be made to objectives to ensure they can be achieved?
- To what extent has the activity contributed to achievement of objectives?

### Efficiency

- Has the implementation of the activity made effective use of time and resources to achieve the outcomes?  
*Sub-questions:*
  - Have there been any financial variations to the activity? If so, was value for money considered in making these amendments?
  - Has management of the activity been responsive to changing needs? If not, why not?
  - Has the activity suffered from delays in implementation? If so, why and what was done about it?
  - Has the activity had sufficient and appropriate staffing resources?
- Was a risk management approach applied to management of the activity (including anti-corruption)?
- What are the risks to achievement of objectives? Have the risks been managed appropriately?

### Impact (if feasible)

- Has the activity produced intended or unintended changes in the lives of beneficiaries and their environment, directly or indirectly?
- Have there been positive or negative impacts from external factors?

### Sustainability

- Do beneficiaries and/or partner country stakeholders have sufficient ownership, capacity and resources to maintain the activity outcomes after Australian Government funding has ceased?

- Are there any actions that can be taken now that will increase the likelihood that the activity will be sustainable? Are there any areas of the activity that are clearly not sustainable? What actions should be taken to address this?

### **Gender Equality**

- Was the activity designed to provide equal participation and benefits for women and men, boys and girls?
- Is the activity promoting equal participation and benefits for women and men, boys and girls?

#### *Sub-questions:*

- Is the activity promoting more equal access by women and men to the benefits of the activity, and more broadly to resources, services and skills?
- Is the activity promoting equality of decision-making between women and men?
- Is the initiative helping to promote women's rights?
- Is the initiative helping to develop capacity (donors, partner government, civil society, etc) to understand and promote gender equality?

### **Monitoring and Evaluation**

- Does evidence exist to show that objectives are on track to being achieved?
- Is the M&E system collecting the right information to allow judgement to be made about meeting objectives and sustainability at the next evaluation point?
- Is data gender-disaggregated to measure the outcomes of the activity on men, women, boys and girls?
- Is the M&E system collecting useful information on cross-cutting issues?

### **Analysis & Learning**

- How well was the design based on previous learning and analysis?
- How well has learning from implementation and previous reviews (self-assessment and independent) been integrated into the activity?

### **Lessons**

- What lessons from the activity can be applied to (select as appropriate: further implementation/designing the next phase of the activity/applying thematic practices [i.e. working in partner systems/environment/fragile stages] to the rest of the program/designing future activities).

## Annex B: Evaluation Plan

### AUSTRALIA INDONESIA PARTNERSHIP FOR ECONOMIC GOVERNANCE (AIPEG)

#### Evaluation plan for mid-term review October 2011

##### Background, objective and principal users

AIPEG is a six year program beginning in December 2009. In principle Australia is committed to the full period envisaged in the program design. The mid-term formative review is based on the assumption of continuation and is aimed primarily at identifying any necessary changes in direction and practice.

The review team's elaboration of the objectives of the review following oral briefing is:

- to examine the evidence for progress towards the facility and sub-facility objectives
- to assess the likelihood of the objective(s) contributing to the facility goal and the relevance of both to AusAID's country strategy and current performance measurement systems and Gol national priorities.
- to examine the composition and coherence of the portfolio of activities and the decisions that led to it, and consider alternative mixes, if any, which might contribute more directly to the facility objective
- to review the management structures and the quality of relationships within the program relative to the aspirations of the design

At this stage the mid-term review has not been flagged as informing significant joint decisions with the Government of Indonesia. Rather it is intended to form the basis for AusAID's position in discussions with Gol on possible changes to AIPEG in the second phase from 2013. The principal users of the review report will therefore be the AusAID Economic Governance Unit, and the report will aim to give as far as possible detailed options for action. Beyond the Unit, other audiences include AusAID senior management, the Advisory Board, CMEA, and senior Gol officials in AIPEG partner agencies, for whom a self-standing executive summary may be more appropriate.

##### Approach to the review

The review will be adaptive in the sense that it will aim to identify early on which are the aspects of AIPEG which require priority AusAID attention and concentrate on these. It will begin by checking the understanding of AusAID, the management support team and lead advisers as to what constitutes the theory of change of the program and whether the right evidence of contribution to change is being collected. It will go on to place AIPEG in the objectives and performance framework being used by AusAID Indonesia. Specific questions about progress, composition of the portfolio, relationships and management will be addressed through examination of internal AIPEG documents, Advisory Board minutes and



structured interviews with individuals from Indonesian agencies, the MST and advisers, with secondary sources if time permits being other contributors to change in Indonesian agencies, ie other Australian programs and other donors. It is assumed that most available information will be qualitative. If enough material is available on concrete and widely accepted change, contribution analysis will be attempted.

Because the aim is to deliver options which are feasible, the review should conclude with a workshop for the Economic Governance Unit to consider possible recommendations before the aide-memoire is finalised.

### Limitations

AIPEG has only been going for 20 months. This is a short time for assessing results against what is a complex and long term change program. It is likely that most evidence will be of intermediate outcomes. Judgements of progress towards the objective will necessarily be based on a direction of travel rather than an informed assessment of the probability of outcome level change. Moreover, this early in a program many results will be building on progress under TAMF, and in general no attempt will be made to separate the two.

The extent to which conclusions can be drawn as to effectiveness will depend to a large extent on the quality of evidence collected to date under AIPEG's monitoring and evaluation system. Although some data collection will occur during interviews in the course of the review, the time in country does not allow for significant primary data collection, and the methodology will rely heavily on existing knowledge.

AIPEG has already been subject in the last year to two performance reviews (by the Facility Evaluation Team) and one internal review carried out by the contractor. There is some risk that Gol informants may not be willing to invest time in providing further information; this needs to be mitigated in the preparation of the program by careful explanation of the purpose of the present review and by spreading the burden to the extent possible.

### Evaluation questions

The questions AusAID wants prioritised relate to relevance, effectiveness, efficiency and sustainability. It is likely that substantial information will be collected on the monitoring and evaluation systems being used within AIPEG, and this will also be included and rated in the report. To the extent that there is evidence available on the two remaining AusAID evaluation criteria (analysis and lesson learning and gender) this will be covered in the report but there will be no specific enquiry into these aspects. Detailed evaluation questions are in the matrix attached, with a scheduling guide.

As far as possible the evaluation should aim to include representatives of every agency currently receiving AIPEG assistance. AusAID's judgement is required in the matter of which Indonesian officials in AIPEG partner organisations the evaluation team will need to see. In

principle a 100% sample of partner organisations should be covered, but given that the questions for GoI agencies are about progress towards objectives and agency change (both actual and potential) rather than about satisfaction with AIPEG's service there may be little point in talking to organisations for which AIPEG has done a one-off piece of work or with whom it has no ongoing relationship (this does not of course exclude talking about small strategic pieces of work which have been carried out in the context of a wider Australian or multi-donor relationship). It may be that the resulting list is quite short.

### Confidentiality

All interviews will be prefaced with an undertaking that no views will be attributed to any individual.

### Responsibilities

The team leader will have overall responsibility for the conduct of the evaluation and the reports required by AusAID. He will take particular responsibility for coverage of sustainability and monitoring and evaluation. The Economic Adviser will take responsibility for coverage of relevance (particularly in the sense of assessing the relevance of the current AIPEG portfolio to AusAID's strategy and Indonesia's needs) and of the interface with other Australian and donor programs. Responsibility for the remaining questions will be shared.

The AusAID observers will participate in all team meetings and workshops, and in interviews as agreed in team discussions. They will be responsible for contributing through discussion to the way that the review answers the questions; however, the final judgements will be made by the independent review team, who will also undertake all the required report writing.

Evaluation questions

Questions	Data collection methods
<p><u>Relevance</u></p> <p>Does the current portfolio meet high priority needs for Indonesia?</p> <p>What are the present means for judging relevance to priorities and identifying future activity?</p> <p>What information and analysis goes into the choice of activities? Is there sufficient adaptability in the facility to keep abreast of emerging needs? Are there additional steps that could be taken to improve information, analysis and decision making?</p> <p>Are the goal and objective relevant to Australia's country strategy? Does AIPEG fit within the overall performance system for the strategy?</p>	<p>Examination of GoI strategies, existing written economic analysis, interviews with other donors</p> <p>Advisory Board minutes, internal AIPEG documents, interviews with Advisory Board members and MST</p> <p>Examination of country strategy and performance reporting, interview with senior management at post</p>

Questions	Data collection methods
<p><u>Effectiveness</u></p> <p>Is the current AIPEG objective still valid?</p> <p>What is the evidence of progress towards the objective and sub-facility objectives?</p> <p>What GoI or agency objectives does AIPEG contribute to? Have there been significant changes in the last year in areas where AIPEG (or TAMF before it) have been active?</p> <p>How was the portfolio within each sub-facility arrived at? Do choices about activities turn on their likely contribution to AIPEG objectives?</p> <p>How does AIPEG define capacity development? How have the concepts of capacity development been applied in activity design and monitoring?</p> <p>How is sustainability defined in AIPEG? What is the evidence of consistent application of sustainability principles within activities?</p> <p>What do AIPEG stakeholders regard as its most (and least) successful activity? What replicable lessons have been drawn for the rest of the program?</p>	<p>Theory of change workshop, interview with senior management at post</p> <p>AIPEG reporting, interview with M&amp;E specialist, interview with MST</p> <p>AIPEG reporting, interviews with GoI personnel, lead advisers</p> <p>AIPEG documentation, interview with MST, lead advisers</p> <p>Examination of capacity framework, AIPEG reporting, interview with MST, lead advisers</p> <p>AIPEG reporting, interview with MST, lead advisers, GoI personnel</p> <p>Interviews with Advisory Board, AusAID, MST</p>

Questions	Data collection methods
<p><u>Efficiency</u></p> <p>Are the management and governance arrangements for AIPEG promoting good communication and relationships?</p> <p>Are management arrangements leading to clear roles and responsibilities and providing good value for money?</p> <p>Are there effective internal quality controls?</p> <p>Are any further changes needed in the governance arrangements?</p> <p>What progress has been made in aligning with GoI systems?</p> <p>How effective is coordination with other AusAID and donor programs?</p>	<p>AIPEG reporting, interviews with Advisory Board, AusAID, MST, lead advisers</p> <p>AIPEG documents, financial reports, comparisons with other AusAID activities</p> <p>AIPEG documents, interview with MST</p> <p>AIPEG documents, interviews with AusAID, Advisory Board, MST</p> <p>AIPEG reports, interview with MST</p> <p>Interviews with MST, AusAID, selection of GPF advisers, other donors</p>

Questions	Data collection methods
<p><u>Monitoring and evaluation</u></p> <p>How has the monitoring and evaluation system been operationalised? Are the monitoring and reporting meeting the needs of stakeholders? Are the different levels of monitoring and evaluation complementary? Does monitoring pay sufficient attention to risk management?</p>	<p>AIPEG reports, interviews with M&amp;E specialist, MST, lead advisers, AusAID</p>

Highlighted questions are higher priority

## Annex C: Derivation of Immediate and Emerging Issues

Activity Code / Name	Approved Budget	Instigator
10-IEI-Climate Change & NRM Framework Review (09-MISC-05)	\$36,000	GPF/AusAID/TAMFIII
10-IEI-Climate Change & NRM Framework Review (09-MISC-05) with Add Budget	\$150,000	GPF/AusAID/TAMFIII
10-IEI-Climate Change Full Study (09-MISC-06)	\$753,000	GPF/AusAID/TAMFIII
10-IEI-Climate Change Full Study (09-MISC-06) add budget	\$847,000	GPF/AusAID/TAMFIII
10-IEI-NRM Full Study (09-MISC-07)	\$775,000	GPF/AusAID/TAMFIII
10-IEI-Statistics Consultant BPS (09-MISC-08)	\$85,000	TAMFIII
10-IEI-Statistics Consultant BPS (09-MISC-08) with Add budget	\$121,000	TAMFIII
10-IEI-Support OECD PFI	\$34,500	AIPEG
10-IEI-Climate Change Green Paper	\$850,000	GPF/AusAID/AIPEG
10-IEI-Macroeconomics Advisor	\$121,000	AusAID
10-IEI-Macroeconomics Advisor with Additional Budget	\$127,000	AusAID
10-IEI-BPS Capacity Building Mentors	\$431,000	AusAID/AIPEG
10-IEI-G20 Senior Advisor	\$280,000	AusAID
10-IEI-Project Management Training	\$125,000	AIPEG
10-IEI-Poverty Alleviation	\$70,000	AusAID
10-IEI-CMEA HRM Review	\$12,200	AIPEG

AP 10-IEI-CMEA Organizational Development	<b>\$150,000</b>	AIPEG
10-IEI-Public Expenditure	<b>\$28,000</b>	AusAID
AP 10-IEI-FETA Scoping Study		AIPEG
10-IEI-PEM	<b>\$185,000</b>	AusAID
11-IEI-GPF Treasury Support (ref: Macroeconomic Adviser at FPO)	<b>\$150,000</b>	AusAID
10-IEI-Core Activities Development – Variation 1	<b>\$236,560</b>	AIPEG



## Annex D: Sample of Activity designs

MIS reference and Activity	Does the design contain a plausible link to better agency performance?	Is there a rationale for AIPEG intervention?
ADD-165: Tax: Audit and Collection Capacity Development	Yes – results chain.	Yes, including catalysing ATO contribution.
ADD-373: Tax: Culture Strategy and Blueprint	Some; but no explanation of why lack of culture strategy is a constraint to the modernisation program. No results chain <sup>19</sup> .	No. DG Tax identified the source and the amount involved was small.
ADD-023: Tax: Database design	Yes – results chain.	Yes – complex technical area
ADD-384: FSS: Compulsory motor vehicle insurance	Plausible link to better deal for consumers – no results chain.	Yes – learning from other countries.
ADD-306: FSS: Strategic Policy Development	Yes, but evidence for policy incoherence as a constraint could be stronger. Results chain.	Partly – learning from Australia, but given high capacity at Bapepam-LK no discussion of why this was beyond them.

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<sup>19</sup> Results chains were introduced in mid 2010.

MIS reference and Activity	Does the design contain a plausible link to better agency performance?	Is there a rationale for AIPEG intervention?
ADD-109: DGDM: Retail Bonds	Partly. Given the obscurity of the subject the returns could be better explained. Results chain.	Yes – strong element of overseas learning.
ADD-415: Central Statistics Agency	No. Case for support to BPS can be deduced, but areas of focus determined by World Bank project requirements and not elaborated as constraints to better performance. Results chain.	Yes, as catalyst to World Bank investment.
ADD-123: Project management training	No. Demand is demonstrated but not why PM skills are essential. No results chain.	Yes. Working across GoI departments.
ADD-413: Senior adviser G20	Yes in the short term but outcomes not well defined. No results chain.	Yes. External expertise.

MIS reference and Activity	Does the design contain a plausible link to better agency performance?	Is there a rationale for AIPEG intervention?
ADD-098: Trade: Expansion of Sub-facility	Partly. The justification for support in trade in services is better than for bureaucratic reform or communications (which were Ministerial directions to AIPEG). But this was an umbrella “design”. Further justification came in later designs. No results chain.	Yes for trade, less for other areas.
ADD-403: Trade: International Trade in services	Yes- results chain	Yes, based on previous AIPEG work.
ADD-422: Human Resource/Organisational Development Advisers	No. No discussion of demand. Need for HR expertise is assumed (choices have been made outside the scope of the ADD). Results chain.	N/A

## Annex E: Mapping communications between AIPEG stakeholders

<b>AIPEG MST and lead advisers</b>			
Six monthly Facility Report and Implementation Plan and AusAID feedback; monthly financial reports; monthly digest; weekly activity report; sharing reports to partner agencies; monthly meeting; FET reports and other M&E products; specific products; AusAID all contractor meetings; ad hoc e-mail and oral briefing; preparation of Board meetings	<b>AusAID</b>		
Daily contact with lead adviser over program implementation Periodic reports by lead advisers MST consultations mediated through lead adviser	Contacts mediated through lead adviser	<b>Partner agencies</b>	
FRIP and other briefing materials Pre-meeting briefing carried out with AusAID Consultation with AB members on specific issues	Pre-meeting briefing carried out jointly with MST  Informal contacts	Periodic contact between Board co-chair and user agencies to check continuing relevance and quality of inputs	<b>Advisory Board</b>