Australia Indonesia Partnership
for Economic Governance

# EVALUATING AIPEG 2009-2017

## Summary Report

August 2017

The AIPEG evaluation was conducted by two independent experts and supported by the AIPEG Knowledge Management Team. The evaluation was completed in June 2017. This is a summary report to share the findings more broadly. Further information may be obtained from the Department of Foreign Affairs and Trade.

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# | Executive Summary

The Australia Indonesian Partnership for Economic Governance (AIPEG) has achieved notable successes in its aim of supporting strong, sustainable and inclusive growth through increased competitiveness. The program represents good value for money for the Australian taxpayer.

AIPEG has acted as a trusted advisor to the Indonesian government and contributed to policy in significant areas, supporting moves in Southeast Asia's largest economy towards a more open trade and investment regime, improving financial supervision and crisis management.

Australia and Indonesia have been working together on economic governance since the major financial crisis of the late 1990s. Building on an earlier Technical Assistance Management Facility (TAMF) and its iterations, AIPEG commenced in December 2009. Today AIPEG is a 7.5 year facility with a sizeable budget of AUD 111 million. Nonetheless, this represents only a small component of Australia's overall development assistance to Indonesia over the same period (around 3%).

As a facility, AIPEG works to catalyse change, but without the same degree of control over outcomes as a project or program. AIPEG's seeks progress towards three long-term objectives: stronger economic institutions, well-functioning markets, and better management of public resources. As a result of a mid-term review in 2011, AIPEG's objectives were reframed to be more explicit about policy and areas of engagement. It placed an overarching emphasis on competitiveness, and took a wider focus for each of the four principal areas of engagement, namely finance, revenue, spending and markets.

The evaluation team finds that this refocusing paid off. Indeed, AIPEG's most significant contributions have occurred in the years since the mid-term review, enabled by a renewed push for reform by the Indonesian government. AIPEG was well placed to support such reforms owing to its expertise and long-standing relationships with senior Indonesian officials, built up over years of Australian government support. There is a strong likelihood that many of the significant outcomes will be sustained.

To capture the breadth and depth of AIPEG's engagement, this evaluation adopts a case study approach focussed on what worked, why and in what context.  A sample of 30% of the budget for activities was built into ten cases. To develop the cases, almost 100 interviews were conducted with Indonesian government officials, AIPEG advisors and other stakeholders, including DFAT, international organisations and representatives from the private sector. The case studies constitute the main evidence base for this evaluation's findings.

### Stronger economic institutions

This evaluation finds that AIPEG has contributed significantly to stronger economic institutions through support for a landmark law on financial crisis management, passed in 2016. AIPEG's support to the Financial Services Authority, the OJK, one of the key agencies contributing to better financial supervision and regulation, has also been significant. Gender awareness in planning and economic agencies has also been strengthened, supported by AIPEG amongst others.

### Well-functioning markets

AIPEG has also made a solid contribution to well-functioning markets, with a focus on services and business licences. The Indonesian Services Dialogue, an industry group, and the services directorate in the trade ministry, both established with AIPEG's assistance, have been influential in promoting important reforms. This includes cancelling of 38 restrictive licenses in the trade ministry in 2015. Also, greater liberalisation of the "negative investment list" in 2016 is expected to boost private investment in the services sector with the potential to raise GDP by 1% (US $8 billion) and employment by 0.5% (500,000 workers).

### Better management of public resources

AIPEG's progress improving management of public resources has been more mixed owing to the scale and complexity of local challenges. Among its strong outcomes, AIPEG generated greater awareness of the need for far-reaching tax reform. Also, the introduction of tools for multi year budgeting, along with standard budget definitions and concepts, made it easier for policymakers to identify efficiency gains for the purpose of overall budget control. However, progress was more limited in the area of tax administration because of the absence of strong drivers for reform along with the difficulty of outsiders influencing change only from within the tax office.

### Value for money

Overall, this evaluation concludes that AIPEG has delivered good value for money. AIPEG's most valuable cases were in the area of fiscal strategy and better financial crisis management; these represent good value for money because their potential economic impact is high relative to AIPEG's much lower investment. If, as expected, the new institutional arrangements for financial sector supervision help Indonesia avoid even a moderate sized financial crisis, the savings will amount to over US $10 billion - more than 120 times AIPEG's entire budget.

Other high-impact examples of AIPEG's work include boosting the services economy, and improving financial regulation and supervision, although these two investments were more expensive. AIPEG committed considerable investment to better tax administration and better-quality spending at line ministries but the outcomes achieved so far have been limited. Gender activities, meanwhile, have had an impact in some institutions and at a low cost.

### Contribution to Australia-Indonesia partnership

This evaluation finds that AIPEG has contributed appreciably to strengthening the bilateral relationship. AIPEG has enabled strong links between Australian and Indonesian institutions. Similarly, cooperation, trust and respect between AIPEG managers and Indonesian government ministers and officials are strong. For the private sector, AIPEG has contributed to more business opportunities, including through reforms that promote trade, investment and that reduce the cost of doing business.

### Lessons for the future

A commitment to learning has been one of the hallmarks of AIPEG's successful engagement. In determining what works, this review identifies these critical factors (over page).

### What makes AIPEG work?

**Working with decision-makers** – All of AIPEG's contributions to success have been contingent upon its ability to access and work effectively with key decision-makers in the Indonesian government.

**Flexibility and patience** – AIPEG adapts to changing operating environments by re structuring support; scaling–up or scaling-down; and sometimes even withdrawing until such time as the Indonesia government itself is ready to act.

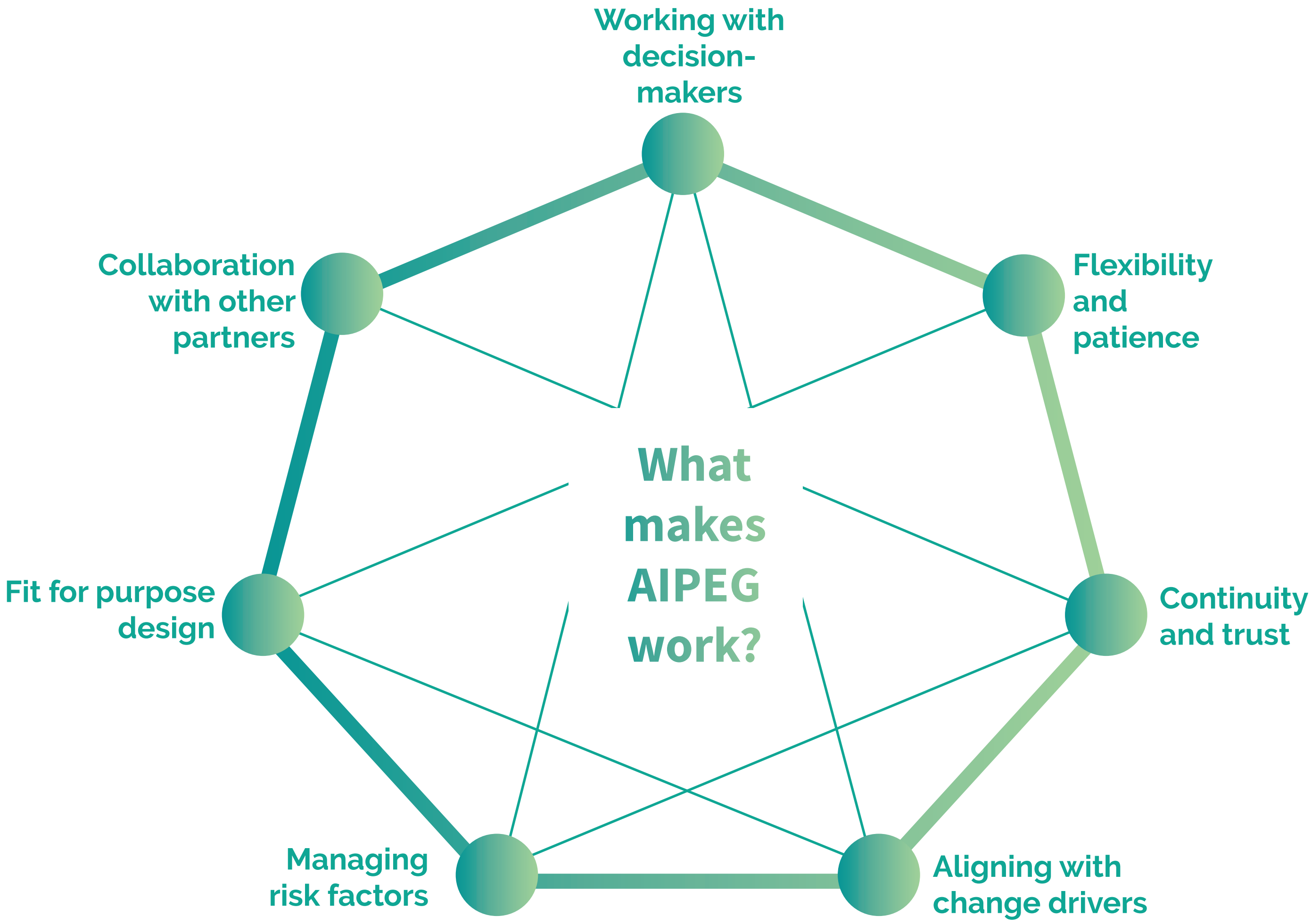
**Continuity and trust** – AIPEG is clearly seen as a trustworthy and reliable partner that provides continuity in personnel and the delivery of services.

**Aligning with drivers of change** – In several cases, AIPEG was successful because it was well prepared, with appropriate evidence in hand, to support the Indonesian government when it was ready for reform.

**Collaboration with other development partners** – AIPEG and the Government Partnerships Fund, other DFAT programs and other agencies collaborate well and often add value to each other's work.

**Managing risk factors** – AIPEG is agile in the face of uncontrollable developments within and outside Indonesia, including through effective risk analysis and flexibility in pursuing pragmatic ('second best') solutions.

**Fit for purpose design** – AIPEG's 'toolbox' provides for a range of diverse approaches to achieve outcomes including: a combination of advisory and institutional-building support; testing and sequencing interventions; adult learning approaches and engagement with the private sector.




> Not all these factors were present in every successful case. But, in cases where investments did not catalyse change, too many of them were absent. Regular testing against these factors will ensure that the next facility continues to be strategic, effective and forward-looking.

# Evalution Approach

# | Focus on Results

The AIPEG evaluation focussed on outcomes, looking for what worked and why. The primary evaluation questions were:

- What significant economic policy or institutional changes have occurred with AIPEG support?
- How has the AIPEG facility as a whole progressed towards achieving its outcomes?

A series of sub-questions assessed AIPEG's contribution to change, sustainability, support for the Australia-Indonesia economic partnership and gender equality outcomes, among others.

The evaluation adopted a case study approach developed as 'Performance Stories' as a practical way to apply contribution analysis. Individually the cases examine causal links, and cumulatively all the case studies were brought together to answer the evaluation questions.

To identify activities to build into cases, the following sampling criteria were applied:

1. Groups of activities with the highest level of funding.
2. Activities that support the evaluation goal: What significant economic policy or institution changes have occurred with AIPEG's support?
3. Activities spread across AIPEG's five engagement areas (markets, finance, spending, revenue, economic policy).
4. Other special considerations (including gender, and private sector).

Around 30% of AIPEG's activity budget was covered in the 10 case studies. To build the cases, almost 100 key informants were interviewed including government officials, former Ministers, staff from AIPEG, DFAT other programs, private sector and international agencies. The evaluation team also reviewed substantial secondary data including AIPEG reports, other agency reports and publicly available data.

To compare across cases, and build an overall picture of AIPEG's impact, the following criteria were applied:

1. Feasibility (practical objective, well informed, reasonable chance of achieving results).
2. Client (specific and willing lead in the Indonesian government).
3. Coherence (clear sense of purpose, rethink when needed, if change of direction occurs-based on logical reasons).
4. Quality (significant contribution to AIPEG goals, outcomes verified by Indonesian and Australian partners).
5. Value for money (quality of outcomes versus the budget).
6. Quality of evidence (key informants, source documents).

To validate each case and the overall findings, the independent experts conducted multiple focus group discussions with AIPEG staff. The AIPEG Knowledge Management Team then verified the evaluation findings with officials from AIPEG's sponsor agency (Coordinating Ministry for Economic Affairs) and each partner agency involved in the cases.

The evaluation process had a high degree of participation from AIPEG staff, DFAT and Indonesian government partners to encourage learning and collaboration and keep building on what works.

# Case Snapshots

# Boosting the Services Economy

## Opportunity

Although growing, Indonesia's services sector is under developed and ranks below that of its ASEAN neighbors[1] . As Indonesia began to develop a vision for the services sector, a Directorate for Trade in Services Negotiations was formally established in the Ministry of Trade.

With the assistance of international partners, the Indonesian Services Dialogue (ISD) was also established in 2010. The ISD is a tri-partite organisation consisting of the Ministry of Trade, private member companies, and the Centre for Strategic and International Studies. The ISD encourages policy and regulation to underpin growth of services in Indonesia.

## AIPEG Contribution

AIPEG support in this area built upon the earlier work of Australia's Technical Assistance Management Facility (TAMF). Initially, the emphasis was on basic research on Indonesia's service sector, including a series of reports for trade in services negotiations. This was followed by institutional support for the Ministry of Trade and professional development of staff. Once capacity was established, the focus shifted to policy issues with the trade ministry and also the Indonesian Services Dialogue, largely funded by AIPEG.

Combined these developments have supported significant changes for Indonesia in the area of services. The services sector research reports supported analysis of compliance with international agreements such as the World Trade Organisation, the Indonesia Japan Economic Partnership Agreement, and ASEAN agreements. The Ministry of Trade's Directorate for Trade in Services Negotiations and trade in services negotiation team assisted Indonesia to meet several ASEAN targets ahead of time (in the case of AFAS-8) and secure acceptance of Indonesia's package of commitments under the final AFAS[2] .

AIPEG supported the Ministry of Trade with analysis of the economic case for reducing restrictions on services, with an uplift to growth and employment. In 2016, changes to the 'Negative Investment List' (DNI)[3], paved the way for increased investment in services sectors including construction, tourism, transportation and cold storage, entertainment and retail trade.

Nonetheless, Indonesian services sectors still have many restrictions, limiting potential growth. AIPEG aims to continue working with the Ministry of Trade and ISD to address these restrictions and promote more open, competitive services sectors in Indonesia's national interest.

### Investing in services

Indonesia's changes to the "negative investment list" in 2016 are expected to open up more services sectors to investment, including in potentially significant areas of cold storage, construction services, tourism and retail trade. The boost in private investment could raise GDP by as much as 1% (US $8 billion) and employment by 0.5% (500,000 workers).

[1]Findlay, Christopher and Mari Pangestu (2016), 'The Services Sector as a Driver of Change: Indonesia's Experience in the ASEAN Context', Bulletin of Indonesian Economic Studies 52 (1): 27 53.

[2]ASEAN Framework Agreement on Services.

[3]Presidential Regulation No. 44 of 2016.

# Streamlining Trade Licensing

### Opportunity

Indonesian businesses of all sizes operate within a complex framework for licensing and regulation. The World Bank's 2012 'ease of doing business' survey implied that Indonesia was more like a low- than a middle-income country. 'Starting a business' was particularly slow, in substantial part because of long processing times for licenses. Reforms in this area were promoted by former Ministers of Trade, reflecting also the goals of Indonesia's Investment Coordinating Board.

### AIPEG Contribution

AIPEG supported the Ministry of Trade to re-engineer business processes around a new 'one stop' licensing authority (known now as Unit Pelayanan Perdagangan - UPP). The activity started quickly around end-2012 with good support from senior ministerial officials. Shortly after the licensing authority was set up, it had responsibility for almost half of the Ministry of Trade's domestic licences and more than one fifth of import licenses. The authority won the 2012 'Open Government Indonesia Initiative' presented by the Vice-President for transparency and innovation in bureaucratic reform.

By 2013, progress had slowed and AIPEG took the opportunity to review 200 licensing regulations managed by the Ministry of Trade. In 2014 the initiative found a champion in the Vice-Minister for Trade and the authority grew to cover 27% of the Ministry's licensing functions. In 2015, AIPEG applied its experience in license administration by supporting similar steps to improve the 'one-stop shop' in the Ministry of Trade's Futures Trading Regulatory Agency.

Also as part of the first economic policy package in 2016, the Ministry of Trade simplified 38 permits for various trading activities, based on the earlier review of licenses. This included eliminating some cumbersome requirements of importers and making compliance with food labelling standards easier.

As a key indicator of impact, Indonesia's overall ranking in the World Bank's Cost of Doing Business Survey for 2017 has improved significantly. It rose from a rank of 128 out of 185 countries in the 2013 survey to 91 in 2017. In the 'Starting a Business' category for 2017, Indonesia received special recognition for creating a single form to apply for the company registration certificate and business trading license; both are administered by the Ministry of Trade's licensing authority.

Although the Ministry of Trade administers a large number of licenses (at least 350, mainly for export and import of goods), this is a relatively small proportion of Indonesia's overall licensing regime, which encompasses several technical ministries and many regional governments. This is an area for further work going forward.

# | Better Financial Crisis Management

### Opportunity

The 1997 98 Indonesian financial crisis was one of the most expensive bailouts in history. The crisis also had a devastating impact on households, halving nominal GDP per capita.

Indonesia's drafting of a financial crisis management law began in 2003 but enactment proceeded slowly. The advent of the 2008-09 global financial crisis triggered a temporary emergency law (Perpu) to deal with a problem bank. However, parliament subsequently rejected the Perpu, reflecting opposition to bail-outs using public funds, as well as measures seen to be protecting banks, politicians and regulators. By 2012, an atmosphere conducive to reform had re-emerged, gaining momentum in 2014 and culminating in the passing of the law in 2016.

### AIPEG Contribution

AIPEG support began with financial crisis simulations and revival of the financial stability committee (now known as the Financial System Stability Forum or FSSK). The simulations gathered together the four members of the FSSK - Bank Indonesia, Ministry of Finance, Financial Services Authority, and Deposit Insurance Commission. Participants were presented with a crisis scenario and worked to resolve it.

The scenarios tested how well the evolving regulation worked in practice. The 2012 and 2014 crisis simulations assisted with re drafting the financial law and also resulted in agencies reviewing their crisis management protocols and early warning systems. In 2014, the Indonesian government took charge of the simulations, with AIPEG and other agencies as valued observers, and the 2014 and 2015 exercises focussed on testing the draft law. A 2016 simulation tested the implementing regulations.

AIPEG further supported the financial stability committee to understand international good practice in financial regulation and to draft parts of a legal framework. In doing so, AIPEG collaborated with the Australian regulator, APRA, the World Bank and International Monetary Fund (IMF).

The eventual Financial Crisis Prevention and Mitigation Law passed in April 2016 sets the rules for authorities in managing a financial crisis. Capacity to monitor for signs of financial crisis is in place and is being continually enhanced. Nonetheless, some concerns remain that the law does not go far enough to ensure a major financial crisis will be fully addressed, particularly due to limitations on the use of public funds. International agencies such as the IMF have identified this as an area to work on going forward.

# Improved Financial Regulation and Supervision

## Opportunity

The crisis of 1997-98 devastated Indonesia's financial sector, owing in substantial part to weaknesses in financial supervision, especially of banks. In 2011 Indonesia passed a Law Concerning Financial Services Authority. This mandated that supervision of Indonesia's capital markets and non-bank financial institutions be transferred from the Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) of the Ministry of Finance, to a new Financial Services Authority (OJK) as of December 2012. Oversight of the banking industry was to be transferred from Bank Indonesia to the OJK a year later. This was a major step for Indonesia and widely interpreted as a golden opportunity to overcome a major structural weakness.

## AIPEG Contribution

Australia has a long history of support for regulation and supervision of Indonesia's financial sector. Based on earlier engagement with the Ministry of Finance's Monitoring and Governance unit (charged with monitoring government contracts with state banks), and later Bapepam-LK, AIPEG was well placed to support the establishment of OJK. This included help with OJK's organisational structure and governance arrangements; transition plans; human resources strategy and remuneration model; job descriptions and selection process; and financing model through levies on industry.

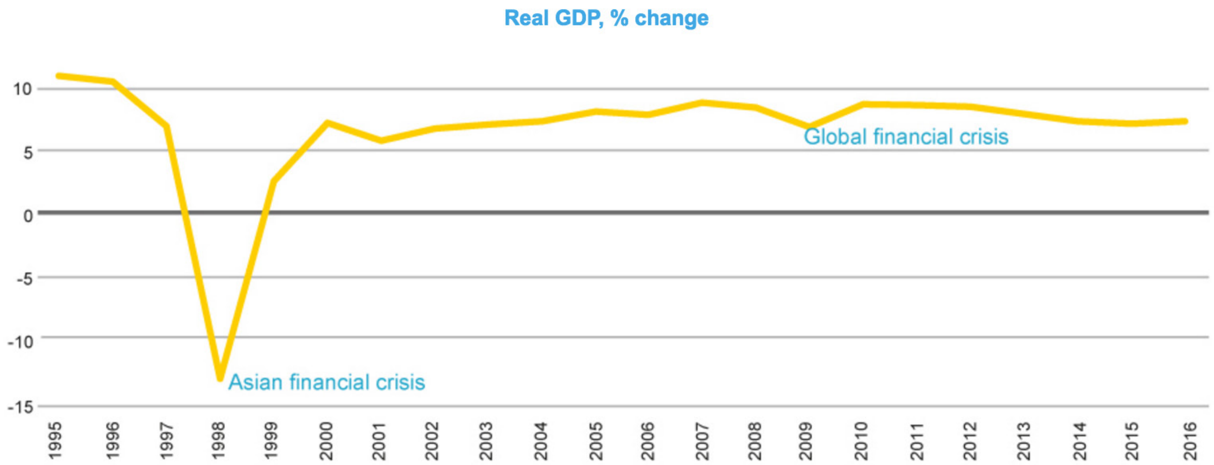
As OJK took shape, AIPEG's emphasis shifted to more operational issues, including: conglomerate supervision; consumer protection and dispute resolution; financial crisis simulations; and regulatory improvements in line with reviews by the Basel Committee (Regulatory Consistency Assessment Program) and International Monetary Fund (Financial Sector Assessment Program). In the area of consumer protection, the OJK Customer Service Unit received international standard certification for its quality management system in 2016.

AIPEG also collaborated well with other partners to deliver support to the Indonesian government. This included Australian regulators APRA and ASIC, the World Bank (particularly on aspects of non-bank supervision), and the International Monetary Fund and World Bank for crisis management simulations and protocols.

### The cost of a crisis today

If Indonesia is able to avoid a moderate-sized crisis, say one fifth of the size of the 1997-98 crisis, Indonesia would save roughly US$10 billion. This is approximately the same as GDP lost during the growth slowdown from 2007 to 2008. AIPEG support for the Financial Crisis Prevention and Mitigation Law, financial crisis simulations, protocols and financial regulator, OJK have contributed to the critical task of avoiding a damaging financial crisis.

**20 years ago today: A precipitous plunge in GDP**



# | Better Quality of Spending

### Opportunity

Budgeting in Indonesia is largely done on a year-by-year basis. But many policies require multi year funding commitments. Although Indonesia adopted a Medium Term Expenditure Framework (MTEF) in 2003, Indonesia lacked the accounting policies and tools to put it into practice effectively. This results in uncertain funding and potential for budget cuts to priority spending, as occurred in 2016 with cuts to infrastructure spending.

### AIPEG Contribution

In 2015, AIPEG started developing an improved budget IT system together with the Ministry of Finance. This built on earlier work with the Ministries of National Development Planning (Bappenas) and also Finance on planning and budgeting.

Innovations include:

**Standard output and activity classifications:** Standard definitions and output/activity terminology allow Finance officials to benchmark costs and identify savings in support functions such as: administration; human resources; and legal services.

**More disciplined budget estimates:** For the first time, budget ceilings for the current year are explicitly based upon last year's forward estimates of that year's budget. This increases transparency, discipline and lessens discretion and opportunities for negotiation.

**Better practices:** A new regulation introduces best practice processes[4]. For example, improving the ability to move from a 'Spending Unit' based budgeting to a 'one door' approach means that budget estimates are based on adjustments by approved senior officials.

Indonesia has successfully implemented the initial stage of an MTEF for the 2017 budget, which is a significant achievement. The estimates in the new budget application were also used as the starting point for the indicative budget ceiling for the 2018 budget. However, much remains to be done to improve its quality and embed operations.

Over 2012-2015 AIPEG also experimented with direct support to three line ministries for better multi-year budgeting and planning but this was less successful. As the new budget framework and the roles of agencies such as Bappenas and Finance was still evolving, changing budget processes in Health, Public Works and Home Affairs could not occur until these issues were resolved. As a result, AIPEG has now focused more resources on improving systems with Finance and Bappenas.

An area for further work is integration of budgeting and planning. As part of the Medium-Term Development Plan 2015-19, AIPEG supported MTEF guidance for ministry strategic planning documents. A recent regulation[5] aims to add clarity on responsibilities and emphasises the importance of a single source of data. AIPEG will continue to work with Finance and Bappenas on these issues.


[4] Minister of Finance Regulation No. 163/PMK.02/2016 dated 31 October 2016, on Guidelines for Development and Review of Work Plan and Budget Plan of Ministries/Agencies and Endorsement of Budget Implementation Checklist.

[5] Government Regulation No. 17/2017 on Synchronising the National Development Planning and Budgeting Processes.

# | Foundations for a Long-Term Fiscal Strategy

## Opportunity

Indonesia has a reputation for good macroeconomic management[6]. Nonetheless, maintaining economic and fiscal stability requires concerted effort. Indeed, AIPEG recognised that the macroeconomic outlook raises concerns that there is a structural weakening in performance, particularly low tax revenues compared with spending needs. By 2015 it was clear among development partners and officials that a stronger evidence base was required to convince policy makers. AIPEG collaborated with Tim Asistensi, a group of senior Indonesian policy advisers, to design a strategy to promote the urgency of tax reform.

## AIPEG Contribution

During 2015 and 2016, AIPEG and Tim Asistensi prepared an analysis of the fiscal outlook over the next two terms of government (i.e. until 2024). This longer-term perspective was intended to support development of a common position among economic agencies on the fiscal environment, and to prompt policy responses.

The findings were striking – a fast-growing gap between spending and revenue of around 2% of GDP by 2019, growing to 6% by 2024. In other words, on current plans the budget deficit is structural (not temporary) and widening, implying significant policy choices need to be taken now, if the Indonesian government hopes to spend according to its identified priorities.

By 2019, absent revenue measures, government spending will fall flat (as a share of GDP), including in priority areas such as infrastructure, health, education and social assistance.

The study was presented to the Offices of the President and Vice President, the Coordinating Ministry for Economic Affairs, the Ministry for National Development Planning, and Ministry of Finance.

[6]In 2016 Indonesia ranked 30 out of 138 countries for 'macroeconomic environment' (one of 12 pillars under the World Economic Forum's Competitiveness Index).

The framework enabled AIPEG to be responsive to government requests to model budget impacts of policies such as the Tax Amnesty. Further work has also been undertaken with key economic agencies on a consistent macro-economic framework to support budgeting and economic-policy making. In late 2016, the Minister of Finance and Coordinating Minister for Economic Affairs established a Tax Reform Team, including AIPEG as an Observer.

# | Foundations for Better Tax Administration

### Opportunity

At just 11% of GDP, Indonesia's tax ratio is insufficient to meet rising infrastructure, social and economic expenditure needs commensurate with a middle income country. For most of AIPEG's lifetime, primary responsibility for raising the tax ratio rested with the tax administration. Reform was viewed as offering the potential for a high payoff but equally, a reform that would be challenging to deliver.

### AIPEG Contribution

AIPEG's tax administration support was shaped by global and domestic developments. The Global Financial Crisis of 2008-09 was impacting tax collections just as AIPEG was starting in 2009. In an attempt to reverse this trend, in early 2011 AIPEG focused on improvements within the Directorate-General of Taxation. This included human resource management; tax audit; debt management; and anti-corruption measures, such as internal investigations.

This case study reviewed support for internal investigations and later organisation-wide risk management. By 2014 there was some evidence that officer-level capability in internal investigations had been enhanced - although the extent to which this has been sustained was less clear. By late 2014, AIPEG pivoted towards a more organisation-wide risk approach working on prevention rather than costly remediation. Despite initial momentum, an 'enterprise risk management' approach has not yet taken hold more broadly.

Progress was limited over the period 2011-2015 due to loss of external drivers of change and AIPEG's inability to influence change from within the tax office. The Tax Reform Team formed in 2016 and budget imperative to urgently raise more tax, support renewed optimism that critical reforms can take place.

AIPEG support to tax administration also leveraged cooperation between the Indonesian and Australian tax offices, including in the areas of risk management, integrity frameworks and investigations procedures. A good relationship has been established between the tax offices for cooperation going forward.

# | Evidence-Based Revenue Policy

### Opportunity

Revenue policy is developed by both the Directorate-General of Taxation and also the Fiscal Policy Agency in the Ministry of Finance. With a renewed focus on addressing persistent revenue shortfalls, the Indonesian government is building tax policy capacity to determine the best tax mix (e.g. company, personal income or goods & services taxes), appropriateness of tax rates and exemptions, and more evidence-based assessment of new tax proposals.

### AIPEG Contribution

Since 2015, AIPEG has supported the Fiscal Policy Agency, and to a lesser extent, the Directorate-General of Taxation to build an analytic agenda to assess the impact of specific revenue policies. AIPEG has also supported professional development opportunities for officers and encouraged government officials to engage with business taxpayers for better policy development.

Initially, economic analysis was often provided quickly and responsively by AIPEG, owing to the need to address a backlog of policy analysis. Now, in most, but not all situations, the work is undertaken in close collaboration with the Fiscal Policy Agency and also the Directorate-General of Taxation.

AIPEG has contributed to better quality advice and policies being developed by the Fiscal Policy Agency, including: income tax policy proposals (inheritance tax and voluntary disclosure); proposed changes to the Value-Added Tax law; and analysis of budget impact of the Tax Amnesty.

The Fiscal Policy Agency has emerging capability in revenue policy-making. Going forward, there may be opportunities for AIPEG to help officers be more proactive in the policy arena. Such an agenda may emerge from the work of the Tax Reform Team, and AIPEG could assist the Fiscal Policy Agency to analyse, prioritise and respond.

# Gender in Policy, Planning and Budgeting

### Opportunity

Indonesia's approach to translating gender equality into national policy has been gender mainstreaming[7]. The idea is to bring gender issues in from the margins and fully integrate them into policy, planning and budgeting so it becomes usual practice. Gender mainstreaming is not an end to itself, but a strategy to achieve gender equality.

### AIPEG Contribution

Since 2010, AIPEG, along with other development partners, has supported the Indonesian Government to strengthen gender in the National Medium Term Development Plan.

Over time the medium-term plan has evolved from adopting gender as a general cross-cutting issue, to promoting gender-responsive planning and budgeting, and now highlighting the goal of gender equality. AIPEG also contributed to the National Strategy to Accelerate Gender Mainstreaming in Planning and Budgeting (and an update of the Strategy is currently underway).

AIPEG has also supported training on gender budgeting and measures to increase gender mainstreaming at an institutional level, such as an annual competition in the Ministry of Finance.

Although gender is prominent in planning documents and budget guidance[8], the evidence on improved economic outcomes for women and girls is less clear. The World Economic Forum's Global Gender Gap report identifies political empowerment and economic participation as the biggest gaps for Indonesia going forward[9].

More recently, AIPEG has undertaken analysis of women's economic participation, uncovering persistent inefficiencies and gender gaps in the labour market. The Indonesian government, through the leadership of Bappenas, has convened a series of forums involving officials and external stakeholders to discuss this work and translate the findings into policy and practice.

There is an opportunity now for AIPEG to further build on its analysis of women's economic participation with the goal of tying gender work more directly to its broader work program and in policy development with the Indonesian government. In promoting policy change for gender equality and women's empowerment, AIPEG will need to continue to leverage leadership with its key partner economic agencies. The prior support for gender mainstreaming provides a basis for this going forward.

[7]Presidential Instruction (INPRES) 9/2000.
[8]Each year since 2009 the Ministry of Finance has issued annual decrees on preparing Gender Budget Statements.
[9]World Economic Forum, Global Gender Gap Report 2016.

# Better Management of State Assets

### Opportunity

The Indonesian government holds around IDR 770 trillion (AUD 77 billion) worth of miscellaneous assets, such as office buildings, land and also many non-core assets such as hotels and shops. Not all are being used effectively, and some have laid idle for decades. Until 2015, management of state assets was handled by an internal department at the Ministry of Finance's Directorate General of State Assets (Direktorat Jenderal Kekayaan Negara – DJKN). At DJKN, no single person or unit had specific accountability for addressing under used assets.

In 2015, DJKN determined that it would set up a new Public Service Agency, Lembaga Manajemen Aset Negara - LMAN, and requested support from AIPEG, building on earlier advice on asset management from the Australian Government Partnerships Fund and AIPEG.

### AIPEG Contribution

AIPEG supported the Ministry of Finance and LMAN leadership with support on institutional set up of LMAN, and specialist property services to convert idle assets into revenue-generating ones. Institutional advice included: business planning, budgeting and financial projections; organisation structure; data management; code of conduct and corporate governance framework.

Importantly, AIPEG supported the Indonesian government to set Key Performance Indicators for LMAN that reflect both revenue generation and also cost savings through allocation to best government users. This will ensure the right incentives are in place for creating value for society.

As a separate Public Service Agency, LMAN has the following advantages:

Focus on optimising asset utilisation: Options include lease, joint operation, private partnership and reinvestment of returns to improve the earning potential of assets.

Financially independent: LMAN has the ability to apply revenue raised to upgrading and maintaining assets. It can also return any surplus to general government revenue.

More flexibility in procurement of personnel and services: For example, LMAN can engage private sector specialists such as property experts and procure legal services to settle claims over assets.

The road ahead is challenging due to the time consuming process of negotiation to secure assets for management and convert asset to use. However, by May 2017, LMAN had already generated IDR 49 billion (AUD 4.9 million) in new revenue and is on track to double its revenue take to IDR 65 billion (AUD 6.5 million) in 2017, up from IDR 26 billion (AUD 2.6 million) in 2016.

# Recommendations and response

# | From the AIPEG Management Team

AIPEG management commissioned an independent evaluation to determine:

What significant economic policy or institution changes have occurred with AIPEG's support; and How the AIPEG facility has helped Indonesia.

AIPEG management welcomes the finding that the facility has delivered important outcomes. These outcomes are particularly evident in financial regulation and fiscal management. The evaluation's endorsement of AIPEG's approach, which has evolved since AIPEG's mid-term review, is also welcome. The essential features of AIEPG's approach include:

**The AIPEG "team"** - a stable team of specialist managers in central management and across engagement areas that have a deep understanding of Indonesia as well as long-standing relationships and credibility. This strong in-house capacity and extensive relationships are complemented by specialised short-term expertise.

**AIPEG's strategic focus** – a strong evidence-based strategic anchor of increasing Indonesia's competitiveness that applies across AIPEG engagements and shapes activities around critical policy themes.

**AIPEG's flexible facility model** – the facility structure enabled AIPEG to adopt its form of the Problem Driven Iterative Adaptation (PDIA) model which, while flexible, is disciplined by well-defined objectives and oversight mechanisms.

AIPEG also welcomes the evaluation's useful insights into 'what works and why' to guide AIPEG's activities and its successor. The evaluation team identified seven factors that make AIPEG work. These factors have been incorporated into AIPEG's planning and budgeting process and shaped AIPEG's revised Engagement Design Documents approved by the AIPEG Advisory Board Co-Chairs in June 2017.

AIPEG agrees that a critical mass of success factors is necessary. In particular, flexibility and responsiveness, within an agreed policy framework, are two distinguishing qualities of AIPEG often cited by Indonesian government partners.

AIPEG is pleased to see that many economic policy or institutional changes are likely to be sustained through Indonesian leadership, laws or regulations with a clear intent to enforce, and ownership at multiple levels in the bureaucracy. This includes economic reforms in critical areas such as revenue policy, diversified financial sector and stability, improved budget systems and greater access to markets.

Other measures towards sustainability adopted by AIPEG include innovative ways of working, such as Tim Asistensi (group of senior Indonesian policy advisers) and the Indonesia Services Dialogue (private sector industry group).

Through these avenues, AIPEG aims to provide greater Indonesian leadership and ownership of the reform agenda, and ultimately an exit strategy from traditional development assistance.

Yet there is still much to be done to deliver greater prosperity and stability for Australia's near neighbour. It is early days in terms of Indonesia's reformed economic institutions. The Asian crisis triggered the collapse of political and economic institutions that had delivered remarkable growth for 30 years. While progress has been made, the challenge of building economic policy and capacity commensurate with the needs of an emerging middle-income economy remain considerable.

Against this background, any evaluation of AIPEG or similar programs needs to be seen through a long-term lens. The management team anticipates that this will continue to be necessary into the new program.

# Recommendations and AIPEG Response

| Recommendation | Response | Action |
|---|---|---|
| **Continue the engagement strategy approach. AIPEG should remain focused on thematic priorities following a 'big picture' strategic focus coupled with a risk-reward assessment for individual investments.** | AIPEG agrees | AIPEG has updated engagement designs, as presented to the AIPEG Advisory Board in June 2017. Clear outcomes have been set for each of the five engagement areas. Under engagement areas, individual activities are proposed by AIPEG advisers and reviewed by the management team to ensure: contribution to outcomes; Indonesian and Australian government support for the reform; inclusion of gender, private sector and other cross-cutting dimensions; and confidence in the activity being delivered on time and on budget, in line with value for money principles. Engagement areas and activities are continuously reviewed for effectiveness and aligned with the design for the next program. |
| **Make greater use of 'step by step' or phased engagement and look at the experience of other agencies already (or previously) operating in the same space, as well as considering carefully designed pilots. This strategy would further build on the good use AIPEG has made of scoping studies and maintaining a watching brief in some areas. In select cases, significant investment could still proceed on a high risk-reward basis with careful mitigation strategies.** | AIPEG agrees | AIPEG continues to undertake scoping or diagnostic studies in areas that are aligned with AIPEG objectives but were previously unexplored, as well as in areas where the entry points or comparative advantage for AIPEG need more definition. One example is AIPEG's approach to tackling Indonesia's fertilizer subsidy – an issue that cuts across agricultural productivity, competitive markets and social assistance. In doing so, AIPEG is drawing on the experience of other agencies operating in the space.<br><br>Collaboration with other agencies is a key quality of AIPEG. AIPEG works closely with Australian institutions under the Government Partnerships Fund, including Australia's financial regulators (ASIC, APRA), the tax office, and departments of Treasury and Finance. AIPEG also complements the work of other development partners, including the World Bank and IMF. Similarly, AIPEG shares insights and aligns activities (where appropriate) with other Australian programs in the areas of infrastructure (KIAT/INDII), governance (KOMPAK, KSI) and gender (MAMPU, Investing in Women), among others.<br><br>In limited cases, investments will proceed on a high risk-reward basis. An example is preparation for Indonesia's core tax system. Although a long-term endeavour of perhaps 5-8 years, a modern tax system, consisting of new IT system and better processes is the key to sustaining increased revenue. AIPEG is helping develop a reform roadmap and system specifications to facilitate the procurement of a new system. AIPEG's risk management strategies include: milestone-based engagement of consultants, Indonesian government commitment (as specified in the government's budget); and leadership from Indonesia's Tax Reform Team (multi-agency support for reform). |

| Recommendation | Response | Action |
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| **Continue to commit to better knowledge management and evaluation. AIPEG should consider increasing opportunities for learning across and between engagement areas particularly with Indonesian partners. More 'small-scale' impact assessments of outcomes supported by AIPEG would also be worthwhile, including quantifying changes and also capturing the benefits of avoiding bad policies.** | AIPEG agrees | Since mid-2016 AIPEG has built a strong knowledge management team. The team has expertise in monitoring and evaluation (M&E), communications, design and knowledge-sharing tools. AIPEG resourcing for M&E, in particular, has increased significantly. In 2015-16 M&E was 1.2% of AIPEG annual spend. In 2016-17 this rose to 3.4% of annual spend.<br><br>AIPEG's knowledge management team has integrated more M&E into activity design and delivery and continues to trace impacts of reforms, after the event, to assess significance. This includes changes in services sector investment in 2017 following opening up of the 'negative investment list' in 2016. AIPEG will also undertake another case study on support to doing business reforms – a more recent AIPEG activity stream. Methods to capture the value of avoiding potentially negative policies may be explored, but this is also something for the next program to address in more depth. Although performance reporting frameworks usually look for positive changes in policy or institutions, avoiding some policies can be an important part of AIPEG's contribution, amongst others (e.g. avoiding investment restrictions on e-commerce).<br><br>To increase learning and collaboration with government partners, AIPEG knowledge management team conducted around fifteen feedback sessions with government officials on the results of the AIPEG evaluation. |
| **Sharpen the focus and promotion of gender equality initiatives, including through economic analysis, policy development and across engagement areas. For example, in the revenue area AIPEG could support the analysis of gender related distortions in the existing tax code and in any proposed reforms.** | AIPEG agrees | AIPEG has substantially increased resourcing for gender and social inclusion. In 2015-16 specific resources were 1.2% of AIPEG annual spend, in 2016-17 this increased to 2.9% of annual spend.<br><br>AIPEG is moving to a more integrated strategy for gender equality. In the revenue area, AIPEG is advocating gender neutral tax policy by analysing how tax regulations influence female labour supply decisions, household savings and the tax base. In spending work, AIPEG is supporting Indonesia's efforts to improve gender responsive budgeting and planning (through a new acceleration strategy). AIPEG aims to promote financial inclusion through development of technology solutions (fintech). In the markets area, work on the digital economy holds significant potential for women, and quantifying the benefits of increased female labour-force participation is helping to build a stronger evidence-base for policy reforms. |

| Recommendation | Response | Action |
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| **Build the success factors identified in this evaluation into investment criteria for future engagements and activities. The factors underpinning 'Lessons for the Future' provides a useful list for managers in the design of new initiatives and also periodic health checks.** | AIPEG agrees | These factors are a helpful checklist for AIPEG. They shaped AIPEG's revised Engagement Design Documents presented to the AIPEG Advisory Board in June 2017, and are informing management approval of individual activities for the remainder of AIPEG. |

Australia Indonesia Partnership
for Economic Governance