

STUDY OF AUSTRALIA'S APPROACH TO AID IN INDONESIA:

Final Report

**A report to the Panel conducting the Independent Review of Aid
Effectiveness**

28th February, 2011

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This report was written by Charles Tapp following an extensive document review, 10 days in Indonesia and a week with AusAID, whole of government and NGO staff in Canberra. Initial findings and recommendations were presented to the Aid Effectiveness Independent Review team in late January and this final report incorporates some the team's observations.

The author would like to thank all those who gave generously of their time. Particular thanks are due to Danielle Heinecke, Shannon Rooney, Sofia Ericksson and Fiona McIvor in Canberra, and Jacqui Delacy, Widy Thajeb and the super-efficient Benita Sommerville in Jakarta. Thanks are also due to Margaret Reid and Bill Farmer from the Aid Effectiveness Independent Review team who overlapped for some of the author's time in Jakarta and who provided significant insights and information.

The contents of this report are the views of the author only. Given the timeframes set for the review it was not possible for one person to cover all of the necessary detail in an objective manner. Many of the findings and recommendations are, of necessity, subjective in nature.

Some parts of the report may be interpreted as critical; this should not in any way be seen as a reflection of the commitment, professionalism and dedication of AusAID or other Australian Government staff.

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LIST OF ACRONYMS

Every attempt has been made to reduce the use of acronyms in this report. Unfortunately the development industry suffers from a surfeit of acronyms, mostly unnecessary. The author apologises for any gratuitous acronym usage that has unwittingly crept into the report. The following were deemed helpful to be included.

ADB	Asian Development Bank
AIFDR	Australia-Indonesia Facility for Disaster Reduction
AIPRD	Australia-Indonesia Partnership for Reconstruction and Development
AUSAID	Australian Agency for International Development
BAPPENAS	Indonesian National Planning Department (also responsible for donor coordination)
DAP	Direct Aid Program (implemented by DFAT, funded by AusAID)
DFAT	Department of Foreign Affairs and Trade (Australian Government)
DfID	Department for International Development (UK Government)
EINRIP	Eastern Indonesia National Roads Improvement Program
EU	European Union
NGO	Non Governmental Organisation
PAF	Performance Assessment Framework
PM&C	Department of Prime Minister and Cabinet (Australian Government)
PNPM	National Programme for Community Empowerment (Indonesian Government)
REDD	Reducing Emissions through Deforestation and Forest Degradation
SES	Senior Executive Service of the Australian Government
UN	United Nations

1. EXECUTIVE SUMMARY

The Australian aid programme to Indonesia is effective and offers good value for money. The programme has grown significantly from \$120m/year in 2003 to \$450m/year in 2010 and this scale-up has been achieved professionally and with efficiency. Indeed it is something of a model for further AusAID scaling up globally in the coming few years. The Government of Indonesia, at the most senior political and bureaucratic levels, considers Australian assistance to be excellent and AusAID to be the donor agency of choice. Unquestionably the Australian aid programme to Indonesia has had a very positive impact on the bilateral relationship between the two countries. The proportion of Australian aid funding passing through Indonesian government systems has increased markedly and AusAID's programmatic and financial safeguards are robust. Further use of government systems is encouraged.

AusAID programmes in the areas of education, infrastructure, poverty reduction, social protection and economic governance have been for the most part highly effective. There are no glaring bad programmes in the other sectors and AusAID has done a good job of closing or re-orienting poorer performing activities.

UN agencies funded by the aid programme have tended to perform poorly and the development banks have a mixed scorecard. While more funding can be, and should be, channelled through the development banks, AusAID should be more assertive in demanding better performance.

Overall the aid programme to Indonesia has a strong performance and results culture, though more can be done to simplify results frameworks and align them with Indonesian Government indicators.

Australian whole of government aid activity in Indonesia is inadequately coordinated and has a proliferation of programmes. Some Australian agencies and departments are delivering very effective activities, others less so. A significant portion of the aid budget to Indonesia should be set aside (10%) for a single whole of government competitive fund.

The greatest constraints to future effectiveness and further growth of the aid programme to Indonesia are corporate in nature, not programmatic. Budget, human resources, risk management and corporate information processes in AusAID need to be reviewed and improved with some urgency if the agency is to meet the Australian Government's planned increase in the aid budget to 0.5% of gross national income by 2015. The timeliness, efficiency and costs of AusAID design processes leave a great deal to be desired.

The three sectors where significant scale-up can occur effectively, with widespread use of partner government systems, are education, infrastructure (including through a second generation of loans) and poverty reduction/decentralisation. These three sectors have also been selected by AusAID management for scale-up and the thinking around how this can be done is generally good.

2. CONTEXT AND METHODOLOGY

The Australian Government has commissioned an Independent Review of Aid Effectiveness, to be undertaken by a panel of five experts chaired by Mr. Sandy Hollway. As part of this Effectiveness Review, the panel has commissioned a number of studies to assist in the overall analysis of the effectiveness and efficiency of the Australian aid programme. One of the commissioned studies is to examine and evaluate the scaling up of the Australian aid programme to Indonesia, hence this report. The rationale for choosing this focus is that the Indonesia programme was the first to scale-up, courtesy of the \$1bn post-tsunami Australia-Indonesia Partnership for Reconstruction and Development (AIPRD). It is also now Australia's largest bilateral aid programme and is expected to increase in size significantly over the coming five years in line with the Australian Government's commitment to see ODA levels reaching 0.5% of gross national income by 2015. Please refer to Annex I of this report for the full terms of reference for the Indonesia review.

The time-frame for this review of the Indonesia programme was of necessity short and the methodology was very simple, commencing with a document review of strategies, evaluations, designs, independent completion reports, mid-term reviews and other documentation pertinent to the programme. The author then visited Indonesia from 3rd-14th January for consultations with Government of Indonesia, Australian government and civil society representatives and some field visits. Consultations were then held in Canberra from 17th-24th January with Australian government and civil society representatives (see Annexes II and III for a summary of consultations in Indonesia and Australia). An interim summary of findings and recommendations was submitted to the Aid Effectiveness Review Panel on 28th January (see Annex IV for a summary of the main findings and recommendations contained in this report). This final report is submitted to the Panel to support their broader analysis and deliberations.

Given the time constraints and the fact that the review was conducted by one person, it has not been possible to delve into great detail. Many of the findings and recommendations are unapologetically subjective in nature or rely on evaluations and assessments of others.

For the purposes of simplicity the report is divided into three main sections:

- i) An assessment of the current Australian aid programme to Indonesia and the lessons learned from the process of scaling up over the past five years;
- ii) Corporate issues and obstacles faced in a further scaling up of the programme over the coming five years.
- iii) Recommendations on modifications, emphases and improvements necessary to the current aid effort to facilitate greater effectiveness in the context of an expected further increase in the size of the aid programme to Indonesia.

Most of the findings and recommendations apply to AusAID given that it is responsible for over 80% of Australian aid to Indonesia. Specific recommendations are included for other whole of government aid contributions. While efforts were made to cover other Australian government department activities in Indonesia, this was extremely difficult since there are over 100 separate projects outside of the AusAID budget. Accordingly, the bulk of this report applies to AusAID and its work, which in itself highlights a problem with the dispersed and un-coordinated nature of Australian government aid funding and activity in Indonesia. It should not be taken that this report, by omission, considers much of the work done by other government departments to be good or successful. On the contrary, for the most part the information is simply not available.

This report makes no judgements as to the rate or scale of overall further increases in the size of the Australian aid budget to Indonesia. It simply accepts that there will be a significant increase.

This report assumes a level of knowledge of the Australian aid programme to Indonesia and will not provide an outline for the reader. For background information please consult the AusAID website: www.ausaid.gov.au.

3. Assessment of the Current Australian Aid Programme to Indonesia

3.1 The scaling up of the aid programme to Indonesia (from \$120m/year in 2003 to \$450m/year in 2010) **has for the most part been achieved successfully, both in terms of overall effectiveness and efficiency.** Since the last evaluation in 2007 (“Assessment of the Indonesia Country Program Strategy 2003-2006”, conducted by Chris Hoban, Charles Tapp and Helen Moody), AusAID has made impressive progress in its policy influence and leadership, delivery strategies (especially the greater use of Government of Indonesia systems) and reaching larger numbers of poor people throughout the country. AusAID in Indonesia has been very well led at the Minister Counsellor level and also at the Assistant Secretary level in Canberra.

The scaling up of the AusAID programme has been rapid, triggered by the \$1bn financial commitment by the Australian Government following the appalling 2004 Boxing Day tsunami. The 2007 evaluation cited the unprecedented challenge faced by AusAID in scaling up, delivering new soft loan programmes in education and infrastructure, dealing with various bombings and security challenges, plus juggling the demands of the Indonesian Government’s decentralisation programme. These challenges were immediately compounded by the tragic and untimely death of Alison Sudradjat, the inspirational AusAID Minister Counsellor, in an air crash. The 2007 evaluation stated “By any standards, the response of the Australian aid program, in the face of these events and of AusAID and other government agencies in Indonesia in managing through this tumultuous period was outstanding.” While the past four years have been a little less tumultuous, the performance of AusAID and many other government departments has continued at the highest level.

3.2 The Country Strategy for the period 2008-2013 (The Australia Indonesia Partnership Country Strategy 2008-2013) **remains partially relevant, though there is not full alignment with the Indonesian Government’s new medium term development plan.** While well conceived and the product of a long and costly consultation process, the Strategy is not a living document and is not the main guiding force to the aid programme’s development and evolution. This questions whether so much time and effort should be put into strategy development. It would seem to be more sensible to develop a shorter 10-year broad directional statement and then more detailed two-year implementation strategies with associated rigorous performance frameworks.

The Performance Assessment Framework (PAF) for the strategy has not been followed and does not provide a basis of assessment of success and effectiveness of the programme. That said, it is not a particularly well considered performance framework and is short on sector coherence. Some recent decisions to expand the programme in new directions, especially the poverty reduction and social protection work, have been sensible, so the issue is more the utility of a six-year strategy document as a guide to programme evolution.

3.3 **Programme Focus.** The terms of reference for this review specifically asked for an assessment of the "... extent to which the aid program suffers from, or has managed to avoid, problems of fragmentation." Simply put, **the current aid programme is too fragmented and requires further consolidation.** AusAID management has successfully reduced the number of initiatives, activities and agreements (AusAID language for programmes, projects and contracts) over the past 24 months: the number of initiatives is now 75, compared to 120 in 2009. Whole-of-government activities have proliferated in the last few years. However, even for AusAID more consolidation is necessary. Having so many initiatives is not efficient and demands an unnecessary amount of administration.

3.4 **The Government of Indonesia's view of the Australian aid programme is very positive at all levels.** Based on extensive consultations with government officials and ministers (see Annex II), Australia is repeatedly described as the donor of choice and is viewed as being responsive to Indonesian needs. That Australian aid is so well viewed, even in the President's and Vice President's offices, speaks volumes for the level of coordination, collaboration and engagement between the two governments on aid policy and implementation. The aid programme clearly has a very positive impact on the bilateral relationship between the two countries, which is a significant finding. Indonesia and Australia are close neighbours and the future stability and prosperity of both countries are interlinked at a number of levels. It is testimony to considerable hard work from both governments that the Australian aid programme has such a positive impact: a decade ago the programme comprised a number of disparate stand-alone projects that were not integrated with Indonesian Government priorities and initiatives. While AusAID is now praised for being responsive to needs and flexible, it is also criticised for its cumbersome and time-consuming programme planning and design. This issue is taken up further later in this report.

3.5 **There is a very strong commitment to performance management within AusAID and some good progress is being made.** For the most part the quality and impact of the aid programme to Indonesia is good, with some exceptions that are captured later in this report. That said, the sector Performance Assessment Frameworks (PAF) are patchy in both quality and utility, and there are far too many of them. There is a lack of consistency in the development of the sector PAFs, and a lack of discipline over their completion and application. Objectives and indicators are often crafted very differently. It is still unclear how much the PAFs are being used as a management tool in order to influence decision-making: this would seem to be essential in order to justify their complexity and time demands. AusAID performance measures are not fully aligned with Government of Indonesia measures.

AusAID Indonesia is still to finalise a country-level PAF (though some good work is being done on this and a draft is at an advanced stage), which makes assessment of overall programme performance and quality difficult. As mentioned earlier, the original PAF contained in the country strategy is not followed.

The Annual Programme Performance Review report is comprehensive and shows commendable frankness. In this one management document there is the possibility to capture the effectiveness and efficiency of the programme. Overall, this is an excellent exercise and the Indonesia team's decision to produce an interim six-month report is to be commended. However, the sector

coverage is too disparate and greater consolidation needs to occur. Once again there is a danger that a bunch of separate sector silos will develop without adequate overall cohesion. There appeared to be little management follow-up to actions and recommendations identified in the Annual Programme Performance Review until last year. The Minister Counsellor now has her annual performance assessment based on the management actions identified in the Review. This approach should be followed more widely.

3.6 A review of evaluations, project completion reports and mid-term reviews tells an interesting story and highlights some valuable lessons. **AusAID Indonesia is good at ensuring evaluations and reviews occur and the quality of some of them is high, though many suffer from a lack of evidence to support findings and recommendations. There is little consistency in their terms of reference, objectives and even in clarifying what they are for and for whom.** This is not unusual for AusAID and indeed most donors. Evaluation plans for programmes are generally weak and at a purely subjective level it appeared that management has not generally used evaluations to inform decision-making. At least there is now a formal management response to every evaluation, even if they can be a bit insipid and non-committal. Some lessons from recent evaluations and reviews include: i) many programmes and projects are over-ambitious in claims of what can be achieved and more realism is required; ii) better data is required on programmes in order to provide proper evidence of progress and success or failure; iii) multilateral agencies tend to have poor monitoring systems; iv) at the design stage insufficient time is spent on choosing the best delivery mechanism and form of aid. While this latter point is a common lesson derived from the evaluations, the reality is that for the most part the choices of forms of aid appear to be sensible and appropriate.

AusAID is working hard to simplify and strengthen its approach to monitoring and evaluation of its programmes through “Standards for Monitoring and Evaluation” and an accompanying capacity building programme for AusAID and partner staff. This is a good initiative and it bodes well. Consolidation and standardisation of monitoring and evaluation systems is long overdue and the current situation is disparate, overly-complex and of marginal benefit in terms of providing useful information.

3.7 The AusAID programme in Indonesia is more aligned with Indonesian government systems than most other parts of the bilateral aid programme and over 30% is being funded directly through the Government of Indonesia budget system and 20% using its procurement systems. The proportion through the Indonesian budget system will increase to well over 40% in the next 24 months or so as new programmes in the education and poverty/decentralisation sectors come on line and the use of government procurement systems will also rise. **There is great diversity in the forms of aid and for the most part this diversity is well considered and appropriate.** AusAID is approaching fiduciary risk sensibly and seriously and good systems are in place to help ensure quality and value for money. Long term advisers account for just under 5% of the total value of the programme, which is very low. Direct investments are high. Technical assistance is a small but important part of the programme. High level technical assistance is greatly valued by the Indonesian Government and it is requesting more high calibre people and advice.

There are some important lessons that can be taken from the AusAID experience of working through Indonesian Government systems: i) establishing successful programmes takes time and effort and a shared understanding of the objectives from both sides; ii) AusAID staff involved in programmes that operate through partner government systems should have strong public financial management skills and training in forms of aid; iii) successful programmes for the most part evolve from smaller beginnings; iv) strong partner government leadership is required from the ministerial and departmental head level; v) there is no ‘one size fits all’ approach and careful choices need to be made as to the manner and depth of engagement; vi) AusAID corporate systems and budgeting are geared to support stand-alone projects, not partner-government managed programmes where e.g. expenditure is less predictable; vii) robust fiduciary assessment is required up-front and AusAID should avoid imposing a parallel fiduciary monitoring system; viii) contracting companies can play an invaluable role in supporting programmes operating through government systems (e.g. SMEC in support of the transport loans or Cardno in support of the education loans).

3.8 The Australian whole of government aid effort presents a very mixed scorecard. The evaluation in 2007 highlighted the lack of coherence of the “whole of government approach”, mixed performance in capacity building, normally linked to the varying abilities of Australian departments and agencies to deliver international development assistance. Not a lot has changed. **There has been no consolidation of whole of government activities in spite of clear evaluation recommendations.** Indeed the current situation, with the exception of ACIAR (which has consolidated its activities sensibly) is worse than in 2007. In FY2009/10 there were 103 individual activities and projects implemented by government departments and agencies outside the AusAID budget to a total expenditure of \$39.5m, and 38 whole of government activities funded by AusAID to a total expenditure of \$14.6m. Commitment to effectiveness is very mixed and there is no coordination of the disparate efforts. Officials in BAPPENAS complained of Australia’s lack of internal government coordination and multiple approaches and activities, which distracts and hampers Indonesian officials. All of this said, there are some clear examples of Australian departments contributing considerably to Indonesian development outcomes, notably in the economic governance sector where officials from e.g. Treasury, the Tax Office and the Department of Finance are highly valued by their Indonesian counterparts and are having a solid impact (e.g. on increased Indonesian government tax revenue). Australian Federal Police (AFP) support for counter-terrorism has been very successful, though current efforts on counter-people smuggling are harder to assess. It was beyond the scope of this review to delve into the work of most other government departments.

Some Australian government departments lack the capacity to work overseas to any real standard and greater rigour is needed in determining who and what should be funded from the aid vote. DFAT does a good job of coordinating the policy efforts in counter-terrorism, security and people-smuggling, though it is beyond the Department’s remit and capacity to assess the implementation in these sectors. However, there is no proper coordination or oversight of much of the other work outside of AusAID’s and DFAT’s main priorities and many departments and agencies seem to resist the idea of such oversight and coordination. This needs to be rectified. It is also a paradox that the department receiving little support from the aid budget is DFAT: \$250,000 per year for its small Direct Aid Programme (DAP) is woefully inadequate. There is no reason why greater development funding could not be provided for activities of enlightened mutual self-interest between Australia

and Indonesia. For very small sums of money the administrative requirements should also be simplified.

It is surprising that there is not a regular high-level policy IDC in Canberra focused on Indonesia. So many departments have engagement in Indonesia that some sort of overarching policy perspective would appear to be essential. DFAT and PM&C are not ensuring proper whole of government policy coherence, which is in turn necessary for helping ensure full aid effectiveness and coherence.

The amount of time that AusAID is expending in support of other government departments, administering grants and giving advice is inefficient and unnecessary. Currently 12 full time equivalent staff positions in AusAID support the implementation of whole of government activities (plus the involvement of the Minister Counsellor and Operations Manager in Jakarta and Assistant Secretary in Canberra). If one removes the AusAID staff involved in strategy, policy and design work (including important whole of government strategy and policy work), **whole of government implementation support and oversight accounts for well over 20% of AusAID staff time for less than 10% of the aid budget. Something is clearly wrong.**

3.9 The performance of the multilateral agencies supported by the aid programme is variable.

AusAID Indonesia provides significant funding to the development banks and UN agencies. UN agencies are performing mostly poorly. Even UNICEF, normally a very safe pair of hands, has not delivered to expectations in Papua in the health sector. It is not clear how much the experience of poor UN performance in the field is influencing AusAID policy engagement with the head offices of these agencies. Certainly AusAID staff working on the Indonesia programme are unaware of overall agency policy engagement with the UN. This implies that there should be better coordination and information exchange between the country programmes and multilateral agencies.

The level of funding to the development banks is strikingly high. For example, AusAID currently has just over \$110m in contracted activity through the World Bank, at close to \$35m per year. Performance by the Banks is patchy and surprisingly, with a couple of notable exceptions, AusAID staff are remarkably tolerant of this patchy performance. There is a lack of confidence or willingness to take on staff in the World Bank. Bureaucratic issues in the World Bank are getting in the way of the effective and flexible operation of, for example, both the PNPM Support Facility and the Decentralisation Support Facility. AusAID needs to be much more assertive in cases such as these, should exert more influence on performance given the high investment. That said, this requires the senior expertise to do so which in some sectors is currently missing in the Jakarta team. Interestingly the Government of Indonesia expressed significant frustration over the bureaucratic and slow performance of the World Bank trust funds and one Minister even requested that AusAID take over the management of the PNPM Support Facility and multi-donor trust fund. It is worth AusAID exploring putting out the management of a major multi-donor trust fund to tender: it can be done by a good contractor and this would put the Banks on their toes. Competition is good and the Banks (especially the World Bank) are far too blasé over being the only ones who should manage such funds.

This is particularly important given that any further scaling up of the programme will require a significantly increased investment through the development banks. It is inconceivable that AusAID

will be able to see a primarily bilateral scaling up of its operations to between \$700m-\$1bn per annum by 2015. Greater use will need to be made of the development banks in an equal partnership. AusAID is seen by the banks as primarily a funding source and only secondly as providing expertise and policy capability. This should change.

3.10 The Country Strategy speaks of a **geographic focus in Eastern Indonesia**. The facts belie this, given that most of the programme is national and only some \$60m is specifically focused on the east. Basically Australian aid to Indonesia is national in geographic scope, with some provinces given a level of additional attention. In spite of significant historical Indonesian Government and donor focus on Eastern Indonesia, development indicators are generally deteriorating in the east of the country. This questions the overall development strategy being applied. Attempting to work in a similar manner in Papua to Java is clearly not sensible and it would probably be helpful if a different lens was used when addressing the development challenges of many of the eastern provinces. Recent work on remittances by the World Bank and AusAID is promising given the large migrant populations from some provinces to Malaysia and the Middle East (an estimated \$6bn per annum is remitted to NTB alone). Improving the developmental focus of these remittances in place of their use on consumer goods, for example, could have a significant impact on development indicators.

AusAID needs to rethink its claimed development approach to the East (and is already beginning to do so) and whether any specific focus is indeed desirable. At the very least a better communications effort on geographic focus is required. The current balance of the programme seems right and no greater regional focus should be pursued. However, the programme should not be marketed as having an Eastern focus. It is essentially national with some focus on lagging provinces (e.g. Aceh in the west). Indonesian government perceptions of Australia's claimed focus on the East are illuminating. Most comments were that Australia focused on the east because the area is Christian or that it is closer to Australia. No-one expressed a view that Australia might choose to provide support to less developed provinces, whatever their location.

3.11 **The timeliness, efficiency and costs of AusAID programme (and project) design processes leave a great deal to be desired.** It is very hard to pin down exactly one cause of the problem, they seem to be numerous and the situation is chronic. Many design efforts take an inordinate amount of time, cost a great deal of money and often result in designs of a poor quality that have to be "redesigned" or "retro-fitted". The current health sector design has already taken over four years at a cost of close to \$2m and is still incomplete (see comments on the health sector later in this report). A 10-page concept paper in the rural development sector has currently over 60 pages of contradictory comments, provided over a six-month period. Not surprisingly the design process has stalled. Design work for a long-term elections programme started in 2007 and while some interim, stop-gap activities have continued, the full programme has still not commenced. There are many other examples.

A lack of senior management engagement in the early concept stages is one of the causes of AusAID's poor performance in design. Traditionally Minister Counsellor, Assistant Secretary, First Assistant Secretary or Director General engagement in design processes tends to happen often at the approval stage, or at least the peer review stage. This is far too late. Currently the Minister Counsellor is getting involved at the early concept stage to shape direction, which is a very good

development. Design processes are often managed by junior staff who do not have the necessary skills or experience. When a design is well led within AusAID, the design tends to be good. However, much of the design work is contracted out to consultants of mixed capability. There is too much bureaucracy in the design process and too many people in Canberra become involved to little or no productive effect. The process of the designs for PNPM and the knowledge sector is more promising and some valuable lessons can be taken from them, not least conducting the design in-house. There may need to be a formal role for the Canberra Indonesia desk in monitoring design processes.

The problems associated with design need to be solved quickly since if the Indonesia programme is to scale up in line with overall Australian government commitments to increase aid expenditure over the next four years, the design burden on the AusAID team in Jakarta will be great. It is not unreasonable to expect that over the next 18 months the team will need to design a portfolio of investments of close to \$2bn (even assuming that significantly more funding goes through the multilateral banks). The design task is immense.

3.12 The infrastructure sector is well managed, achieving some significant policy and practical results and is greatly appreciated by the Government of Indonesia. Indeed, AusAID is seen as providing some good sector leadership in road transport, water and sanitation. The infrastructure sector is one of the more effective and better performing in the whole AusAID programme.

While the disbursements under the Eastern Indonesia National Roads Improvement Programme (EINRIP) loan programme are slow by AusAID grant standards, compared to the World Bank loans for roads AusAID is delivering in a more timely fashion and with much greater focus on quality issues. **Overall AusAID has administered loans in the education and transport sector relatively effectively and efficiently.** Disbursement criticism of EINRIP is unwarranted and the criticism is more a reflection of an expenditure imperative in AusAID rather than a focus on effectiveness. This is a somewhat controversial view and warrants some further explanation. EINRIP was designed to channel \$300m in concessional loans through the Government of Indonesia for the improvement of 400km of national roads and 1,300 metres of bridges. The programme is using World Bank procurement systems through the Ministry of Public Works. Only \$92m has been drawn down to date and it is expected that by the time of the loan closure (March 2013) only around \$200m-\$250m will have been spent. Some funds will not be released due to defective work. This sounds more like a poor performing loan. However, AusAID is the only donor really holding the Ministry of Public Works to quality indicators and the quality and safety of the EINRIP roads are demonstrably better than other national road improvements with the same price/km. The World Bank sister project to EINRIP is running three years behind in spite of starting at the same time. AusAID is now having some significant impact at a national policy level, including forcing attention to be paid finally to corruption and poor performance by contractors. AusAID has a real opportunity to help facilitate some significant improvements on the management of the roads sector in Indonesia and to pull back now from national roads would be irresponsible and a waste of the time, effort and money expended to date. Loan funding provides a much more credible presence and given the economic benefit of national roads it makes no sense to finance them through grants. The 2013 loan closure date should be observed in order to make clear Australia's seriousness. The spending imperative should be withdrawn and loan funding should be managed and monitored differently to grant

funding. Chronic underbidding by contractors and the ensuing delays and scope variations could be addressed by establishing fixed price contracts.

Other parts of the transport sector are performing very well. The work of the Indonesia Infrastructure Initiative is impressive and the close cooperation between AusAID, the Indonesian Government and the contractor is to be commended. It is a good example of how the three parties can work closely and effectively across a whole sector programme. The cash on delivery ‘HIBAH’ system of water-supply connectivity is proving a significant success with 33,000 households already connected since May 2010. The overall HIBAH process (run by the Ministry of Finance, developed with AusAID support) holds out great potential for a nationwide roll-out. The work in solid waste, wastewater master plans and policy work in the rail sector is also effective and has promise to see major implementation success. AusAID is supporting BAPPENAS in the preparation of two public private partnership proposals for the market (water supply in eastern Java and Jakarta water supply). The work in radio frequency spectrum reform builds on earlier AusAID success in the secure auction of 3G bandwidth, with the potential of \$2.5bn in government revenues and excellent country-wide spectrum coverage.

In spite of overall very positive counterpart assessment, AusAID has been criticised by the Indonesian Government in the sector for not communicating sufficiently at the inception stages and design of sub-programmes, for variable bureaucratic rules and procedures between activities (a chronic AusAID problem) and also for being at times cumbersome and insufficiently accommodating to requests for assistance. The Indonesian Government wants more high calibre international technical assistance in the sector.

3.13 The Education sector has been much in the public eye and political debate in recent months. It is not the job of this report to comment on the debate, but to provide a balanced view of Australia’s support to the education sector over the past five years and also of the proposed new Education Partnership with Indonesia. However, given the context, this section will be a little more detailed than for other sectors. The importance of education to Indonesia’s development is self-evident: education contributes to economic growth, better health, reduced fertility, lower maternal and child mortality and stronger democratic and government institutions. Australia’s choice to provide significant funding to education (\$437m since 2006) was sensible and for the most part AusAID’s work in the sector has achieved some very positive and concrete results, not least the construction of 2,075 junior secondary schools which has led to local school access for over 330,000 students in the poorer and more remote parts of the archipelago. The construction of these schools would not have occurred in a timely manner without Australian support, or to an adequate standard. Unquestionably Australian support has helped the Government of Indonesia make significant strides in its goal of achieving universal access under its Education for All programme. Moreover, positive and less visible advances have also been made in the areas of support for the Islamic schooling sector, improving learning materials and also simple improvements in the education system.

The Basic Education Program provided \$200m in loans to the Government of Indonesia and accordingly made full use of local financial systems. The loan programme worked well and all funds

were disbursed in a timely manner. The combination of grants (\$187m) and loans (\$200m) was effective and allowed for a successful scaling up of Australian support. Greater progress could perhaps have been made in the area of education quality and improved learning outcomes if the construction component hadn't been so dominant: though the school construction programme was undoubtedly the aspect of the project of greatest interest to the Government of Indonesia.

The Learning Assistance Program for Islamic Schools (2004-2010) has made some significant strides in improving the standards of teacher training as well as equality of learning outcomes for girls and boys. Australia has only supported Islamic schools that teach the national curriculum and its vetting procedures to ensure the schools it supports are committed to pluralism are very robust.

Australia's assistance is greatly valued and it has provided strong leadership in the sector, in spite of weak technical capacity within the AusAID team. The Education Sector Working Group is co-chaired by the Vice Minister for Education and AusAID Minister Counsellor and is becoming a very strong and effective mechanism for donor collaboration with the Government of Indonesia.

The new education sector programme design has not been without difficulties (in terms of timeliness and quality of consultation), however the Education Partnership is for the most part well considered and builds strongly on the lessons learned from previous Australian support to the sector. The Partnership incorporates support and significant co-financing from the ADB and EU and will focus on improving access, quality and management of education services. The partnership benefits from simplicity of activities and significant scale (\$500m over five years), as well as from employing full use of Indonesian Government procurement and financial systems. A brief comment on the four components of the partnership is helpful. Firstly, Australia will support the construction of 2,000 new or rehabilitated lower secondary schools through government systems. This makes sense provided adequate monitoring and safeguards are in place and also provided proper analysis is done on whether in some areas new construction is warranted or whether rehabilitation and improved maintenance offer a better return. The design is suitably flexible to allow for these choices. Secondly, the Partnership will support improved school management by training all 293,000 of Indonesia's school principals, supervisors and district education officials. This is ambitious but does address a crucial impediment to improved learning outcomes, namely poor school management and local resource allocations. Thirdly, the Partnership will aim to improve the quality of Islamic education by helping at least 1,500 private Islamic schools achieve national accreditation, thereby securing the authority to administer national examinations and issue school leaving certificates. Given that a large proportion of Islamic schools are in the poorer parts of the country, education quality tends to be very low. Accreditation lifts quality and also will reduce dependency on external funding, such as that coming from the Middle East. It could be argued that the Partnership could devote more attention to supporting this part of the sector, subject to the capacity of the Ministry of Religious Affairs to absorb more funding and assistance. Finally, the Partnership will contribute to better evidence-based policy and decision-making through access to expertise in evaluation, monitoring and analysis. Indonesia is not alone in seeking this sort of support since data collection is very poor globally in the education sector.

Finally, a brief mention of scholarships, which account for \$42m per annum in expenditure for over 300 new post-graduate places annually. The Government of Indonesia sees this as one of the most

valuable areas of Australian support and a further expansion to 500 new places a year by 2013 is warranted.

In conclusion, **Australian support to the education sector has been well considered and managed and has achieved tangible positive outcomes at a reasonable cost-effectiveness. AusAID's plans for further support to the sector are sensible and have the prospect of building considerably on successes to date. The decision to scale up further in the education sector is correct.** Early thinking on expansion to the tertiary sector is interesting, but beyond the scope of this report to comment further.

3.14 The Health sector is performing well in the HIV & Aids arena, but more poorly on the broader health systems side. There is a lack of coherence to the sector and this is reflected in the PAF where there is no single over-arching objective for AusAID's support. There are merely sub-sector objectives, which create silos of activity and also means that the health sector is really only managed at the initiative level, not at a broader health system level. This is in marked difference to e.g. education and infrastructure. Furthermore, the sector PAF is not aligned with the objectives monitored in the Annual Programme Performance Review. This creates a great deal of confusion over any sort of accountability.

60% of all HIV expenditure in Indonesia comes from donors, while only 6% of funding for the health system. AusAID may be perpetrating inappropriate vertical programming. The AusAID-funded HIV project is performing well and has secured some good impact in prevention, care and treatment programmes as well as promoting strengthened leadership of the national and sub-national response to HIV & AIDS. There is no formal donor coordination in HIV except in the Global Fund Forum which appears to be of marginal benefit. The Global Fund is spending \$300m in Indonesia and Australia is a large donor to the Fund: it is unclear what the role is of the AusAID post in influencing and monitoring Global Fund activities in the country. This is another case where there is very poor alignment between the sector groups in Canberra and the country office.

The lengthy, inefficient health sector support programme design is unacceptable. The design has cost close to \$2m over more than four years and is yet to be peer reviewed. It is heavily focused on capacity building at a central level and seems to be short on ideas for seeing clear improvements in service delivery on the ground. Increased funding through the PNPM *Generasi* programme would arguably be a more effective way of seeing improved service delivery. Given that the Indonesian Ministry of Health has not been particularly cooperative with donors it really does beg the question whether a major investment, in a fairly traditional health systems capacity building programme, is worth the money.

Performance of UN agencies in the health sector has been particularly bad. Funding has been withdrawn for UNICEF's health activity in Papua and for FAO in the area of animal health. AusAID also has concerns over the performance of WHO in Indonesia.

3.15 Performance of the democratic governance sector is mixed, not least due to a lack of clarity over what exactly is meant by the term "democratic governance". This is reflected in commendably frank internal AusAID assessments and working documents. Essentially the sector in

AusAID is comprised of i) elections; ii) law and justice activity; and iii) support to whole of government activities in counter-terrorism, democracy and pluralism. Activities at an individual level have for the most part performed well, though policy engagement in the law and justice sector has been weak. The primary problem is a lack of coherence for the different activities and a definition of what it is that AusAID overall is trying to achieve. There is only a PAF for the law and justice work. Once again there is evidence of a lack of coherence in thinking over sector performance.

Design processes have been very poor, lengthy and expensive. The new Australia Indonesia Partnership for Justice was three years in the making but finally has some direction. As is the case with many AusAID programmes the peer review and wider consultation process tends to see too many additional things added to a solid core design that distracts from overall focus and impact. The elections project has been four years in the making and again is probably a little too complex for sensible implementation. The idea of a competitive grant mechanism is a very good one.

The sector is a success story in reducing the number of initiatives and individual contracts, which had been swamping the team in terms of basic oversight and administration. The two new large programmes will simplify things considerably. The whole of government activities are still very time consuming and further consolidation and simplification is required.

AusAID needs to assess both its views on the funding of democracy and also how it seeks to make use of civil society in the programme. A number of interlocutors commented that AusAID appears to have an ambivalent view of democracy and the use of aid funding in support of it. Democracy is a major focus for the Indonesian government and it would appear that some parts of both governments would welcome greater Australian support for activities in support of democracy. This is linked to a lack of a clear strategy for AusAID on its engagement with civil society. It is unclear whether AusAID sees civil society as an important actor in generating demand for better governance, as an advocate and monitor, or as a provider of service delivery. Civil society can be all of these, but AusAID does not yet have any clarity on its position in any of these areas and civil society is mostly supported in a somewhat ad-hoc manner in individual sectors.

The Australian Government has been requested by the President's office and BAPPENAS to help on bureaucratic reform in the Indonesian public service. There are mixed views as to whether the aid programme can or should become involved in such a major (and much needed) activity. Certainly AusAID should be prepared to drop another sector if it does launch into bureaucratic reform.

3.16 The climate change sector is having mixed results with the development of a carbon accounting system and support to the Government of Indonesia Green Paper process being stand-out successes. Questions remain over the efficacy and value for money of a second REDD demonstration. A bit of background is probably warranted here. Climate change represents an opportunity for Indonesia and Australia to work together to influence global climate change agreements and that diplomatic imperative should not be understated. Indonesia was the first developing country to announce mitigation efforts in the lead up to COP 15 and has requested international support. Norway, World Bank and Japan are all larger donors to climate change activities in Indonesia, though Australia has been a leading partner in international negotiations.

Indonesia is also a large carbon emitter due to high rates of deforestation and peatland degradation. In high fire years Indonesia can rank third on the list of largest global emitters.

AusAID and the Department of Climate Change have a range of activities in Indonesia, with mitigation work being focused on the Forest Carbon Partnership and Reductions in Emissions from Deforestation and Forest Degradation (REDD). As mentioned, the support that Australia has provided in the development of a carbon accounting system has been excellent, as is the effort around the development of the Indonesian Government's Green Paper on low carbon growth. This area seems worthy of much more attention and low carbon growth should be included in the sector PAF. Australia could be doing more in providing much-needed technical assistance through some sort of linkages programme between Indonesian and Australian government agencies.

For the REDD activities, delays have emerged with the Department of Forestry. The current Kalamantan REDD demonstration is a large investment (\$40m) and has had some successes in testing science and methodologies in this relatively new area of climate change mitigation. Australia's well-advanced REDD demonstration on degraded peatlands in the Province should help to shape the provincial response to its high emissions, and Australia can now offer diverse lessons and a level of practical experience on many core elements of REDD, including issues such as community engagement and consultation, technical methods to restore and rehabilitate degraded peat, and MRV systems (measurable, reportable and verifiable carbon emissions). That may provide an opportunity to achieve greater scale and impact, if the current pilot work can be taken up at a provincial scale. Whether this indeed occurs will need to be revisited in a couple of years when the real impact of the demonstration can be better assessed. However, the importance and impact of the REDD demonstration should not be overstated. It is, after all, a highly sanitised environment covering a tiny area compared to the rest of the country. The cause of deforestation and forest/peatland degradation is the behaviour of man. Protecting an area from human interaction is not really the answer. To this end, it is strongly questioned whether the expansion of the programme to a second demonstration site is warranted and good value for money. International experience over the past 30 years on successful, sustainable forest protection and reforestation in protected areas is very poor. Early re-establishment is easy: long term protection from the very forces that caused the destruction in the first place is a different matter. Accordingly, since the REDD science is now much advanced the focus should be on seeing how incentives through a Carbon Fund can benefit local communities and so change the economic forces that drive deforestation and forest degradation. It is far from clear that a new demonstration site would provide any further benefit. This review supports the draft conclusion of the ongoing mid-term evaluation of the Forest Carbon partnership that it might be better to work through decentralised governments (province and district) to support low carbon growth strategies at the local level - and to support national policy development where this option is available.

The development of the latest adaptation activities seems to have been driven by the need for political announcements and a Canberra agenda rather than burning requirements in Indonesia. It is recommended that Australia decide whether it wishes to enter the adaptation field in Indonesia and if so do so seriously, on a demand-driven basis from the Indonesian government.

3.17 The economic governance sector is performing well, even though it is only a small part of the overall programme. Australian assistance has achieved some impressive results and has enjoyed considerable policy influence. The Indonesian Government is particularly praising of some of the technical assistance in this area. The core of the economic governance programme is contained in the whole of government Government Partnership Fund and the Technical Assistance Management Facility (now AIPEG), both established to provide support to the Indonesian Government in improved economic management following the Asian Financial Crisis in 1997/98. The work with the World Bank, International Monetary Fund and Asian Development Bank in this sector has been particularly fruitful and the Banks have performed well. An AusAID public financial management specialist works two days per week out of the World Bank office, an interesting development and one that could be replicated in more sectors. The sector is coherent and the PAF is clear and focused.

To date over 6,000 Australian and Indonesian officials have exchanged expertise under the Government Partnership fund through 15 partnership agreements between respective economic management agencies. The work of Treasury and the Australian Tax Office has been particularly impressive and the Department of Finance has also helped achieve some good progress in assisting the Indonesian Government begin to implement a Medium Term Expenditure Framework and also performance based budgeting. In a period of only a year the number of tax payers in Indonesia increased by 36% to 14.6m with support from Australia. The percentage of tax revenue to GDP has been steadily increasing over the period of tax assistance. The percentage of Indonesian external debt stocks to gross national income fell from 54% to 34% in three years to 2009. The Indonesian government credits Australian assistance for significantly assisting it in its reform efforts and for helping it survive the global economic crisis in 2008/09 relatively unscathed. Responding to a request from the Indonesian Government, an Australian-supported individual was provided to the Fiscal Policy Office to help Indonesia fulfil its G20 commitments and to provide advice directly to the Finance Minister on G20 issues.

Arguably some of the AusAID-supported activities in economic governance are the most influential and effective of the whole aid programme. The danger going forward is that the work becomes a victim of its own success and the lack of any perceived crisis will lead to complacency and a lack of interest from Australian agencies. This must not be allowed to happen. In the Asian financial crisis of 1997/98 an additional 27 million Indonesians dropped below the poverty line. In the global economic crisis of 2008/09 the Indonesian economy continued to grow at 4%. The positive impact on poverty levels of Australian support to the sector is significant, obviously possible due to a reformist Indonesian government and high quality Indonesian capability. More work needs to be done in encouraging and facilitating greater cohesion between Indonesian economic management agencies and institutions.

Greater attention should be given to incorporating public financial management approaches across other parts of the AusAID programme. Also greater public financial management assistance and attention is needed at the sub-national level and in the sharp end of service delivery.

3.18 The recent work in poverty reduction and social protection has been excellent and some of the decentralisation support work is also very good. Targeted support and policy input to the

Government of Indonesia's vast PNPM programme has been of a very high quality and the support provided on social protection issues through the Vice President's office is verging on best practice. Co-location of some activities in the field has been a positive move. However, there needs to be more coherence between the different aspects of the decentralisation, social protection, rural development and poverty reduction programmes. Currently there are three separate PAFs in the whole sector (though it is good to see many Indonesian government performance indicators being incorporated), which is essentially about ensuring services actually reach the rural poor throughout Indonesia. The importance of these programmes cannot be overstated. While the number of people in poverty in Indonesia has been declining steadily, around 15.4% of the population is still below the national poverty line of US\$1.55/day and half the population lives below US\$2.00/day. Poverty is skewed strongly to the rural areas in all aspects of the MDGs. Australia's focus on programmes to support the rural poor is sensible and necessary.

The flagship of Australia's approach is the recent commitment of \$215m in support of PNPM from 2010 to 2015. PNPM is a government of Indonesia community-development project that currently reaches 80,000 villages across the country through direct cash transfers for pre-approved growth-oriented activities, benefitting at least 35m people, the largest community social protection programme in the world. PNPM also enables emergency cash transfers in times of severe economic stress. Australia's support is focused on technical assistance to support PNPM management, improving monitoring and evaluation, strengthening capacity of sub-national governments, scaling up PNPM *Generasi*, (a highly promising pilot programme that targets health and education service delivery), and support for a women's microcredit programme to improve access to finance. Indonesian Government, donors and external observers all comment on the importance and effectiveness of Australia's contribution. This is supported by first hand field evidence. PNPM offers a strong, host-country owned, mechanism for large scale-up of the aid programme that delivers directly to the rural poor, on a national scale. AusAID's policy input is of a very high standard and it is well supported by the strong decentralisation work being undertaken in Eastern Indonesia under the Australia Indonesia Partnership for Decentralisation (which supports supply, demand and knowledge-sharing for better sub-national governance and service delivery). The early PNPM *Generasi* outcomes in the health sector indicate that this could be a better mechanism for delivering on health service delivery and influencing health system management than proceeding down an overly-complex health-sector support project.

Greater use could be made of PNPM delivery mechanisms. Stand-alone projects such as LOGICA in Aceh and ACCESS in Eastern Indonesia are of questionable value for money and while doing some localised good work need to be revisited immediately with a view to bringing to scale. As a simple step the ACCESS training could be incorporated into PNPM facilitator training. This is a clear example of how activities have been allowed to operate in silos without looking at ways to bring greater coherence to the programme as a whole. Similarly the current design work in rural development seems more to be a function of Canberra-driven requirements for discrete budget measure activity rather than the most logical way forward which would be to create a rural development window under PNPM to trial in a couple of provinces and then, if successful, take to scale nationally.

Currently there is also a lack of coherence between this part of the AusAID programme and the other sectors. This is beginning to change, but much more needs to be done. This also highlights the

poor knowledge management systems and practice within AusAID. It is surprising that AusAID still does not have a proper electronic document and records management system. The planned approaches to knowledge management by the Indonesia team are promising and should be supported strongly corporately.

3.19 AusAID has generally responded well to disasters and the legacy of its effective support in Aceh remains very positive in the bilateral relationship. The Australia/Indonesia Facility for Disaster Reduction seems popular with both governments and after a slow start is applying technology to disaster risk reduction well. Some questions remain over its longer term sustainability without ongoing Australian financial support, though Indonesian government funding for disaster reduction and response has increased by 20-fold in two years. The division of responsibilities between the Facility and the disaster response team in the Embassy seems to be clearer than even a year ago and there appears to be good collaboration, though the fragmented funding base adds unnecessary complexity. There is a single PAF for disaster preparedness and response, though it is very Australia-oriented and does not incorporate Indonesian Government objectives and indicators. According to Indonesian counterparts, Australia is a global leader in risk and hazard analysis and they would like to take full advantage of that expertise.

A very quick assessment of Australia's support to the response to the Mentawai Islands tsunami (October 2010) and Mt Merapi volcanic eruptions (October/November 2010) is positive. Australia's offer of assistance was accepted before the Indonesian Government officially requested international aid. AusAID assistance was sensibly in the form of funding to non-government organisations, showing confidence in Indonesia's capacity for disaster response and not undermining that by the deployment of large numbers of international civilian and particularly military personnel. AusAID should invest more in disaster response training and planning for NGOs, multilaterals and faith-based organisations.

4. Corporate Issues and Obstacles to Further Scaling-up of the Programme

The management team of the AusAID Indonesia programme conducted a mid-term review of its operations in 2010. It concluded that while the programme itself was going well, **corporate lacunae and impediments and poor management were hindering greater effectiveness of the programme** and would make further scale-up extremely difficult. This was a correct conclusion. The mid-term review was conducted by James Gilling (Canberra) and Scott Guggenheim (Jakarta) and raised a number of weaknesses that needed further attention, some being management issues. The Minister Counsellor acted immediately and commissioned assistance in building a more cohesive management team and to help her lift the overall quality of the management skills and accountability of senior staff in Jakarta. This work is well in hand.

4.2 AusAID Indonesia is a \$450m/year business, employing 155 staff directly in Indonesia and over 350 indirectly. It is highly complex and politically charged. **The sheer operational delivery demands of such a programme are immense, requiring highly developed management and aid delivery skills and experience.** At the same time, AusAID Indonesia is a public sector entity with APS, Ministerial and Parliamentary demands and strictures. There is a danger that this can be seen as contradictory and the fundamental challenge for management is how to marry the two into a coherent whole. Currently management is falling into the gap between the two, neither fish nor fowl. It is incorrect to believe that running such a large programme can be done simply with excellent public service skills. **What is required of management is excellent operational aid delivery experience and excellent public service skills.** Anything less will be problematic as the programme scales up further. This is not a problem driven by AusAID in Jakarta, it is a wider AusAID issue and can only be remedied in Canberra.

4.3 **Over the past four years the Canberra budget process has effectively driven the evolution of the programme, not the Country Strategy.** Currently AusAID is managing 17 different budget measures within the Indonesia programme, many of which have been developed independently of the country team and are not aligned with the Country Strategy. This is inefficient, hinders development effectiveness and establishes perverse incentives. *RECOMMENDATION: Funding should be provided to AusAID for its broad programmes, not sectoral budget measures.* Information provided by AusAID indicates that central agencies in Canberra are cautiously positive about such a change: anything less will have a significant impact on aid programme effectiveness. Essentially AusAID is being held accountable for delivering on effectiveness while Commonwealth budget strictures undermine the agency's ability to meet that accountability. This seems innately illogical and contrary to sound public financial management.

4.4 There is a fundamental disconnect between the increasing use of Indonesian Government systems and the annual imperative for AusAID programmes to spend all of their budget allocation by 30th June each year. **This year-end spending imperative is leading to inefficient and ineffective use**

of funds in the final couple of months of the financial year. The Indonesian Government follows the calendar year as its financial year, AusAID the Australian financial year. Funds going through Indonesian systems constitute less than 1% of Indonesian government expenditure. To expect the Indonesian Government to go through extra hoops to meet Australian spending requirements is illogical and contrary to aid effectiveness. The result is that there are apparent under-spends in some programmes and in others expenditure is cranked up in the final months of the year for questionable development gains or funds are simply parked in trust funds or transferred to multilateral agencies. The Department of Finance has offered a carry-over facility to AusAID which has been refused, apparently through a concern that SES staff will not ensure funds are spent. That seems to miss the point. SES staff should be held accountable for expenditure through carry-over strictures and if they do not come up to the mark they can be sanctioned, e.g. through a freeze on promotion opportunities for 24 months. RECOMMENDATION: A six-month carry-over facility is necessary for the Indonesia programme and AusAID as a whole, especially when dealing with the relative unpredictability of timing of expenditure through partner government systems and budgets. Loan funding should be treated differently to grant funding and should only have a “life of loan” stricture, not financial year spending requirements.

4.5 Part of the terms of reference for this review asked for an assessment of the devolution of programme management to the field over the past five years. Indonesia is arguably the most devolved of AusAID’s programmes. **By most measures devolution of the Indonesia programme has been successful: the quality of the programme has increased, has much greater policy influence, is significantly more relevant to the Indonesian government and is being administered efficiently and effectively.** The question is whether this would have occurred anyway under a Canberra-managed programme. The answer is probably not. It has not been without problems and the devolved model is not cheap, with a much larger number of staff required in-country. These costs can be offset by greater use of local staff and improved corporate systems and processes. The traditionally most effective of the donors and development actors operate with very strong country operations, such as DfID, the World Bank, the Dutch Government. RECOMMENDATION: It would be a mistake to re-centralise programme management. The key to further scaling up will be to increase the experience and capability of SES management and mid-level management in AusAID. This capability should include aid management, public service, technical and people management skills.

4.6 AusAID human resources systems are acting as an impediment to the efficient management and effectiveness of the programme. There are numerous examples of perverse incentives in the HR systems of AusAID. According to current policy, a good posted officer will have to wait 5 years before being eligible for promotion, compared to two years if not posted. There are no incentives for specialisation in AusAID. Bulk recruitment is not serving the Indonesia programme. Posting decisions do not meet the Jakarta post’s needs. Managers are not in control of their staffing resources. RECOMMENDATION: A major overhaul of AusAID’s HR systems is necessary as a matter of urgency. AusAID executive management seems well aware of the necessity of addressing the human resource constraints and is in the process of strengthening attention in this area.

4.7 A significant number of AusAID A-based staff in Jakarta do not have the requisite skills and experience needed to perform their jobs properly. This is no fault of the staff members themselves. Language skills are inadequate amongst the A-based and until recently there was no

language requirement prior to a posting. It is impossible to have proper interaction with Indonesian Government officials without good Bahasa. Language training is now offered to a maximum of 12 weeks: this is still inadequate. Some staff at the Counsellor and First Secretary level are posted without prior overseas aid delivery experience. Given the size and complexity of the Indonesia programme this is reckless. In some cases it works out well, in some cases it doesn't. In all cases where staff are posted without prior overseas aid management experience their effectiveness in at least the early part of a posting is significantly diminished. It is inconceivable that the Defence Force would post an individual to Jakarta in a senior role without prior overseas military experience or that DfAT would post a Counsellor to Jakarta without a prior posting. Furthermore, proper training needs to be provided in public financial management, forms of aid and negotiation and diplomacy prior to posting (DfID and the Dutch do this very well, often requiring staff to pass exams prior to posting). Without it staff simply do not have the skills and credibility to work effectively with senior counterparts and also colleagues in the development banks. The burden this also places on the Minister Counsellor and Operations Manager is immense. *RECOMMENDATIONS: At a minimum all posted staff should receive six months of language training and should also receive proper training in public financial management and forms of aid. All Counsellors should have prior aid delivery experience overseas. AusAID should establish a programme to ensure staff moving up through the system have adequate overseas experience, including introducing compulsory overseas secondments within the graduate programme.*

4.8 Many staff within AusAID and outside have expressed concern over one aspect of the new remuneration framework for consultants (though such a framework is long overdue and an excellent initiative). **There is a danger that if the consultancy rates are set too low, AusAID will lose some extremely important and effective individuals.** The Government of Indonesia expects world class technical assistance and AusAID needs to be able to respond to this request. Consultancy rates for senior, highly experienced individuals are not out of perspective when compared with the cost of whole of government staff paid for by AusAID and an AusAID posted officer. The Director General's flexibility for approval of rates above the stipulated maximum will be required for the Indonesia Programme.

4.9 **The scope and complexity of the job of the head of AusAID in Indonesia is significantly greater than normally expected of an Assistant Secretary.** The Operations Manager is only a Counsellor role acting up to an Assistant Secretary and the replacement is advertised at a Counsellor level with extra duties. *RECOMMENDATION: The position of head of AusAID in Jakarta should be at the First Assistant Secretary level, supported by 2 Assistant Secretary positions, one for policy and strategy and one for operations. The Assistant Secretary in Canberra should report to the Jakarta-based First Assistant Secretary, who in turn would report to the Deputy Secretary.* The current Minister Counsellor is performing the role admirably and should simply be promoted at post.

4.10 **There is far too much paperwork, reports and processes in AusAID. On a very subjective assessment of the Indonesia programme, something between 50-70% of reports, documents, processes and briefs do not lead to any decisions or actions.** Reporting and compliance are taking the place of proper risk management and the use of relevant management information. This is strangling the agency at all levels. Anecdotal evidence suggests that the increased time spent on reporting, briefing and compliance with increasing numbers of processes is one of the factors

contributing to the poor disbursement rate of the Indonesia programme. Staff are simply not spending their time on the activities that really matter to the effective implementation and delivery of the aid programme. This implies that, when fixed, there is significant “spare” capacity in the agency that can be applied elsewhere. RECOMMENDATIONS: AusAID needs to undertake a fundamental review of its reporting and business processes to create much greater simplicity and efficiency. Until this is done it would be premature to determine future staffing levels since greater efficiency and simplification would free up capacity of existing staff.

4.11 Senior managers are not always focusing on the right things. The current approach to delegations provides incentives for senior managers (SES and to some extent Counsellors) to engage in the development of strategies and programmes only at the final approval stages. This is too late. SES officers must engage in e.g. designs at the early concept stage and should be the ones driving major strategies.

4.12 Management needs to overhaul its approach to risk management and introduce proper accountability for risk mitigation. Risk cannot be managed by reporting and paperwork and simple compliance. While risks seem to be well handled overall, this tends to be done on an ad-hoc basis and depends heavily on the experience of a few of the senior managers at post and on the desk, and is informal, not through the myriad of unnecessary processes or inadequate formal corporate risk format. The lack of a proper risk register is in and of itself a risk. The annual report prepared for Canberra doesn’t catch most of the real risks to the programme and is useless as a proper management tool for ongoing risk management. It is inconceivable that any private sector organization of the size and complexity of the AusAID programme in Indonesia would function without a full and detailed register and proper quarterly executive management review. The Indonesia programme needs to establish a proper, operational risk management register and nominate someone as Risk Administrator. A template of a possible register could cover financial risks, operational risks, political risks, reputational risks, insurance and contractual risks, human resources and security risks, business process risks, IT risks, property risks, environmental risks and health and safety risks. For any risk on the register there is an individual responsible for its mitigation and response. The Management team should convene quarterly as a Risk Committee and have a proper discussion of risk and risk mitigation across the programme. The Deputy Secretary should attend these meetings from Canberra via video conference. RECOMMENDATION: The Indonesia programme needs to establish a proper, operational risk management register and nominate someone as Risk Administrator (the Operations Manager would be the obvious choice).

4.13 The Indonesia programme and AusAID more broadly is poor at saying no to new initiatives. Some good progress has been made in reducing the number of initiatives, activities and agreements over the past 12 months, but there appear to be few, if any, incentives in AusAID for programme consolidation. The budget process doesn’t help. AusAID senior management in Canberra needs to address this issue otherwise further scaling up of the programme will become more resource-intensive and inefficient.

4.14 The AusAID Indonesia team is under-performing when it comes to timeliness of programme expenditure. It also needs to improve its performance on people and team

management, risk management and establishment of proper management accountability. It is well aware of this and good progress is already being made.

4.15 The Effectiveness Review team asked that brief comment be made over the efficacy and interaction between the Indonesia programme and the Canberra-based technical thematic groups. Very little time was spent on this, so observations are very subjective and based on some anecdotal observation and commentary. However, it is clear that the thematic groups are not having much of a positive impact on design processes. Ensuring quality of design is an important element of the thematic group's role: in this regard it is failing in Indonesia. Whether it has any authority to undertake its mandate is another question. It also appears that the peer review process is leading to scope creep on programmes and a simple activity focused on e.g. public financial management may end up after thematic group peer review over-complicated with gender, climate change, HIV, child protection etc... There is an obvious decision-making disconnect within AusAID, and the roles of different individuals and sections needs to be clarified. There is no question that AusAID needs very high calibre technical capability (and especially needs to strengthen its economic credentials across the board) based in Canberra and the field. The high level Canberra-based technical capability needs to have an earlier input to design processes (at the concept stage) and Executive management must decide whether it also has a hard-gate veto role in approving designs.

Overall it would appear that the Indonesia programme has not received much benefit from the thematic groups in Canberra.

5. Recommendations for the Scaling Up of Australia's Aid Programme in Indonesia and its Improved Effectiveness

Scale up and greater effectiveness cannot happen without addressing the corporate issues outlined above. This has to be the top priority. In addition, the following recommendations are offered:

- 5-year country strategies are not serving an adequate purpose. A shorter, broad strategy document should be prepared every five years to provide a 10-15 year directional framework for the programme. Implementation strategies with clear performance frameworks should be prepared every 24 months. Senior managers (SES and Counsellors) should be held accountable for delivery against these performance frameworks.
- Budget funding should be aligned with new two-year implementation strategies.
- The three sectors where significant scale-up can occur effectively, with widespread use of partner government systems, are education, infrastructure and poverty reduction/decentralisation. These three sectors have also been selected by AusAID management for scale-up and the thinking around how this can be done is generally good.
- Evaluations need to be conducted in a more systematic way, with more consistency of terms of reference and with a stronger evidence-base for conclusions. Management responses should be specific and followed-up rigorously. There should be much greater consistency of monitoring and evaluation systems across the programme.
- AusAID should work to ensure that so far as possible its programme monitoring and evaluation systems are in fact Indonesian Government systems. Having parallel monitoring and evaluation is not helpful and AusAID should be prepared to invest in upgrading Indonesian skills and systems, including statistical capacity. This should be done ideally with other donors.
- There needs to be further consolidation of the programme. Consideration should be given to getting out of some activities. A flexible funding mechanism should be established to provide support for small, emerging activities, without requiring large administrative infrastructure. Some of these smaller activities should be experimental in nature. Trialling ideas should be encouraged, including the prospect of some failures. Successful activities would then be built up to scale.
- The management of design processes should be brought in-house. Senior managers should be much more involved in design processes, especially at the early concept stages. Scope-creep through peer-reviews should be stopped. Managers responsible for slow or poor design processes should be sanctioned (e.g. precluded from promotion for 24 months). AusAID will need to devote more resources to design in Indonesia in the coming 18 months

in order to meet the demands of scaling-up the programme. This would be a temporary requirement.

- A significant portion of the AusAID budget in Indonesia (e.g. 10%) should be set aside for a whole-of-government fund. Departments and agencies could apply competitively for multi-year funding. Decisions would be made by a committee comprising the Ambassador, AusAID head of post, BAPPENAS Vice Minister and a Deputy Secretary from PM&C. In time all whole of government activities funded by AusAID would fall under this mechanism.
- For funding of activities outside the AusAID budget, a coordination mechanism co-chaired by the Ambassador and AusAID head of post should meet semi-annually to ensure proper coherence and oversight.
- DAP funding for DFAT should be increased to \$1m/year.
- A senior level policy Inter-Departmental Committee on Indonesia needs to meet regularly in Canberra.
- Realistically for any scale-up to occur, significantly more funding will need to be channelled through the World Bank and ADB and possibly other multilateral mechanisms. There is scope for writing down the cost of IBRD loans through grant funding in some key sectors as well as providing more grant support for design, implementation, anti-corruption and other activities. However, AusAID in Jakarta needs to be more assertive and influential over Bank activities and performance. This needs to be linked to a global strategy by AusAID and Treasury for engagement with the development banks, which currently is sorely missing.
- Funding to the infrastructure sector can be scaled up significantly, especially in the areas of water and sanitation (through the Government of Indonesia Hibah mechanism) and roads. AusAID should stay engaged in national roads and should not walk away from some of the gains achieved to date. This should be funded through another loan. If AusAID does not have the appetite for another loan programme (which would be disappointing), then it should fund one of the development banks to do so under very tight AusAID management and quality control.
- A significant scale-up in funding can be delivered through the poverty and social protection programmes, especially using PNPM as a delivery mechanism. Some consolidation of activities in this area and decentralisation would be desirable and more use should be made of the current practice of placing senior staff in the provinces.
- The education sector also offers great scope for significant scaling-up of activities. Current AusAID thinking for expansion into the tertiary sector is promising.
- AusAID management should think very seriously and quickly about the potential impact of the proposed new Health Sector Support Programme. There may be other more effective

and efficient means to achieve improvements in health outcomes e.g. through the social protection programmes which deliver direct funding and benefits to the population.

- AusAID and the Department of Climate Change should revisit the efficacy of a second REDD demonstration site.
- More funding and attention should be given to the economic governance sector which is performing well. Public financial management approaches need to be strengthened across the whole programme.
- AusAID should develop a clear strategy for its support of civil society in Indonesia and whether it sees it as a deliverer of services or a means of advocacy and generating demand for better service delivery (the latter seems the most relevant in the Indonesian context). Programmes and funding then need to align with this strategy rather than follow the current ad-hoc approach.
- AusAID should develop a coherent approach to its work in democratic governance, including defining what the term means. Both the elections and law and justice designs are too complicated and should be simplified as implementation commences.
- AusAID should build up its knowledge management which currently is very poor by global standards.
- AusAID should finalise a credible PAF for the whole country programme as soon as possible. The sector PAFs need to be consolidated further and made more consistent. Managers should be held accountable for their performance against sector goals and follow-up to Annual Programme Performance Review recommendations.

TERMS OF REFERENCE
Study of Australia's Approach to Aid in Indonesia

1. BACKGROUND

- 1.1 The Australian Government has commissioned an Independent Review of Aid Effectiveness (“the Review”). The Review will be undertaken by a Panel of five persons, chaired by Mr Sandy Hollway AO.
- 1.2 As part of the Review, the Panel will commission studies to assist in the overall analysis of the effectiveness and efficiency of the Australian aid program. One of the commissioned studies will examine and evaluate the scaling up of the Australian aid program in Indonesia. The rationale for this is that the Indonesia program was one of the first to scale up, and is now Australia’s largest bilateral aid program. The study will likely be included as an Annex to the Review.

2. OBJECTIVE

- 2.1 The objective of the Services is to undertake the Study of Australia’s Approach to Aid in Indonesia as set out below.

3. SERVICES

- 3.1 The Contractor shall perform the following Services in accordance with the terms and conditions of this Contract:
 - (a) Undertake a Study of Australia’s Approach to Aid in Indonesia specifically addressing the following:
 - (i) The scaling-up of the Australian aid program in Indonesia, in particular:
 - (A) the appropriate geographic focus of the scaling up, taking into account the history of Australia’s engagement in Indonesia and the total volume of Australia’s assistance relative to development needs and other donors;
 - (B) the appropriate sectoral focus of the program, taking into account Australia’s areas of comparative advantage and development impact;
 - (C) the effectiveness and efficiency of the different forms of aid that have been used to scale-up the aid program, including bilateral projects and programs, partnerships with multilateral organisations, working through partner government systems, and engagement with civil society organisations;
 - (D) the balance between technical assistance and investments;

ANNEX I

- (E) the lessons learnt from the unusually high reliance of the Indonesia program on country partner systems; and
 - (F) the extent to which the program suffers from, or has managed to avoid, problems of fragmentation.
- (ii) The performance of the aid program in Indonesia based both on evaluations and less formal judgments of individual evaluations, and an assessment of overall impact.
 - (iii) Lessons from both the Australian aid program and the programs of other donors on approaches to maximise effectiveness and efficiency in Indonesia.
 - (iv) The appropriate staffing resources for the aid program in Indonesia and in Canberra, including:
 - (A) an examination of the program's approach to efficiency and effectiveness and whether the current systems, policies and procedures in place maximise effectiveness and appropriately manage risks;
 - (B) the impact of devolution;
 - (C) the skills and capacity of staff required to deliver the aid program; and
 - (D) the extent and nature of collaboration with other Australian government departments in the Indonesia program.

**PROGRAM VISIT TO INDONESIA
AID EFFECTIVENESS REVIEW
Charles Tapp
4-14 January 2011**

Tuesday 4 January	14:35	Arrive in Jakarta on GA713	Met by Pak Warsum, AusAID Driver		
	16:30	Check in to Hotel		Four Seasons Hotel	
	16:05	<i>Ms Margaret Reid and Mr Ed Archibald arrive in Jakarta</i>			
Wednesday 5 January	08:00	Depart hotel for Kebon Sirih Office			
	08:45	<i>Mr Bill Farmer arrives in Jakarta from Yogyakarta</i>			
	08:30	Morning with Infrastructure Team <ul style="list-style-type: none"> • Ben Power, Counsellor • Andrew Dollimore, Manager • Patrick Dennis, Manager • Les Robertson, Engineering Adviser – EINRIP • Jim Coucouvinis, Watsan Adviser – IndII • Danang Parakesit, Gadjadaha University and Adviser to the Minister of Public Works 	Contact: Ben Power, Counsellor Infrastructure & Economic Governance	MR1 Kebon Sirih	
	12:30	Lunch break / Free time			
	13:30	Afternoon with Education Team	Contact: Hannah	MR1 Kebon Sirih	

**PROGRAM VISIT TO INDONESIA
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		<ul style="list-style-type: none"> • Hannah Birdsey, Counsellor • Joanne Dowling, manager • Isradi Alireja, SPM • Katie Smith, SPM • Yoyoh Hafidz, PM • Dewi Sudharta, PM • Nieke Budiman, PO • Awalia Murtiana, PO • Mila Nurichlas, PO <p><u>GOI officials</u></p> <ul style="list-style-type: none"> • Dr Rohmat Mulyana, MPd, Ministry of Religious Affairs, Directorate of Madrasah Education • Dr Khamim, Harnowo and Achmad Zufar from the Ministry of Education (Construction Program, Directorate of Junior high School Management) <p><u>Donor partners</u></p> <ul style="list-style-type: none"> • Wolfgang Kubitzki, ADB • Elisabeth Pirnay, EU • Margaret Sancho, USAID • Muhammad Khan, USAID 	<p>Birdsey, Counsellor Education & Scholarships</p>		
	17:30	Return to Four Seasons Hotel			

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	18:30	Dinner with Scott Guggenheim		TBC	
	20:15	<i>Ms Reid, Mr Archibald arrive in Jakarta from Padang</i>			
Thursday 6 January	07:30 – 08:30	Breakfast with Scott Guggenheim – Discussion on policy development (social protection agenda, knowledge sector), Mid-Term Review, World Bank engagement	Aid Effectiveness Review Team	Meeting Room 1, Executive Lounge, 17 th Floor, Four Seasons Hotel	
	08:30	Depart for Embassy			
	09:00 – 10:00	Free Time			
	10:15 – 10:45	Meeting with Jacqui De Lacy & Ambassador	Aid Effectiveness Review Team	Ambassador's Office	
	10:45 – 12:15	Meeting with Jacqui De Lacy and AusAID Management Team <ul style="list-style-type: none"> • Jacqui De Lacy • Margaret Krauss • Gerard Cheong • Ben Power • Petra Karetji • Victoria Coakley 	Aid Effectiveness Review Team	Embassy MR1	

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		<ul style="list-style-type: none"> • Hannah Birdsey • Trevor Dhu 			
	12:15	Depart for Ambassador's Residence	Aid Effectiveness Review Team, Jacqui De Lacy		
	12:30 – 14:00	<p>Lunch to discuss context for development agenda in Indonesia. Invitees:</p> <ul style="list-style-type: none"> • Dr. Chatib Basri (leading economist) • Dr. Dewi Fortuna Anwar (international relations expert) • Sandiaga Uno (Managing Director of Saratoga Capital, leading KADIN official, leading young entrepreneur in Indonesia) • Smita Notosusanto (former director and founder of leading CSOs in environment, public policy, elections and democracy) 	Aid Effectiveness Review Team, Ambassador, Jacqui De Lacy and Doug Ramage (AusAID Governance Adviser)	Ambassador's Residence	
	14:00	Depart for Embassy			
	14:30 – 17:00	<p>Session with Health/HIV/EID team</p> <ul style="list-style-type: none"> • Gerard Cheong (Counsellor (Ag) - Health, Gender and Disaster Response) • Anggiet Ariefianto (Unit Manager, Gender) 	Contact: Gerard Cheong A/g Counsellor, Health, HIV, Gender Section	Embassy MR1	

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		<ul style="list-style-type: none"> • Widya Setyowati (PM – MNH) • Yoshiko Siswoko (PM – EID) • Astara Lubis (PM – HIV/AIDS) • Ria Arief (PM – HSS) • Lea Suganda (PM – HIV/AIDS) 			
	17:00	Return to Hotel			
		End of program for the day			
Friday 7 January	08:30	Pick up from Hotel for Bappenas	Aid Effectiveness Review		
	09:00 – 10:00	Meeting with Prof Dr Armida Alisjahbana, Minister for National Development Planning (Bappenas)	Aid Effectiveness Review Team, Jacqui De Lacy	Bappenas, Main building, Minister's office – Ground Floor, Jl Taman Suropati No. 2 – Menteng	
	10:00	Depart for meeting at Kebon Sirih	Aid Effectiveness Review Team, Jacqui De Lacy		
	10:30 – 11:30	Meeting with Economic Governance Team re whole-of-government engagement: <ul style="list-style-type: none"> • Ben Power (Counsellor, Infrastructure & Economic Governance) • Sally MacKenzie (Unit 	Contact: Ben Power, Counsellor Infrastructure & Economic Governance	Meeting Room 1, Kebon Sirih	

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		<p>Manager, PFM)</p> <ul style="list-style-type: none"> • Melisa Go (Unit Manager, Economics) • Iwan Sriwidiyanto (SPM, Economic Governance) 			
	11:30	Depart for lunch	Aid Effectiveness Review Team		
	12:00 – 13:30	Lunch meeting with Walter North, Country Representative for USAID – discuss working bilaterally in Indonesia and USAID’s strength in working with civil society	Aid Effectiveness Review Team	Hotel Borobudur, Bruschetta restaurant (private room)	
	14:00	Depart for Kebon Sirih	Aid Effectiveness Review Team		
	14:00 – 15:00	Branch Meeting with Aid Effectiveness Review Team	Aid Effectiveness Review Team, Jacqui De Lacy	Meeting Room 2-3, Kebon Sirih	
	15:00	Travel to UKP4 Office	Aid Effectiveness Review Team, Jacqui De Lacy		
	15:30 – 16:30	Meeting with Dr Kuntoro Mangkusubroto, Chairman of the Presidential Unit for the Management of Reform Programs	Aid Effectiveness Review Team, Ambassador, Jacqui De Lacy	Dr Kuntoro’s office UKP4 Office, State Secretariat/SekNeg (East wing), Jl Veteran 3 No. 2	

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		Program ends			
Monday 10 January	07:00 – 08:00	Meeting with Mr Bambang Widiyanto, National Team for Accelerating Poverty Reduction	Aid Effectiveness Review Team, Jacqui De Lacy	Meeting Room 1, Executive Lounge, 17 th Floor, Four Seasons Hotel	
	08:00	Pick up from Hotel for Embassy	Jacqui De Lacy	Embassy	
	08:30 – 09:30	Contacts for the Infrastructure Program <ul style="list-style-type: none"> • Ibu Rita Herlina (sub- directorship Head of Grant) • Pak Yuddi Saptopranowo (Section Head of Grant for Regional IV) • Andrew Dollimore 	Andrew Dollimore	Meeting Room 2 – Embassy	
	09:30 – 10:30	Contacts for the Infrastructure Program <ul style="list-style-type: none"> • Pak Antonius Budiono (Director for Program Development, Ministry of Public Works) • Pak Danny Sutjiono (Director Water Supply Development) • Ibu Rina Agustin (Head Sub- 	Andrew Dollimore	Meeting Room 2 - Embassy	

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		directorate of International Cooperation) <ul style="list-style-type: none"> Andrew Dollimore 			
	10:30 – 11:30	Meeting with Ambassador, Embassy Section Heads. <ul style="list-style-type: none"> Jenny Dee (DFAT) Neil Richardson (Treasury) Pingkan Umboh (DEEWR) Gerard Woodward (DFAT) Bruce Giles, Mark Travers (AFP) Stewart Lawson (Infrastructure) Frances Barnes (ACIAR) Kristen Reeson (Customs) Rebecca Ball (Austrade) Gary Hogan (Defence) Anne Freestone (DIAC) Bruce Wallner & John Ackerman (DAFF) 	Aid Effectiveness Review Team	Level 1 Meeting Room, Embassy	
	11:30	Travel to lunch	Aid Effectiveness Review Team		
	12:00 – 13:30	Lunch with multilateral partners in Indonesia <ul style="list-style-type: none"> Stefan Koeberle (Country Director World Bank) Mr. Shubham Chaudhuri, Lead Economist Mr. Franz Drees-Gross, Sector 	Aid Effectiveness Review Team, Paul Robilliard (DHOM)	Seribu Rasa (Private Room), Jl Iman Bonjol, Menteng	

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		<p>Manager Sustainable Development</p> <ul style="list-style-type: none"> • James Nugent, (Country Director ADB) • El-Mostafa Benlamlah (UN Resident Coordinator) 			
	13:30	Depart for Kebon Sirih			
	14:00 – 15:00	<p>Meeting with Performance & Quality Team to discuss M&E in detail</p> <ul style="list-style-type: none"> • Lukas Adhyakso • Rebecca McLaren • Dwiagus Stepantoro 		Meeting Room 1, Kebon Sirih	
	15:00	Depart for Four Seasons Hotel			
	15:30 – 17:30	<p>Meeting with implementing partners to discuss working with Govt Systems – risks/benefits, issues with implementation</p> <ul style="list-style-type: none"> • David Hawes (INDII) • David Ray (INDII) • Tim Mackay (HIV) • Rob Kingham (LAPIS) • Scott Roantree (BEP) • Mark Pruden (GRM) 	Aid Effectiveness Review Team	Meeting Room 1, Executive Lounge, 17 th Floor, Four Seasons Hotel	
	17:30	Program ends for the day			

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Tuesday 11 January	08:00	Depart hotel for Embassy			
	09:00 – 09:45	Meeting with AFP re ODA programs <ul style="list-style-type: none"> • Mark Travers • Emma Skinner • Tim Dahlstrom 		AFP Conference Room, Level 3	
	09:45 – 10:30	Meeting with DFAT re ODA programs <ul style="list-style-type: none"> • Paul Robilliard • Michelle McKendry • Glen Askew 		Meeting Room 1, Embassy	
	10:30	Travel to Ministry of Education	Paul Robilliard		
	11:00 – 11:45	Meeting with Dr Fasli Jalal, Vice Minister for Education	Paul Robilliard, Charles Tapp, Jacqui De Lacy	MoNE, Building D, 18th Floor, Jl Jend Sudirman – Pintu 1 Senayan.	
	11:45	Travel to Embassy	Paul Robilliard		
	12:00 – 12:30	Lunch / Free Time			
	12:30 – 13:30	Meeting with Department of Infrastructure re ODA programs		Meeting Room 1, Embassy	

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		<ul style="list-style-type: none"> • Stephen Shaw • Stewart Lawson • Michelle Maclachlan • David Ramsay (by teleconference) 			
	13:30 – 15:30	<p>Session with Democratic Governance Team</p> <ul style="list-style-type: none"> • Elizabeth St George • Saiful Doena • Doug Ramage • Ade Ganie • Doddy Kusadrianto • Rosyidah Handayani 		Meeting Room 1, Embassy	
	15:30	Depart for airport	Jacqui De Lacy, Petra Karetji		
	17:40	GA432 Flight departs for Mataram, Lombok			
		FLIGHT REDIRECTED TO BALI – OVERNIGHT IN BALI			
Wednesday 12 January	09:00	<p>Meeting with :</p> <ul style="list-style-type: none"> • H.M. Nur (Provincial Secretary NTB) • Rosiady Sayuti (Head of Bappeda) 	The flight delay meant only the AIPD team were able to meet with Sekda and Head of Bappeda.		

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		Discuss the Australia Indonesia Partnership for Decentralisation (AIPD)			
	11:30	Arrive in Lombok			
	12:00	Travel to AIPD office at Bappeda Office			
	12:15	<p>Lunch, presentation and discussion with ACCESS and partners / NGOs:</p> <ul style="list-style-type: none"> • Ibu Kustiyah (Ibu Gandu) representing the Complaint Center “Mandiri”, Desa Kekerri, Kecamatan Gunung Sari, Kab Lombok Barat – She is a member of that CC who has been trained and mentored by our local CSO partner • Ibu Ririn Hayudiani representing ASPPUK (Asosiasi Pendamping Perempuan Usaha Kecil = Association of Mentors of Small-scale Women-led Enterprises) 	<p>Paul Boon</p> <p>Richard Manning</p> <p>Jacqui De Lacy</p> <p>Petra Karetji</p> <p>AIPD Staff</p>	Bappeda Office	

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		<ul style="list-style-type: none"> • Ibu Dian Ariyani representing one of our capacity-building service providers Mitra Samya where she works part-time. She also ensures that experiences from the Program are integrated in the P2SPP program in West Lombok for which she is a trainer. • Bp Lalu M Amin represented the Central Lombok Government. <p>ACCESS Phase II was represented by:</p> <ul style="list-style-type: none"> • Mr. Paul Boon – Program Director • Mr. Arief Mahmudi – provincial coordinator NTB • Mrs Nanik Munthohiyah and Mrs Idul Fitriatun – program officers for Central and West Lombok • Mrs Fujiani Astuti – Provincial Administrative Officer 			
	14:00	Travel to ACIAR-Bali Cattle Project			
	15:00	<p>Visit ACIAR-Bali Cattle Project</p> <ul style="list-style-type: none"> • DR. Dahlanuddin (Team Leader of ANTARA Bali Cattle support project) 	Richard Manning Petra Karetji	Central Lombok	

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		<ul style="list-style-type: none"> • Ahmad Affandi (On Ground Team) • All members and family of “Laju Reme” cattle group, Kelebuch village, Central Lombok district. 	<p>Jacqui De Lacy</p> <p>Esnawan Budisantoso</p> <p>Anja Kusuma</p> <p>Ade Yuanita</p>		
	16:00	Back to hotel			
	18:00	Back to Hotel			
	19:00	<p>Dinner at the Hotel with AIPD and ACCESS Team:</p> <p>AIPD Team:</p> <ul style="list-style-type: none"> • Richard Manning • John Schottler • Daniel Hunt • Adrianus Hendrawan • Esnawan Budisantoso • Sugeng Prayudi • Ade Yuanita • Anja Kusuma <p>ACCESS Team:</p> <ul style="list-style-type: none"> • Paul Boon • Arief • Fitriatun • Nanik • Fujiani Astuti 		Sheraton Hotel, Senggigi	

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		<ul style="list-style-type: none"> • I Gusti Alit 			
	21:00	End of program			
Thursday 13 January	08:30	Check-out and depart hotel for PNPM project in Lombok Timur			
	10:00	Visit PNPM small infrastructure project <ul style="list-style-type: none"> • Ridha Makruf (PNPM Provincial Coordinator) • Mulyadi (TPK Dasan Geres village) • Hasan (Head of village) • Suhaemi (Posyandu kader) • Baiq Ratna Zaitu (Beauty salon coordinator) • Eka Yuliana (PNPM District Coordinator) • Community of Aik Darek Village, Central Lombok district. 	Richard Manning Petra Karetji Jacqui De Lacy Anja Kusuma		
	11:00	Travel to Restaurant at Masbagik			
	11:20	Discussion and lunch with migrant worker project partner: <ul style="list-style-type: none"> • Roma Hidayat (NGO : ADBMI) • Saleh (NGO: Koslata) • Lalu Suhardi (Bank-BRI East Lombok) 	Richard Manning Petra Karetji Jacqui De Lacy	Restaurant at Masbagik	

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		<ul style="list-style-type: none"> • Warno, Sumantiar, Tresni Dewi, Ma'rip (Government official) • Novi, Amin, Sudirman, Alwan, Fauzi, Zuhriah, Alimuddin (Community) • Rio San (Volunteer – Japan) 	Anja Kusuma Ade Yuanita		
	13:50	Travel to airport			
	15:10	Check-in			
	16:20	Lion Air Flight (JT 653) to Jakarta			
	17:15	Arrive Jakarta			
Friday 14 January	08:00	Depart hotel for Embassy			
	08:30 – 09:00	Meeting with Ambassador		Ambassador's Office, Embassy	
	09:00	Meet Petra Karetji at Embassy, travel to Bappenas	Petra Karetji		
	09:30 – 10:30	Meeting with Dr. Ceppie K. Sumadilaga, Deputy Minister for Poverty, Manpower and SMEs, Bappenas	Petra Karetji	Bappenas	

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		<p>Participating also were the Directors for:</p> <ul style="list-style-type: none"> • Poverty • Social Protection • Small and Medium Enterprises • Manpower 			
	10:30	Travel to Kebon Sirih			
	10:45 – 11:30	Meeting with the counterparts for decentralisation programs, Dr. I Made Suwandi, Minister Adviser for Governance, Ministry of Home Affairs	Petra Karetji	Kebon Sirih, Meeting Room 1	
	11:30 – 13:00	<p>Meeting with LOGICA Program Staff and World Bank counterparts</p> <ul style="list-style-type: none"> • Geoff Herbert (LOGICA Project Director) • Chaidir (Rep. of Provincial Development Planning Board - Aceh) • Jan Weetjens – Social Development Section Coordinator • Renauld Rodier – Social Development Specialist, Conflict and Development 	Petra Karetji	Kebon Sirih, Meeting Room 1	

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		Program			
	13:00 – 14:30	Lunch meeting with Dan Heldon regarding Climate Change		Bali BBQ restaurant (near KS).	
	14:30	Return to Kebon Sirih Office, depart for BNPB Office			
	15:00 – 17:00	Meet with Disaster teams (Embassy & AIFDR) <ul style="list-style-type: none"> • Pak Wisnu Widjaya (Director DRR. BNPB) • Ibnu Asur (Education & Training. BNPB) • Hartje (Data & Information Centre. BNPB) • Muhtaruddin (Head of Education & Training. BNPB) • Ridwan Yunus (UNDP secondee. BNPB) • Rustian (Logistics. BNPB) • Permana (Planning. BNPB) • Matthew Hayne (AIFDR) • Penny Davis (Disaster Management, AusAID) • Wita Katoppo (AIFDR) • Anita Dwyer (AIFDR) • Trevor Dhu (AIFDR) • Jason Brown (AIFDR) • Henry Pirade (AIFDR) 	Contact: Matthew Hayne, Head AIFDR	BNPB Office, Jl Tanah Abang, No. 57	

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	17:00	Depart for Four Seasons Hotel			
	17:15 – 18:30	Freshen up, check out		Four Seasons Hotel	
	18:30	Depart for airport			
	21:50	Fly to Australia (Direct Garuda flight to Sydney, arrives 08:30)			

Wed 19th Jan	12:15 – 13:00	<p>Meeting with Decentralisation and Poverty Reduction Section</p> <ul style="list-style-type: none"> • Leonard Simanjuntak – Decentralisation • Patricia Bachtiar – Social Protection • Vanya Abuthan – PNPM • Gita Nasution – PNPM • Christine Van Hooft – PNPM • Richard Manning – AIPD • Irene Insandjaja – ACCESS • Lulu Wardhani – PNPM Micro Finance • Rani Noerhadhie – Rural Development 	Contact: Petra Karetji, Counsellor Decentralisation	Video Conference	
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CHARLES TAPP

TUESDAY 18th – FRIDAY 21st JANUARY 2011

MEETING SCHEDULE

	Time	Meeting	Place/Contact	Status/Issues
Tuesday, 18th January 2011				
	9-10am	Meeting with <ul style="list-style-type: none">• Danielle Heinecke To discuss CBR prospective on Budget, HR issues	Danielle Heinecke's	Confirmed 17/01 *Erinch Sahan
	10-11am	Meeting with <ul style="list-style-type: none">• Lisa Rauter CFO, Charlotte Blundell, James Hall to discuss Budget Process/scale up.	Lisa Rauter's Office	Confirmed 17/01 *Erinch Sahan
	11-12pm	Meeting with <ul style="list-style-type: none">• Danielle• Fiona• Michael	Danielle's Office	Confirmed

		<ul style="list-style-type: none"> • Sofia • Luke <p>To discuss design, evaluation, success, impediments</p>		
	12-1:30pm	LUNCH BREAK/FREE TIME	LUNCH BREAK/FREE TIME	LUNCH BREAK/FREE TIME
	1:30-2:30pm	<p>Meeting with</p> <ul style="list-style-type: none"> • Luke Arnold • Erinch Sahan • Fiona MacIver • Tim Smith <p>To discuss WOG issues</p>	2R3	<p>Meeting Room Booked</p> <p>Confirmed 17/01</p>
	2:30-3pm	<p>Meeting with</p> <ul style="list-style-type: none"> • Danielle Heinecke (continued) <p>To discuss CBR prospective on Budget, HR issues</p>	Danielle Heinecke's	Confirmed
	3-4pm	<p>Meeting with</p> <ul style="list-style-type: none"> • Laurie Dunn and Angela Corcoran to discuss Program design and OPS 	Laurie's Office – Allara Street	<p>*Sue Ellen</p> <p>*Kate Fuller</p>
	4-5pm	<p>Meeting with</p> <ul style="list-style-type: none"> • Sofia Ericsson <p>To discuss Evaluations</p>	Tony's Office	Confirmed

Wednesday, 19th January 2011

	10-11am	Meeting with <ul style="list-style-type: none"> Richard Moore 	Richard Moore's Office – Level 5	Confirmed with SM 14/01
	11-12pm	Telephone call with <ul style="list-style-type: none"> Jacqui De Lacy 	Tony's Office	Confirmed
	12:30-2:pm	Meeting with <ul style="list-style-type: none"> Decentralisation Team at Post via teleconference 	GR2	Meeting Room Booked *Michael Collins
	2-2:30pm	FREE TIME	FREE TIME	FREE TIME
	2:45pm	<ul style="list-style-type: none"> <i>Travel time from AusAID to ANU</i> 		
	3-4pm	Meeting with ANU <ul style="list-style-type: none"> Chris Manning Greg Feely Budy Resosudarmo Daniel Suryadarma Tao (Sherry) Kong Peter McCawley <p>To discuss strategic directions/possible scale up in Indonesia.</p>	Hedley Bull Centre, Cnr Garran and Liversidge, at the ANU	Confirmed *Michael Collins *Hannah Derwent

	4:15pm	<ul style="list-style-type: none"> • <i>Travel time from ANU to AusAID</i> 		
	4:20pm-4:30pm	Meeting with <ul style="list-style-type: none"> • Sarah Bilney and Director from Pac Branch To discuss consulting opportunities.	Tony's Office	Confirmed
Thursday, 20th January 2011				
	09:00-9:40am	Coffee with <ul style="list-style-type: none"> • Murray Proctor 	TBA	Confirmed
	10-11am	Meeting with <ul style="list-style-type: none"> • Dave Sharma PMC • Gabi Taloni and Greg Moores – Finance • David Lowe – Treasury • John Fisher and Richard Rodgers – DFAT • Rodd McGibbon and Rod Brazier – ONA For a strategic overview of the Policy <ul style="list-style-type: none"> • Scale up – views, possible role • WOG views on the Indonesia Program effectiveness. 	GR5	Meeting Room Booked *Danielle Heinecke *Fiona MacIver *Michael Collins

	11-12pm	<p>Meeting with</p> <ul style="list-style-type: none"> • David Lowe – Treasury • Gabi Taloni and Greg Moores – Finance • Damien West - APSC • Brendan Shannon - ATO • Anya Moore - ANAO <p>To discuss Government Partnerships Fund.</p>	GR5	<p>Meeting Room Booked</p> <p>*Danielle Heinecke</p> <p>*Luke Arnold</p> <p>*Paul Zeccola</p>
	12:30-1:30pm	<p>Phone call with</p> <ul style="list-style-type: none"> • Neil Scotland 	2R4	<p>Meeting room booked</p> <p>*Michael Collins</p>
Friday, 21 st January 2011				

09:30-10:00	Meeting with <ul style="list-style-type: none"> The Aid Review Team 	2R1	Confirmed
10-11am	Meeting with <ul style="list-style-type: none"> Sally-Anne Henfry 	Tony's Office	Confirmed
11am-12pm	FREE TIME	FREE TIME	FREE TIME
12:00-12:30pm	<ul style="list-style-type: none"> <i>Travel time from AusAID to Manuka</i> 		
12:30-2:30pm	Lunch with Hugh Borrowman	Wasabi Restaurant in Manuka	Booked under Borrowman and Confirmed 14/01
2:30-2:45pm	<ul style="list-style-type: none"> <i>Travel time from Manuka to AusAID</i> 		
3-4pm	Meeting with <ul style="list-style-type: none"> Peter Shannon – DFAT Steve Barnes – DFAT Louise Cairns and Susie Williamson AG's Holly Ainslie and David Hammond- Indonesia Transport Safety Assistance Package Guy Richards - CT programs (OTS) Andy Carroll - DAFF <p>To discuss the role of delivering ODA and Counter Terrorism and Security and Trans border issues in Indonesia.</p>	GR1	Meeting Room Booked – All attendees confirmed *Fiona MacIver *Luke Arnold
04:30-5:15	Meeting with	TBA	

		<ul style="list-style-type: none"> Sandy Holloway and team 		
Monday, 24th January 2011				
	10-11am	<p>Meeting with Key Advisers</p> <p>Ben David (HEALTH), Gillian Brown (GENDER), Alwyn Chilver (RURAL/ENV) to discuss role of thematic groups and Indonesia Scale Up.</p>	2R2	<p>Meeting Room Booked</p> <p>*Sue Ellen</p>
	11:30-12:30pm	<p>Teleconference with</p> <ul style="list-style-type: none"> Mark Purcell - ACFID and selected NGO members <p>To discuss the role of civil society in the aid program for Indonesia.</p>	<p>Teleconference dialling details</p> <p>1800 332 147</p> <p>participant code 6019 4503 press #</p>	Confirmed
	12:30-2:00pm	<p>Lunch with</p> <ul style="list-style-type: none"> Laurie Dunn and Peter Versegi 	TBA	Confirmed
	2:30-3:30pm	Meeting with	James' Office – Level 5	Confirmed

		<ul style="list-style-type: none"> • James Gilling <p>To discuss Strategic Reform</p>		
	3:30-4:30pm	<p>Meeting with</p> <ul style="list-style-type: none"> • FADG CED – Blair Exell • A/g ADG PPB (Julianne Cowley) • Nick Mills • Danielle Heinecke <p>To discuss Recruitment, Postings and Pre Posting Training.</p>	Blair’s Office – Level 5	<p>Confirmed</p> <p>*Danielle Heinecke</p>

Tuesday, 25th January 2011				
Thursday, 27th January 2011				

	11am -12pm	Tele conference with <ul style="list-style-type: none"> • Jacqui De Lacy 	Confirmed
Tuesday 1st February 2011			
	08:30-9:30	Teleconference with <ul style="list-style-type: none"> • Peter Baxter 	Confirmed

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6. Assessment of the Current Australian Aid Programme to Indonesia

1.1 The scaling up of the aid programme to Indonesia (from \$120m/year in 2003 to \$450m/year in 2010) has for the most part been achieved successfully, both in terms of overall effectiveness and efficiency.

1.2 The Country Strategy for the period 2008-2013 (The Australia Indonesia partnership Country Strategy 2008-2013) remains partially relevant, though there is not full alignment with the Indonesian Government's new medium term development plan.

1.3 The current aid programme is too fragmented and requires further consolidation.

1.4 The Government of Indonesia's view of the Australian aid programme is very positive at all levels.

1.5 There is a very strong commitment to performance management within AusAID and some good progress is being made.

1.6 AusAID Indonesia is good at ensuring evaluations and reviews occur and the quality of some of them is high, though many suffer from a lack of evidence to support findings and recommendations. There is little consistency in their terms of reference, objectives and even in clarifying what they are for and for whom.

1.7 The AusAID programme in Indonesia is more aligned with Indonesian government systems than most other parts of the bilateral aid programme. There is great diversity in the forms of aid and for the most part this diversity is well considered and appropriate.

1.8 The Australian whole of government aid effort presents a very mixed scorecard. There has been no consolidation of whole of government activities in spite of clear evaluation recommendations in 2007. Whole of government implementation support and oversight accounts for well over 20% of AusAID staff time for less than 10% of the aid budget.

1.9 The performance of the multilateral agencies supported by the aid programme is variable.

1.10 AusAID needs to rethink its claimed development approach to the East (and is already beginning to do so) and whether any specific focus is indeed desirable. At the very least a better communications effort on geographic focus is required.

1.11 The timeliness, efficiency and costs of AusAID programme (and project) design processes leave a great deal to be desired.

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1.12 The infrastructure sector is well managed, achieving some significant policy and practical results and is greatly appreciated by the Government of Indonesia. Overall AusAID has administered loans in the education and transport sector effectively and efficiently.

1.13 Australian support to the education sector has been well considered and managed and has achieved tangible positive outcomes at a reasonable cost-effectiveness. AusAID's plans for further support to the sector are sensible and have the prospect of building considerably on successes to date. The decision to scale up further in the education sector is correct.

1.14 The Health sector is performing well in the HIV & Aids arena, but more poorly on the broader health systems side.

1.15 Performance of the democratic governance sector is mixed, not least due to a lack of clarity over what exactly is meant by the term "democratic governance". AusAID needs to assess both its views on the funding of democracy and also of how it seeks to make use of civil society in the programme.

1.16 The climate change sector is having mixed results with the development of a carbon accounting system and support to the GoI Green Paper process being stand-out successes. Questions remain over the efficacy and value for money of a second REDD demonstration.

1.17 The economic governance sector is performing well, even though it is only a small part of the overall programme.

1.18 The recent work in poverty reduction and social protection has been excellent and some of the decentralisation support work is also very good.

1.19 AusAID has generally responded well to disasters and the legacy of its effective support in Aceh remains very positive in the bilateral relationship.

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7. Corporate Issues and Obstacles to Further Scaling-up of the Programme

Corporate lacunae and impediments and poor management are hindering greater effectiveness of the programme.

2.2 The sheer operational delivery demands of the Indonesia programme are immense, requiring highly developed management and aid delivery skills and experience. What is required of management is excellent operational aid delivery experience and excellent public service skills.

2.3 Over the past four years the Canberra budget process has effectively driven the evolution of the programme, not the Country Strategy. RECOMMENDATION: Funding should be provided to AusAID for its broad programmes, not sectoral budget measures.

2.4 The year-end spending imperative is leading to inefficient and ineffective use of funds in the final couple of months of the financial year. RECOMMENDATION: A six-month carry-over facility is necessary for the Indonesia programme and AusAID as a whole, especially when dealing with the relative unpredictability of timing of expenditure through partner government systems and budgets. Loan funding should be treated differently to grant funding and should only have a "life of loan" stricture, not financial year spending requirements.

2.5 By most measures devolution of the Indonesia programme has been successful: the quality of the programme has increased, has much greater policy influence, is significantly more relevant to the Indonesian government and is being administered efficiently and effectively. RECOMMENDATION: It would be a mistake to re-centralise programme management. The key to further scaling up will be to increase the experience and capability of SES management and mid-level management in AusAID. This capability should include aid management, public service skills, technical skills and people management skills.

2.6 AusAID human resources systems are acting as an impediment to the efficient management and effectiveness of the programme. RECOMMENDATION: A major overhaul of AusAID's HR systems is necessary as a matter of urgency.

2.7 A significant number of AusAID A-based staff in Jakarta do not have the requisite skills and experience needed to perform their jobs properly. RECOMMENDATIONS: At a minimum all posted staff should receive six months of language training and should also receive proper training in public financial management and forms of aid. All Counsellors should have prior aid delivery experience overseas. AusAID should establish a programme to ensure staff moving up through the system have adequate overseas experience, including introducing compulsory overseas secondments within the graduate programme.

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2.8 There is a real danger that if consultancy rates are set too low under the new remuneration framework, AusAID will lose some extremely important and effective individuals.

2.9 The scope and complexity of the job of the head of AusAID in Indonesia is significantly greater than normally expected of an Assistant Secretary. RECOMMENDATION: The position of head of AusAID in Jakarta should be at the First Assistant Secretary level, supported by 2 Assistant Secretary positions, one for policy and strategy and one for operations. The Assistant Secretary in Canberra should report to the Jakarta-based First Assistant Secretary, who in turn would report to the Deputy Secretary.

2.10 There is far too much paperwork, reports and processes in AusAID. On a very subjective assessment of the Indonesia programme, something between 50-70% of reports, documents, processes and briefs do not lead to any decisions or actions. RECOMMENDATIONS: AusAID needs to undertake a fundamental review of its reporting and business processes to create much greater simplicity and efficiency. Until this is done it would be premature to determine future staffing levels since greater efficiency and simplification would free up capacity of existing staff.

2.11 Senior managers are not always focusing on the right things.

2.12 Management needs to overhaul its approach to risk management and introduce proper accountability for risk mitigation. RECOMMENDATION: The Indonesia programme needs to establish a proper, operational risk management register and nominate someone as Risk Administrator (the Operations Manager would be the obvious choice).

2.13 The Indonesia programme is poor at saying no to new initiatives

2.14 The AusAID Indonesia team is under-performing when it comes to timeliness of programme expenditure

2.15 Overall it would appear that the Indonesia programme has not received much benefit from the thematic groups in Canberra.

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8. Recommendations for the Scaling Up of Australia's Aid Programme in Indonesia and its Improved Effectiveness

Scale up and greater effectiveness cannot happen without addressing the corporate issues outlined above. This has to be the top priority. In addition, the following recommendations are offered:

- 5-year country strategies are not serving an adequate purpose. A shorter, broad strategy document should be prepared every five years to provide a 10-15 year directional framework for the programme. Implementation strategies with clear performance frameworks should be prepared every 24 months. Senior managers (SES and Counsellors) should be held accountable for delivery against these performance frameworks.
- Budget funding should be aligned with new two-year implementation strategies.
- The three sectors where significant scale-up can occur effectively, with widespread use of partner government systems, are education, infrastructure and poverty reduction/decentralisation. These three sectors have also been selected by AusAID management for scale-up and the thinking around how this can be done is generally good.
- Evaluations need to be conducted in a more systematic way, with more consistency of terms of reference and with a stronger evidence-base for conclusions. Management responses should be specific and followed-up rigorously. There should be much greater consistency of monitoring and evaluation systems across the programme.
- AusAID should work to ensure that so far as possible its programme monitoring and evaluation systems are in fact Indonesian Government systems. Having parallel monitoring and evaluation is not helpful and AusAID should be prepared to invest in upgrading Indonesian skills and systems, including statistical capacity. This should be done ideally with other donors.
- There needs to be further consolidation of the programme. Consideration should be given to getting out of some activities. A flexible funding mechanism should be established to provide support for small, emerging activities, without requiring large administrative infrastructure. Some of these smaller activities should be experimental in nature. Trialling ideas should be encouraged, including the prospect of some failures. Successful activities would then be built up to scale.
- The management of design processes should be brought in-house. Senior managers should be much more involved in design processes, especially at the early concept stages. Scope-creep through peer-reviews should be stopped. Managers responsible for slow or poor design processes should be sanctioned (e.g. precluded from promotion for 24 months).

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AusAID will need to devote more resources to design in Indonesia in the coming 18 months in order to meet the demands of scaling-up the programme. This would be a temporary requirement.

- A significant portion of the AusAID budget in Indonesia (e.g. 10%) should be set aside for a whole-of-government fund. Departments and agencies could apply competitively for multi-year funding. Decisions would be made by a committee comprising the Ambassador, AusAID head of post, BAPPENAS Vice Minister and a Deputy Secretary from PM&C. In time all whole of government activities funded by AusAID would fall under this mechanism.
- For funding of activities outside the AusAID budget, a coordination mechanism co-chaired by the Ambassador and AusAID head of post should meet semi-annually to ensure proper coherence and oversight.
- DAP funding for DFAT should be increased to \$1m/year.
- A senior level policy Inter-Departmental Committee on Indonesia needs to meet regularly in Canberra.
- Realistically for any scale-up to occur, significantly more funding will need to be channelled through the World Bank and ADB and possibly other multilateral mechanisms. There is scope for writing down the cost of IBRD loans through grant funding in some key sectors as well as providing more grant support for design, implementation, anti-corruption and other activities. However, AusAID in Jakarta needs to be more assertive and influential over Bank activities and performance. This needs to be linked to a global strategy by AusAID and Treasury for engagement with the development banks, which currently is sorely missing.
- Funding to the infrastructure sector can be scaled up significantly, especially in the areas of water and sanitation (through the Government of Indonesia Hibah mechanism) and roads. AusAID should stay engaged in national roads and should not walk away from some of the gains achieved to date. This should be funded through another loan. If AusAID does not have the appetite for another loan programme (which would be disappointing), then it should fund one of the development banks to do so under very tight AusAID management and quality control.
- A significant scale-up in funding can be delivered through the poverty and social protection programmes, especially using PNPM as a delivery mechanism. Some consolidation of activities in this area and decentralisation would be desirable and more use should be made of the current practice of placing senior staff in the provinces.
- The education sector also offers great scope for significant scaling-up of activities. Current AusAID thinking for significant expansion into the tertiary sector is promising.

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- AusAID management should think very seriously and quickly about the potential impact of the proposed new Health Sector Support Programme. There may be other more effective and efficient means to achieve improvements in health outcomes e.g. through the social protection programmes which deliver direct funding and benefits to the population.
- AusAID and the Department of Climate Change should revisit the efficacy of a second REDD demonstration site.
- More funding and attention should be given to the economic governance sector which is performing well. Public financial management approaches need to be strengthened across the whole programme.
- AusAID should develop a clear strategy for its support of civil society in Indonesia and whether it sees it as a deliverer of services or a means of advocacy and generating demand for better service delivery (the latter seems the most relevant in the Indonesian context). Programmes and funding then need to align with this strategy rather than follow the current ad-hoc approach.
- AusAID should develop a coherent approach to its work in democratic governance, including defining what the term means. Both the elections and law and justice designs are too complicated and should be simplified as implementation commences.
- AusAID should build up its knowledge management which currently is very poor by global standards.
- AusAID should finalise a credible PAF for the whole country programme as soon as possible. The sector PAFs need to be consolidated further and made more consistent. Managers should be held accountable for their performance against sector goals and follow-up to Annual Programme Performance Review recommendations.