

REVITALISING INDONESIA'S KNOWLEDGE SECTOR FOR DEVELOPMENT

Concept Note as at 30 October 2009

Purpose: This note sets out a proposal for how AusAID will assist Indonesia to revitalise its Knowledge Sector for Development policy. It seeks funding to support Indonesia to develop its own policy framework, model and financing mechanism over the next two years. In the third year, AusAID (and other partners) are expected to be able to support an Indonesian led policy and program, which would include core funding to qualifying Indonesian institutions.

I. OVERVIEW: DEVELOPING PUBLIC POLICY IN INDONESIA

1. Indonesia's recent emergence as a middle income developing country carries with it significant implications for the country's overall development strategy and the kinds of development assistance that it is likely to need from foreign partners. Development aid as a share of the overall development budget will continue to shrink, which places an ever-growing premium on ensuring that Indonesian policy makers make contestable and well informed choices about how best to spend national budgetary resources.
2. For a variety of reasons, during the post-colonial and New Order years Indonesia did not develop the kind of domestic human resource infrastructure seen in other large developing countries such as China, India, Mexico, Brazil or even the Philippines. Instead, Indonesia has relied heavily on international technical assistance to help develop policy options that could be presented to government decision-makers. Nor has Indonesia made much progress on providing an incentive framework for the private sector and civil society to provide these services. However, with the country's growing wealth, the transition to democracy and the associated rise in importance of public debate over policies, and the increasing complexity of the choices facing government, this is no longer viable.
3. The objective of this concept note is to describe a strategy for assisting Indonesia with developing what for want of a better phrase shall be called the "knowledge sector". The knowledge sector means the overall institutional landscape of government, private sector, and civil society organisations that support the development of public policy. It includes think tanks, university institutes, specialised agencies, certain types of private sector contractors, and a range of non-governmental organisations. The objective of using the term is not to nail down with full precision the boundaries of the sector, but to focus attention on the overall landscape rather than any one organisation or area within it.
4. Virtually all reviews of Indonesia's knowledge sector acknowledge that improving the country's knowledge infrastructure is a fundamental challenge. Policy makers in both the executive and legislative branches of government increasingly demand high-quality assessments of their policy options but say openly that they face problems in identifying national sources that can provide it. The checks and balances of Indonesia's new democracy require informed contestation and review by the different branches of government. Civil society also needs access to policy information that explains the social and economic impacts of policy choices. Nor is this concern confined to those at the top: Indonesia's ongoing

decentralisation requires that the multiplicity of provincial and kabupaten stakeholders involved in development policy be able to draw on facts and arguments.

5. Think tanks such as SMERU or CSIS provide independent quantitative and qualitative reviews of key policy issues, but the number of such institutions is limited and their finances unstable, constraining their ability to carry out long-term staff planning and freedom to conduct self-directed research. The same holds true for think tanks and policy institutes based in universities such as LPEM or the Population Studies Center at UGM. The number of high-quality institutes in Indonesia remains quite small.¹ Demand for their services is frequently oversubscribed, but the problems of forming and sustaining new institutes keeps the supply limited.
6. Although there has been no comprehensive review of Indonesia's knowledge sector, a number of partial reviews show a common pattern of constraints that cut across the sector. They include:
 - Few **incentives** for knowledge workers to cooperate with government agencies;
 - Unstable **financing** makes knowledge institutions chase contracts rather than pursue cumulative strategies;
 - **Uncompetitive** wages propels Indonesia's best analysts to donor and private sector programs
 - Government's ability to recruit and retain high quality researchers are constrained by **civil service rules, regulations, and procurement laws, as well as promotion criteria**;
 - Indonesian university **bureaucratic structures** do not adequately reward policy research or publication;
 - The **quality of education** in Indonesia, especially at the tertiary level, does not encourage innovative, creative thinking and research;
 - Poor **oversight and review** lowers the quality of knowledge products;
 - Government lacks the **autonomous structures and skill mixes** for obtaining reliable internal policy analysis; and
 - The narrow supply of knowledge resources limits the diversity of policy perspectives and **prevents quality improvement through competition** across knowledge suppliers.
7. The constraints listed above explain, in part, why Indonesia supports so few high quality knowledge institutions. But demand for this sort of knowledge is also constrained and, while

¹ The 2008 Global "Go-To Think Tanks" report had just one entry from Indonesia in its list of the top 25 think tanks in Asia for CSIS.

this is beginning to change, it is worth reviewing why demand for high quality policy research in Indonesia has been directly or indirectly driven primarily by donor agencies:

- Indonesia has no overall **policy** that supports knowledge for national development;
- Government **budgeting and procurement** rules are extremely complex and unwieldy, geared primarily for large-scale infrastructure contracting rather than for the types of activities normally carried out by knowledge partnerships;
- Government managers **lack strong incentives to hire the most qualified groups** nor does it have effective mechanisms for providing quality control;
- Civil society organisations still engage more in **direct political activism** than in policy debates informed by analysis (with exceptions);
- Indonesia's easy access to global knowledge through **international technical assistance**, often grant funded, reduces the incentives to improve the quality of what can be developed and sourced locally;
- Policy **documents are rarely presented in formats** that policy makers find useful, which creates a culture of not using written policy products as part of the decision-making process.

II. INDONESIAN GOVERNMENT STRATEGY

8. Indonesian policy makers are well aware of the problem, and, while there is no single policy statement defining the strategy,² the government is taking a number of steps to address it. In 2004 Bappenas floated a proposal to turn itself into the government policy think tank, although progress on this has been constrained by the same factors identified in this proposal. Several government line agency research wings ("*litbangs*") have also proposed internal reform plans. While government still lacks an overarching policy framework to guide improved financing and management, there is an emerging consensus that a strategic approach to knowledge sector reform is badly needed.
9. Indonesia has also made large investments to improve its knowledge infrastructure. The country has had longstanding programs to send students abroad for graduate training, and a number of Indonesian universities and institutes maintain close cooperative relationships with international universities. There are also several initiatives underway to reform tertiary education as a whole as well as individual initiatives, often promoted by progressive university leaders in the provinces, that are attempting to overcome past constraints.

² Useful and important references by top policy makers to the need for improving knowledge capacity and the quality of its human resources can, however, be found in documents such as the Jakarta Commitment and the draft 2010-2014 Medium Term Expenditure Plan. Indonesia's national institute for research promotion – LIPI – actually does have such a role written into its statutes through a series of presidential decrees, but for a variety of reasons that will be explored in this review, it has never been able to play that stimulative role effectively.

10. However, the growth and development of these programs is not keeping up with the even more rapidly growing demand for knowledge services that have the specific objective of informing development policy. Examples of this growth in demand by Indonesian policy makers are becoming increasingly common. Compared with past elections, the 2009 presidential contest for the first time raised policy questions about contemporary issues such as poverty, agricultural development, and economic visions. Indonesian Government's leadership in the G-20 discussions in 2009 have highlighted Indonesian policy makers' requests for better analysis and information about Indonesia's approach to social policy. This was directed at both understanding how to respond to the global financial crisis, and also the longer term issues of equity, social protection, and inequality. Indonesian leaders increasingly want to be able to use objective, analytical, Indonesian national resources to help provide answers to these difficult challenges.

III. DONOR PROGRAMS FOR THE KNOWLEDGE SECTOR

11. At present, most of Indonesia's knowledge institutes rely heavily on financing from international donors. International support in this sector has traditionally been led by foundations, such as Ford, Rockefeller, and the Asia Foundation, or by a number of specialised engagements through the international aid agencies. More recently, because of changes to their own funding bases, these organisations have moved away from providing long-term core support for policy institutes. Nevertheless, drawing on their institutional experiences will be key to the success of the current effort.
12. Donor support brings with it many advantages, particularly through access to global fora, top quality mentoring, and the promotion of south-south engagement. However, donor financing as it is currently provided has many drawbacks. First, growing numbers of donors will not provide direct core support to Indonesian knowledge institutions, particularly for those within civil society. They either channel their funds through multilateral agencies, or else will only finance specific activities tied to their own strategic plans. Without a secure funding base, however, Indonesian knowledge institutions must constantly chase contracts and cannot develop core staff capacities or long-term strategic programs. Second, to the extent that donors provide financing, ultimate accountability for the quality and relevance of the product is to the organisation that pays for it. This limits the ability of government and civil society organisations to set their own strategic agendas, which may differ from donor priorities at any given point in time. Third, relying on financing from projects prevents developing the kind of long-term managerial and organisational capacities that Indonesian organisations need to sustain the longer term development of knowledge institutions.

IV. CONTEXT OF EFFORTS TO DEVELOP INDONESIA'S KNOWLEDGE SECTOR

13. Indonesia's currently underdeveloped knowledge sector can easily be traced to the intellectual conformity imposed by the late Guided Democracy and then New Order governments. Before the New Order, Indonesia's budding knowledge sector was backed by national leaders such as Sutan Sjahrir and, most notably, by the Indonesia Socialist Party (PSI)³. Under the New Order, however, most lines of critical inquiry were closed down in

³ Seehi esp. R. Mrasek, Sjahrir: Politics and Exile in Indonesia (1994), esp. on Pendidikan Nasional.

favor of a much more narrowly defined technocratic approach that greatly expanded overall funding for knowledge work while equally dramatically narrowing the domains where critical debate was allowed. The New Order's takeover of the knowledge sector set the guidelines that last to this day, as noted by Soetdjatmoko as early as 1977:

"...doubt has arisen as to whether the funds, provided for limited fields and areas of problems, have not taken research further away from the problems that have to be studied. There are so many commissioned studies that function only for the sake of image building of these policy lines that had been taken much earlier, or that function as instruments to hook up with future projects. Furthermore, since the results of the research are never published, they are deprived of the critique and reviews of peers. They also lack the incentive for quality maintenance, data and knowledge provision and the capacity to provide more scientific knowledge of our society".⁴

14. Forty years later, a review by John McCarthy and Rustam Ibrahim concluded that:

"there are insufficient numbers of researchers who understand the basics of research methodology, who have up to date understandings of social theory, and who are capable of producing well written, analytical research outputs. Research organisations, whether in universities or elsewhere, often have weak management systems, and as a result, do not create an environment in which researchers can grow and learn. Basic management systems, such as recruitment, training, promotion, and incentives are poorly developed, and in addition, many directors do not have strong skills in networking, publicising their work, and fund raising".⁵

15. A comparison of other middle-income countries underscores the difference between Indonesia's approach to knowledge development and that of Mexico, Brazil, India, China, or even the neighbouring Philippines. All five countries have strong national commitments to developing their knowledge sector that are backed up by public financing for sectoral development. Latin American countries generally provide public support to the knowledge sector through semi-autonomous agencies whose sole job is to develop universities, think tanks, and individual researchers. India has a long-standing tradition of private policy institutes, such as the Tata Institute or the Institute for Science and the Environment, which are frequently contracted by state agencies seeking expert advice, but supported especially through private philanthropy that enables them to speak through public media. China shelters a number of high quality but state-run think tanks from political interference in order to ensure that its national policy makers have access to credible, contested policy advice. The Philippines has developed an advanced cadre of universities that lets policy makers draw on talent and conduct independent policy research, such as the University of the Philippines, Asian Institute of Management, and the Ateneo universities. The Philippine government

⁴ Soetjatmoko 19977, cf Dhakidae 2003 & Hadis and Dhakidae 2005.

⁵ J. McCarthy and R. Ibrahim, *"Enhancing High Quality Qualitative Field Research in Indonesia"* Jakarta: The World Bank, 2005. These diagnoses of Indonesia's knowledge sector mirror in many ways Sebastian Pompe's 2005 analysis of how the New Order government undermined the nascent judiciary, using a combination of incentives, oversight, and bureaucratisation (rather than outright repression) to transform an independent judiciary into a compliant branch of the executive civil service.

often taps senior policy researchers to serve in senior government positions. There is no career penalty for them once their term ends and they return to the university. This link provides strong incentives for both sides to sustain a continuous policy dialogue.

16. Indonesia need not pursue any of these prescribed approaches, but finding a way to increase the number and quality of its policy support structures is a critical step in developing its middle income institutional infrastructure.

V. AUSAID AND INDONESIA'S KNOWLEDGE SECTOR

17. AusAID has been a leader in developing Indonesia's knowledge sector and the Revitalising Indonesia's Knowledge Sector for Development proposal both builds on past accomplishments and will remain embedded in the overall program for developing Indonesia's human resources. Annex C provides summary portraits of the main relevant programs currently supported by the Australia-Indonesia bilateral partnership.
18. AusAID support to the knowledge sector has in general been effective because it is concrete and specific. It is underpinned by Australia-Indonesia university-based research activities, the SMERU Research Institute, the Australia Indonesia Governance Research Partnership (AIGRP); and the Aceh Research Training Institute (ARTI). Equally important are AusAID scholarship and Fellowship programs and the Support Office for Eastern Indonesia, which develops networks of local researchers. Additionally, economic governance programs which support policy development in the Ministry of Finance have clearly defined purposes and specific beneficiaries. However, the "cost" of providing targeted support to specific institutions has been that the overall structure of incentives and opportunities has remained outside of this discussion. Yet without changes to the macro-picture, Indonesia's knowledge sector will not be able to develop or create the number of institutions with the kind of autonomy and stability that a large middle income developing country needs.
19. This proposal will complement those initiatives by focusing on what changes to the overall incentive environment would encourage the growth of Indonesia's knowledge sector. It therefore helps to answer questions raised by reviews of three of the programs cited above:⁶ how can AusAID (and GOI) ensure that positive initiatives such as these are sustained and replicated? Examples from these successful programs will illustrate the need. Preliminary data suggests that a significant number of scholarship graduates quickly move out of the public sector or else, if they stay, find themselves restricted to junior administrative positions. SMERU's success has led to more rather than less donor dependence as the number of international agencies looking for national partners has risen to the point of a two year commitment backlog – and yet, perhaps in part because donors flock to the now-mature SMERU, there still is no second SMERU on the horizon. TAMF and World Bank support are so fundamental to Indonesia's economic ministries' high-quality economic management that there are now concerns about international assistance crowding out the possibility of MOF developing its own capacity to finance and manage these services.

20. Among donor partners, AusAID is the natural leader for strategic work in this area, both because of the Government of Australia's overall geopolitical interests in Indonesian policy development and because of some specific characteristics of Australian assistance to this area. First, knowledge sector development requires a long term commitment to institutional and individual development. Australia's large and long-term commitment to Indonesian development to some extent contrasts with bilateral partners such as DFID, CIDA, or GTZ, who are either phasing out of Indonesia because it is no longer a very poor country, or who have relatively small and specialized aid programs. Second, the types of support needed implicitly imply high levels of grant funding, particularly for civil society's development, which rules out the multilateral banks. Third, a significant portion of Indonesia's future leaders in knowledge sector activities will be drawn from the 16,000 Indonesians already studying in Australian universities.

VI. **DEVELOPING INDONESIA'S KNOWLEDGE SECTOR: AN OPERATIONAL FRAMEWORK**

21. The overall objective of this proposal is to take a strategic approach to developing Indonesia's knowledge sector by treating it as a unified sector. It will do this through three clusters of activities. First, a working group made up of government, university, private sector and civil society think tank leaders will consult with an inter-donor working group to identify the primary constraints on knowledge sector development. This assessment will inform proposals for a long-term sectoral development program. Secondly, this group will work with Bappenas, Ministry of Finance, Ministry of National Education, and the Coordinating Ministry for Economic Affairs to develop an overall national vision towards knowledge sector development and an operational strategy for providing sustainable, long-term financing. Third, a selection of knowledge institutes will receive core development funding that will support a quality enhancement plan of action. The three activities are summarised below.

Developing a sectoral analysis – While there is a general consensus across Indonesia that there are serious challenges facing the knowledge sector, there is a surprising lack of structured analysis defining the causes. The objective of this activity is to develop a consensus view of what an appropriate policy framework for national knowledge sector development would be, and what are the main constraints and opportunities for developing Indonesia's knowledge sector. Analysis will be guided by an expanded version of the current working group (see Annex A). It will include leading figures from universities, civil society organisations, and government.

Sectoral Financing -- Indonesia currently lacks an institutional mechanism that can provide core, long-term support to its knowledge institutions. Developing one is a high priority task. However, there are many alternative ways to design such mechanisms, and there are also different clienteles for its products.

22. The main purpose of this activity is to define and develop the institutional mechanisms for knowledge sector support strategy. They are likely to include a government managed but autonomous agency such as Mexico's National Institute for Science and Technology

(CONACYT) or a revised version of Bappenas' own plan for self-transformation, but it may well also include mechanisms largely or entirely outside of government.

23. Identifying appropriate financing mechanisms depends to some extent on what types of policy institutes Indonesia will develop. As a working principle this group will distinguish support for government and university policy groups from independent think tanks and the civil society organisations that provide adversarial commentary on public policy issues. Both groups will be covered by the review.

Core capacity development -- While any detailed budgeting must await a more detailed design, to provide some guidance, the initial meetings discussed a pilot program that would provide support to a small number of governmental, university, and independent research groups that focus on public discourse on development policy. The purposes of this support are to help this group of knowledge organisations improve their quality, and for the overall working group to get an operational understanding of the challenges involved in developing a strategic approach for the sector. It is expected that the majority of the support will initially concentrate on Jakarta-based organisations, but some regional balance would also be sought.

VII. GENDER

24. AusAID will pursue practical means of introducing gender equity through the development of this proposal. For instance, issues that could be addressed include: ensuring the organisation of governance mechanisms, consultations, analysis and dissemination of the concept raises equitable women's participation. Similarly, existing conditions and institutions demand for knowledge, or the reflection of women's perspectives in public policy in Indonesia may be analysed in view of whether there are constraints to women's voices which require specific attention. Collaborative approaches to engagement with stakeholders will ensure that gender issues are guided by Indonesian experience and values.

IX. DEFINING THE ENDGAME

25. Knowledge sector development is anticipated to be an ongoing process taking more than a decade. This proposal focuses on knowledge development for public policy, which is a subset of a broader vision of developing a strategic and systematic approach to Indonesia's broader knowledge economy. AusAID does not envisage being responsible for a process that Indonesia should lead over the long-term. Nevertheless, it is possible to define some benchmarks for assessing the success of the proposed program of Australian assistance to help with the initial phase:

- the analytic activities (eg diagnostics and pilot programs) should produce a shared and compelling understanding of what the major constraints to knowledge sector development are within Government and externally, within Indonesia;
- the analytic activities should also produce an understanding of the development of policy institutions within civil society and academia;

- once agreement is reached on an institutional strategy for financing knowledge sector development, donors and government should channel resources through these systems;
- beginning with its fourth or fifth year of operation, international measurements such as the World Bank's Knowledge Economy Index should begin tracking improvements in component measures;⁷ and,
- ultimately, success would mean Indonesian policy makers and society at large will benefit from a diverse, high quality stream of domestically generated policy analysis and options.

X. RISKS

26. A number of potential risks can be identified, including that:

- the root problem may lie in the overall quality of tertiary education rather than the incentive structure for knowledge institutions. That is, the supply of highly qualified researchers and policy analysts may be limited and already fully taken up by government, private sector, and international organizations. This risk is considered to be high, but variable given the ongoing changes in the quality of higher level education;
- the Indonesian Government may not opt for a full-fledged reform agenda, which would necessarily include developing sustainable financing for knowledge sector work from its budget. At present Indonesia benefits from high levels of grant support for world-class policy advisers channeled through the multilateral development agencies. This risk will be monitored and an opinion provided before the next budget proposal. The key indicator will be commitment to allocating a proportion of the national budget to developing the knowledge sector;
- program governance remains a significant risk that will be difficult to mitigate. The root problem lies in striking a balance between high-level ownership and the risk of capture by the same incumbents who currently constrain knowledge sector reform. Addressing this risk will require sufficiently high level engagement to identify a sustainable long-term location (possibly the Ministry of Education, Bappenas, or even the Vice Presidential Office), and a dynamic, high level anchor within government. At the same time, the program must find the right means to bring in promising leaders from outside the mainstream to help frame the proposed transformation of the current institutions.
- including a component that will finance pilot programs generates a risk that short-term interest in receiving funds for the pilot swamps the bigger and more challenging objective. This risk will be monitored carefully.

⁷ The Knowledge Economy Index (KEI) is an aggregate index representing the overall preparedness of a country or region towards the Knowledge Economy (KE). The KEI is constructed as the simple average of 4 sub-indexes, which represent the following 4 pillars of the knowledge economy: Economic Incentive and Institutional Regime (EIR); • Education and Training; Innovation and Technological Adoption; Information and Communications Technologies (ICT) Infrastructure. In 2008 Indonesia ranked 98 out of 140 countries measured (by way of comparison, China ranked 77th, Philippines 79th and Brazil 54th.)

- Australian universities lose interest as the focus of AusAID grant resources moves to Indonesian institutions. This risk will be addressed by close engagement with individual “Indonesianists” within the university system as well as dialogue with whole of government counterparts to find alternative sources of income for Australian universities’ Indonesia programs.
27. A more detailed risk assessment will be undertaken during year two (the final year) of this design phase.