



Australian Government

Department of Foreign Affairs and Trade



AID PROGRAM PERFORMANCE REPORT 2016-17

Indonesia

September 2017



KEY MESSAGES

Indonesia is a large, lower-middle income country with considerable economic potential. However, its continued economic growth and stability is not assured. It must make changes now to create jobs, improve the business environment and build the human capital of its population if it is to capitalise on its young and growing workforce. Inequality remains high, limiting growth and threatening stability. Indonesia has set an ambitious agenda to meet these challenges: through its Medium-Term Development Plan (RPJMN) it aims to improve economic growth, create jobs, build infrastructure, increase access to health and education, and reduce inequality. Australia works in economic partnership with Indonesia to help achieve these goals.

Under our Aid Investment Plan 2015-2019 (AIP), we agreed that Australia would focus on (1) effective economic institutions and infrastructure, (2) human development for a productive and healthy society, and (3) an inclusive society through effective governance. To remain relevant, it is important that we have a program of sufficient scale to support Indonesia's efforts to deliver across its diverse geography and in a range of sectors. DFAT leads more than 20 Australian Government agencies to deliver our economic partnership, through which we have influenced Indonesia to adopt reforms that will grow its economy and improve development. Our efforts to improve communications and branding have strengthened the visibility of our program, and our Indonesian government partners recognise and value our assistance. With Indonesia we are trialling approaches that can be taken to scale, helping Indonesia get better outcomes from its own spending and leveraging funds from other development partners and the private sector to expand the impact of our programs. We are helping women and marginalised groups participate in Indonesia's economy and society, and addressing the high inequality which threatens Indonesia's growth and stability.

In 2016-17 we achieved most milestones, delivered tangible results and leveraged substantial investment from the Indonesian Government and other sources. Accordingly, we rated eight of the eleven outcomes and all three of the objectives green. Supporting Indonesia to implement reforms effectively will continue to be a challenge, particularly as Indonesia prepares for presidential elections in 2019. During 2017-18, we will review progress against our AIP with Indonesian partners, and sharpen our focus on achieving program milestones.

Effective Economic Institutions and Infrastructure

More effective economic institutions and better infrastructure are vital to Indonesia's future. With Indonesia we made good progress in financial sector regulation (especially on new financial technology) and improvements to budgeting. Although Indonesia made significant advances in the *Ease of Doing Business* ranking, much remains to be done on business-climate reform. Supporting these improvements will help Australia and Indonesia to grow our two-way trade and investment. To accelerate the development of infrastructure projects, Australia helped establish a public-private partnership office and a specialist panel of engineers and safeguard specialists in the Ministry of Public Works and Housing. This work supports Indonesia's development and the ASEAN connectivity agenda, helping boost economic growth in our region.

Human development for a productive and healthy society

To meet its economic potential, Indonesia needs a healthy, educated workforce. Australia supported Indonesia to target electricity subsidies to the poorest 40 per cent of households, saving the Government AUD 1.6 billion in 2017. In 2016-17 we leveraged a significant increase in Indonesia's funding for water and sanitation works. Our education partnership with Indonesia helped strengthen education quality, including by testing new approaches to teaching literacy and numeracy. With the World Bank, we supported training for pre-school teachers and research on incentivising teacher attendance and performance.

An inclusive society through effective governance

All Indonesians — women and men, young and old, those in remote rural areas, ethnic minorities, and people with a disability — need the chance to participate actively in the economy, and contribute to public policy and community decision-making. Australia is promoting social inclusion in Indonesia through partnerships with government and civil society. Through our MAMPU program more than 50,000 women in 2,200 community groups became more active in community decision-making. We also helped disadvantaged people access identity cards, or birth and marriage certificates — a critical first step in helping marginalised groups access government services and participate in the economy.



CONTEXT

In 2016 Indonesia's economy grew by five per cent up from a six-year low of 4.9 per cent in 2015. Economic management has improved, reflected in Standard and Poor's credit rating upgrade in May 2017 and improvements to Indonesia's ranking in the World Bank *Ease of Doing Business* index. Indonesia is a G20 country which is increasingly able to finance its own development and has set ambitious targets for development through the RPJMN 2015-2019.

However, Indonesia faces considerable challenges that put continued economic growth at risk. Around 90 million Indonesians are poor or live just above the poverty line, and inequality is high, which hampers growth and places pressure on stability. Job creation has slowed and unless policy reforms are accelerated, the economy will not produce enough jobs for the 2.5 million people entering the workforce each year. Indonesians are not being trained in the skills employers need, while a lack of infrastructure makes it expensive to transport goods, reducing Indonesia's competitiveness. Protectionist policies and red tape constrain investment and private sector growth. Meanwhile Indonesia's working-age population, relative to the rest of the population, is forecast to begin shrinking from 2030. In the face of this looming demographic transition, Indonesia must invest much more in both infrastructure and in people, to build the knowledge and skills required to grow the economy.

Disparities between men and women in Indonesia are an ongoing barrier to Indonesia's economic growth and development. Indonesia currently ranks 88 of 144 on the World Economic Forum's Global Gender Gap index. Indonesian women continue to be more vulnerable to poverty, and lag behind in workforce participation, access to basic services and indicators of wellbeing. Gender inequality is persistent, underpinned by social norms and reinforced by institutions.

Natural disasters and climate change continue to pose significant risks. Indonesia is one of the most disaster-prone countries in the world, regularly experiencing earthquakes, tsunamis, landslides, volcanic eruptions, flooding and drought. Changes in rainfall patterns, storm severity and sea levels from climate change create a range of challenges for Indonesia's population, presenting challenges to Indonesia's economy.

Increasing government revenue is critical to Indonesia meeting its development goals. Today, the country collects less than 50 per cent of its potential tax revenues. Indonesia completed an ambitious tax amnesty in March 2017, raising approximately AUD14.8 billion, and it is now looking to strengthen the tax system and build its tax base. In 2017 the Indonesian Government made fighting inequality a top priority and President Widodo's attention is firmly fixed on implementing priority reforms in the lead up to the 2019 elections: delivering infrastructure and service improvements, promoting growth and reducing inequality.

Australia is well-placed to partner with Indonesia to support its policy agenda. We are the second-largest donor to Indonesia (and largest grant donor) providing an estimated AUD357 million to Indonesia in 2016-17 (of which AUD294.2 million is bilateral funding managed by DFAT). We work with Indonesia to trial new approaches that can be taken to scale, helping get better outcomes from its own spending, and leveraging funds from other development partners and the private sector to expand the impact of programs. We are helping women and marginalised groups participate more equally in Indonesia's economy and society.

EXPENDITURE

Table 1 Total ODA Expenditure in FY 2016-17

Objective	A\$ million	% of total ODA
Bilateral		
Objective 1: Effective Economic Governance and Infrastructure	110.5	31%
Objective 2: Human Development for a Productive and Healthy Society	121.1	34%
Objective 3: An Inclusive Society Through Effective Governance	62.6	18%
Sub-Total Bilateral	294.2	82%
Regional and Global	55.5	16%
Other Government Departments	7.3	2%
Total ODA Expenditure	357.0	100%

PROGRESS TOWARDS AIP OBJECTIVES

In last year's APPR we reported against the three high-level objectives of our AIP and the nine outcomes of our Performance Assessment Framework (PAF). We rated all AIP objectives as on track and assessed that eight of the nine outcomes were on track and performing as expected. We have since refined the PAF outcomes to reflect more accurately Australia's investments in Indonesia to 2019¹ and identified a series of milestones to help assess progress towards achieving program outcomes (detailed in the PAF at Annex E).² **In 2016-17 we achieved the majority of milestones. Accordingly we rated eight of the eleven outcomes and all three of the objectives green.**

Australia's aid program in Indonesia is on track to deliver against the Australian Government's strategic program targets including 'aid-for-trade' and gender equality. Our 'aid-for-trade' spend reached 20.5 per cent this year, indicating our contribution to an improved climate for trade, investment, infrastructure and jobs. We improved the gender performance of our programs through the implementation of a gender action plan, with 89 per cent of programs rated as effectively addressing gender through our 2016-17 Aid Quality Check process, compared to 74 per cent in 2015-16. This exceeds Australia's target of 80 per cent.

In consolidating the aid program in Indonesia we have changed the way we work to leverage better outcomes. We have enhanced collaboration across our programs — bringing together expertise and important relationships. We have engaged directly with civil society organisations to expand our reach and effectiveness within communities. Much of our work with Indonesia is now focused on influencing and supporting policy change. Many of our achievements in 2016-17 relate to the introduction of laws and regulations and the adoption of new ways to allocate government spending or systems that help people access government services. These types of achievements are often a long time 'in the making' and can be difficult to measure, but have the potential to be significant for Indonesia.

Supporting Indonesia to implement reforms effectively will continue to be a challenge. It will require long-term effort, analysis of problems, testing of possible solutions, development of new approaches, and implementation of proven approaches at scale with appropriate budget allocations. In 2017-18 we will consider what has worked in taking new approaches to scale and promoting sustainable impact in Indonesia, with a particular focus on local-level service delivery, empowering women, and engaging marginalised groups.

¹ Through this process, we identified 11 outcomes which will form the basis for reporting from 2017-18.

² A selection of PAF milestones will replace the performance benchmarks from 2017-18

1: EFFECTIVE ECONOMIC INSTITUTIONS AND INFRASTRUCTURE



Table 2 Rating of the Program's Progress towards Australia's Aid Objective 1

Objective	Previous Rating	Current Rating
Objective 1: Effective Economic Institutions and Infrastructure	Green	Green
Outcome 1: Stronger economic institutions		Green
Outcome 2: Infrastructure is better planned, delivered and maintained		Green
Outcome 3: More jobs and higher incomes, especially for poor households		Amber

Green. Progress is as expected at this stage of implementation and it is likely that the objective will be achieved. Standard program management practices are sufficient.

Amber. Progress is somewhat less than expected at this stage of implementation and restorative action will be necessary if the objective is to be achieved. Close performance monitoring is recommended.

Red. Progress is significantly less than expected at this stage of implementation and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required.


Slow job creation, a difficult business environment and insufficient infrastructure limit Indonesia's efforts to achieve its economic potential. Reforms to Indonesia's economic and public sector policies are needed to overcome these obstacles and build effective economic institutions and infrastructure. Indonesia has set its own goals to improve growth and productivity while reducing unemployment, poverty and inequality. Australia's support for stronger economic institutions, infrastructure that is better planned, delivered and maintained, and more jobs and higher incomes, especially for poor households, will help Indonesia to achieve these goals.

Outcome 1: Stronger economic institutions

Progress towards Outcome 1 has been rated green, as progress against milestones is on track.

Australia supports the Indonesian Government to strengthen economic institutions, manage public finances and promote effective markets to underpin growth and development. We work with a range of economic agencies across priority thematic areas: spending (improving public spending through better budget frameworks and delivery), revenue (supporting revenue mobilisation through policy and administrative reforms), finance (increasing stability, supervision and regulation, and financial sector development), and markets (improving market efficiency, *Ease of Doing Business* and access to global value chains).

In 2016-17, Australia responded to Indonesian priorities by providing timely advice on strengthening budget processes and furthering tax reform. We achieved our 2016-17 policy change milestones for this outcome. Our support for Indonesia's Financial Services Authority and the financial technology (FinTech) sector resulted in a new regulatory framework that will help the sector grow while protecting consumers. We enabled 87 Indonesia Government agencies to use multi-year budget planning; and we assisted Indonesia to improve its management of state assets so that they generate government revenue.



Access to finance is a major challenge for Indonesia's economy. Only 36 per cent of people have a bank account and only 13 per cent have borrowed from a bank. 'Peer-to-peer lending' is an alternative to bank lending, with companies providing online services to individuals and businesses that match borrowers and lenders. In 2016 Indonesia regulated peer-to-peer lenders, drawing on advice from the *Australia-Indonesia Partnership for Economic Governance* program (AIPEG, AUD111 million; 2008-2018), the Australian Centre for Financial Studies and the Australian Securities and Investment Commission through the *Government Partnerships Fund* (GPF, AUD66 million; 2011-2018). The regulation provides rules for a growing industry that will protect consumers and the stability of the financial system. The regulation has contributed to a jump in FinTech company registrations from 51 to 180 through 2016. It also seeks to prevent the financing of terrorism through these new technologies. With more FinTech companies in the market, there are more low-cost alternatives to traditional bank lending. This will increase Indonesians' access to finance, and consequently, their ability to create jobs and grow businesses.

In 2016-17, Australia helped Indonesia's Ministry of Finance develop a better budgeting system, which has now been applied across all government agencies. Through AIPEG, and with the assistance of the Australian National Audit Office and the Department of Finance (both GPF-agencies), we helped the Indonesian Government shift from cash to accrual accounting methods. Over time, by ensuring a consistent flow of funds across financial years, this will help to smooth expenditure across the year and allow multi-year projects to be better-planned and implemented. The previous practice of annual budgeting had led to dams being built without irrigation and different sections of roads being built by a different contractor each year with varying quality.

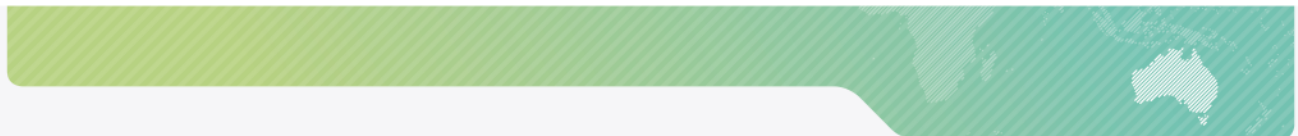
New technology can lead to big gains in efficiency and more effective spending. Through AIPEG we developed an innovative IT application that all 86 government ministries and agencies used to prepare the 2017 budget. By applying this technology, AIPEG helped the Ministry of Health identify about AUD100 million of savings, which can now be redirected towards other government spending. Through the *Knowledge Sector Initiative* (KSI, AUD109 million; 2012-2022), AIPEG and GPF, Australia is helping the Indonesian Government make better budget decisions to support its own development. Through these programs we helped Indonesia's Ministry of National Development Planning (Bappenas) introduce an integrated national planning and budget process and pilot an e-planning and budgeting system linking Bappenas and the Ministry of Finance. The new approach will allow Bappenas to influence budget allocations more effectively and help Indonesia prioritise the funding of important development programs.

Today, Indonesia collects less than 50 per cent of its potential tax revenues. It will need to improve this collection rate to increase spending on infrastructure, education, health and social security. To achieve this Indonesia's Finance Minister asked AIPEG to support the Indonesian Tax Office to upgrade its IT and human resources systems by preparing the scope of services for a major government procurement (likely to be worth more than USD100 million), to digitise and simplify tax processes for taxpayers. Through AIPEG and GPF we supported the development of a concept for a new core tax system, and helped Indonesia prepare for implementation by mapping business processes and improving data management. Over the long-term this work could help Indonesia broaden its tax base. Through GPF, the Australian Tax Office is continuing to provide training and secondments to support the Indonesian Tax Office's efforts to modernise.

While there are currently strong champions for tax reform within government, past efforts to improve tax administration and policy have not yielded results following changes of leadership in

Enhancing Regional Security

Through GPF, AUSTRAC – Australia's financial intelligence agency – worked with Indonesia's Financial Transaction Reports and Analysis Centre (PPATK) to strengthen Indonesia's ability to trace funds used to support terrorist or criminal activities. AUSTRAC and PPATK have now developed a world-first regional counter-terrorism-financing risk assessment for ASEAN and Australia. Collaboration on technology and systems, analytical techniques and joint education and outreach have increased the exchange of financial intelligence on terrorism financing and other types of crime.



government. We will work with the Indonesian Finance Ministry to strengthen budget transparency, allowing citizens a greater say in how resources are allocated and support the Financial Services Authority to improve its supervision of large, diversified companies, reducing the risk of instability in the financial system.

Outcome 2: Infrastructure is better planned, delivered and maintained

Outcome 2 has been rated green, as progress against milestones is on track, with an estimated AUD3.2 billion in financing leveraged (compared to our AUD 500 million target).

Increased government and private sector spending on high-quality infrastructure is important to Indonesia's continued economic growth. In 2016-17 Australia worked with Indonesia to improve public transport in Jakarta, enhance the management of existing infrastructure, get better outcomes from government spending on road maintenance, increase investment in infrastructure from the private sector, multilateral development banks (MDBs) and the Indonesian Government, and leverage additional financing.

An independent evaluation of our *Indonesia Infrastructure Initiative (IndII, AUD227.5 million; 2007-2017)* program (September 2016) found it delivered high-quality technical assistance. IndII achieved notable results, although whether reforms and innovations will be sustained is not yet clear in all cases. The evaluation noted shortcomings in the program's contributions to gender equality and social inclusion.

During 2016-17, we supported the Government of Jakarta to deliver more reliable bus services by planning and designing bus depots, bus stops and a control centre. As a result, average bus speeds have increased from 12 km per hour to 50 km per hour and waiting times have been reduced. In the first quarter of 2017, TransJakarta – Jakarta's transit bus system – increased passenger volumes by 41 per cent. Our AUD3.8 million investment leveraged a USD23 million (about AUD29 million) investment by TransJakarta in improvements to busways, stations and associated infrastructure helping increase public transport usage and reduce emissions from vehicles. We also helped TransJakarta procure low-floor buses which improve accessibility, particularly for the elderly and people with disabilities. Australia's AUD1.5 million investment enabled the purchase of about 300 low-floor buses, valued at AUD48 million, for delivery in 2017. This achievement was aided by the efforts of a gender and disability advocacy group, which promoted a bus service that would be accessible and usable by all people.

Through IndII we provided technical assistance to support the development of a road asset management system (RAMS). This system is helping Indonesia's Directorate General of Highways improve management of the national road budget and road preservation works. In 2016-17, IndII helped finalise the master plan for high-priority expressways and road renewal and the extension of the RAMS from five to ten provinces. Through the *Provincial Road Management and Maintenance program (PRIM, AUD30.9 million; 2014-17)* Australia used results-based grants to incentivise provincial Indonesian Government investment in road maintenance. This boosted average spending per kilometre on maintenance from AUD500 per year to AUD4300 per year. Through this program we have helped communities adapt to the impacts of climate change through improved drainage works which are better able to manage the floodwaters from more extreme weather events. PRIM has also increased women's engagement in the transport sector through the road traffic forum which forum now consists of 23 per cent female members. These members are advocating for women's rights and needs in road safety. IndII is now using the PRIM model to help Indonesia plan its 2018 budget and it is expected that Indonesia will allocate around AUD350 million to this approach.

In 2016-17 Australia supported a project that will help accelerate the delivery of infrastructure in Indonesia. The project brings together a panel of engineers and environmental and social safeguard specialists, who will be based in the Indonesian Ministry of Public Works and Housing and are expected to prepare 60 priority infrastructure projects worth a total of AUD3 billion. Australia's contribution of AUD350,000 to help establish this project enabled Indonesia to obtain a loan of approximately AUD187 million from the Asian Development Bank (ADB) which, coupled with Indonesia's own contribution of about AUD24 million, will fund this work.

Australia's development program provides an opening for broader dialogue with the Indonesian Government about reforms which promote investment and trade. Australia has helped Indonesia attract greater

international investment by easing the rules for foreign investment in construction and infrastructure. We supported the establishment of a public-private partnerships office, which will speed up the development and financing of infrastructure projects.

Australia Awards – Investing in Indonesia's future

Australia Awards are an important investment in Indonesia's future leaders.

The Australia Awards Program is the longest running international scholarships program in Indonesia. It has been a key part of Australia's relationship with Indonesia since the original Colombo Plan in the 1950s. Australia Award recipients study in a range of areas that support Indonesia's development priorities and help Indonesia grow its economy.

In 2016-17, 1124 awardees (488 of which were women) joined a pool of over 11,000 alumni – highly skilled professionals who use the skills acquired through an Australian education to meaningfully contribute to their professions and their communities, while forming life-long connections with Australia.

Our Alumni Engagement Strategy enables these life-long relationships through on-going professional development opportunities which include guest lectures and working groups looking at issues such as gender and the economy; networking events; engagement on social media; and the Alumni Grant Scheme which provides seed funding for initiatives that create impact in the alumni's professional field, organisation and community.

The Australian and Indonesian Governments work together to ensure the success of the Australia Awards. In 2016-17 we trialled a new split-site masters program, where students spend half their time in Australia and half in Indonesia. Costs are shared between Australia and Indonesia, which allows more people to access the program. Indonesia's participation in the trial shows its commitment to improving its human capital for economic growth.



University of Queensland hosts Indonesian Australia Awards recipients on a public-private partnerships short course focusing on infrastructure and service delivery.

Photo: University of Queensland

In 2016-17 we leveraged an additional AUD3.2 billion of non-Australian Government funds to support more effective infrastructure and economic governance. This exceeded by a considerable margin the target amount of AUD500 million. In 2017-18 we plan to leverage further finance for infrastructure spending, by helping prepare high-quality, investment-ready projects. We will support the extension of the RAMS into more provinces, and facilitate the introduction of a national roads maintenance program based on the PRIM model.

Outcome 3: More jobs and higher incomes, especially for poor households

Outcome 3 has been rated amber, because of modest progress on reforms that make it easier to invest and do business. We exceeded our target for increasing farm households' incomes.

Increasing incomes for the 40 per cent of Indonesians who are poor or vulnerable to poverty, and creating more jobs for the 2.5 million people entering the workforce each year will help reduce inequality. Indonesia's Ease of Doing Business ranking improved from 120 in 2015 to 91 in 2017, making it one of the biggest improvers globally, and it reduced business registration times from 97 days in 2007 to 25 days in 2017. Through the *Australian-Indonesia Partnership for Justice (AIPJ Phase 1, AUD57.5 million; 2009-2017)*, we helped establish a small claims court – a reform that contributed to Indonesia's improved *Ease of Doing Business* ranking. This provides a quicker and cheaper way to settle civil proceedings, giving greater legal certainty and protection for businesses, investors and individuals. The low cost should help more women access the legal system.

However, Indonesia's ambition to improve the business environment remains incomplete. Our programs and policy dialogue have contributed to Indonesia's

reform efforts, but barriers to entry and regulatory uncertainty continue to constrain investment and negatively affect Indonesia's competitiveness.

Through the Australia-Indonesia Partnership for Rural Development (*AIP-Rural, AUD112 million; 2013-2018*) Australia helped build partnerships between the private sector and farmers to leverage business expertise and investment. In 2016, we brokered 71 private sector partnerships and leveraged AUD1.5 million in co-investment, stimulating AUD1.80 in social returns for every one dollar invested. The largest component of AIP-Rural – Promoting Rural Income through Support for Markets in Agriculture (PRISMA) – increased incomes for 44,000 smallholder farmer households by an average of 139 per cent, exceeding the target of 37,740.

The mid-term review of AIP-Rural (December 2016) verified that it had increased the incomes of farming households, and that PRISMA was on track to benefit 300,000 households by the end of 2018. However, it found that work related to irrigation, rural finance and research was behind schedule. The review confirmed



AIP-Rural has helped farmers increase incomes by an average of 139 per cent

Photo: DFAT

that PRISMA cost-effectively helped private sector firms deliver innovations which increased the income and resilience of farming households in eastern Indonesia. This is important in helping vulnerable people become more resilient to economic shocks such as natural disasters. The review also highlighted the need for policy reform in the agricultural sector, while noting that this was beyond the scope of the program's first phase.

Through the Indonesia-Australia Partnership on Food Security in the Red Meat and Cattle Sector (*AUD50million with an additional AUD 10 million in non-official development assistance funding from the Department of Agriculture, 2013-2024*), we are exploring how we can support Indonesia's food security in commercially viable ways. In 2016-17 the program finalised the selection of eight pilot project sites to test different models of cattle breeding for their commercial viability in Indonesia. The pilots include a mix of three smallholder and five commercial-scale sites located across Indonesia. In other areas of the Red Meat and Cattle Partnership, progress was hampered due to limited engagement by some stakeholders. Further work will be required over the coming year to agree priorities.

In 2016-17 we supported the development of 104 business partnerships through our programs *Empowering Indonesian Women for Poverty*

Reduction (MAMPU, AUD108.3 million; 2012-2020), Towards a Strong and Prosperous Indonesia (MAHKOTA, AUD40.2 million; 2015-2019), IndII, AIPEG and AIP-Rural. While AIP-Rural exceeded its business partnerships target, we narrowly missed the overall target of 112. This is because we decided that the AIPEG-supported Indonesian Services Dialogue should focus on specific companies rather than growing the number of partnerships; and because work under IndII stalled in the absence of a regulation intended to enable the Regional Water Supply Company to partner with businesses to access loans. Smallholder farmers who increased their incomes through our AIP-Rural business partnerships in 2016-17 reached over 88,000. Of these, 41,000 were women.

To improve performance for outcome three in 2017-18 we will support Indonesia's efforts to attract foreign

investment and reduce barriers to business and trade (leading to further improvements in the *Ease of Doing Business* ranking) by making it easier to register a business and obtain construction permits. Through AIP-Rural we plan to enable 124,000 farm households to access markets and increase their incomes by at least 30 per cent. We have reviewed our Red Meat and Cattle Partnership and will take forward a number of recommended changes to ensure it remains relevant. We will work closely with key stakeholders to agree priorities for future activities under the partnership.

OBJECTIVE 2: HUMAN DEVELOPMENT FOR A PRODUCTIVE AND HEALTHY SOCIETY



Table 3 Rating of the Program's Progress towards Australia's Aid Objective 2

Objective	Previous Rating	Current Rating
Objective 2: Human Development for a Productive and Healthy Society	Green	Green
Outcome 4: Government spending is better targeted to reduce poverty		Green
Outcome 5: More households can access water and sanitation		Green
Outcome 6: Children have improved literacy and numeracy		Amber

Green. Progress is as expected at this stage of implementation and it is likely that the objective will be achieved. Standard program management practices are sufficient.

Amber. Progress is somewhat less than expected at this stage of implementation and restorative action will be necessary if the objective is to be achieved. Close performance monitoring is recommended.


Red. Progress is significantly less than expected at this stage of implementation and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required.

To meet its economic potential, Indonesia needs a healthy, educated workforce. However, education quality remains low, while poor sanitation, malnutrition and limited access to clean water affect the health of many Indonesians. By working with Indonesia to reduce poverty, increase access to water and sanitation and improve education quality, we are helping achieve its human development goals, and our own objective of human development for a productive and healthy society. Our work in this area can have a transformative impact on improving gender equality but can also create risks for women and girls if not implemented well. To help deliver on gender equality under objective 2 our programs are designed and implemented to be sensitive to gender issues.

Outcome 4: Government spending is better targeted to reduce poverty

Outcome 4 has been rated green as there has been substantial progress this year in reducing inefficient subsidies and improving social protection.

In 2016-17 Australia sustained strong support for Indonesia's efforts to make public spending more effective. We worked with Indonesia to reduce inefficient spending on subsidies, reach more poor households through national social protection programs, and pilot a program to replace rice subsidies.



Through MAHKOTA, Australia helped Indonesia restrict the payment of electricity subsidies to the poorest 40 per cent of households, saving the Indonesian Government AUD1.6 billion in 2017. Through the *Partnership for Knowledge-based Poverty Reduction (PKPR, AUD26.9 million; 2010-2019)* we provided AUD1 million to the World Bank to help extend Indonesia's cash transfer program from 3.5 million to six million poor households. Cash transfers help families access health and education and pay for basic household needs. Indonesia is now planning to expand this to a further 10 million households in 2018, using its own budget and a USD200 million World Bank loan. This is an ambitious reform and such a rapid scale-up comes with real challenges – current systems do not provide all the information the Government needs to track who is receiving payments, whether they are being received at the right times, and whether families are meeting their obligations to receive transfers. Australia will continue to help Indonesia's Ministry of Social Affairs to manage the scale-up effectively.

Through MAHKOTA, Australia worked directly with the Vice President's National Team for Accelerating Poverty Reduction (TNP2K) to trial a new program to replace Indonesia's inefficient distribution of subsidised rice. The new program provides poor families with 'e-vouchers', which they use to purchase rice from local sellers instead of collecting rice from the village head. This should improve the quality of rice available to the poor, stimulate local economies and increase the number of bank accounts held by poor Indonesians. The Indonesian Government will introduce the new program to 45 cities in 2017, with the potential to reach up to 1.23 million people.

Monitoring and evaluation by TNP2K and the World Bank in early 2017 found that delays in identifying who should receive the new rice subsidies slowed implementation. In 2017-18 we will continue support through TNP2K to enable the e-voucher system to help millions of poor families purchase rice and other nutritious foods and help Indonesia strengthen mechanisms to update poverty data quickly. We will promote financial inclusion by helping more poor people receive social assistance payments through bank accounts.


Outcome 5: More households can access water and sanitation

Outcome 5 has been rated green because overall targets on water and sanitation have been met.

Providing better access to water and sanitation can have real benefits for people's health. Currently only two per cent of Indonesians have access to a sewerage system. Poor water and sanitation are linked to stunting which affects 37 per cent of Indonesia's children, diminishing their potential and reducing their long-term health. In 2016-17, building on ten years of successful partnership with Indonesia in this sector, we aimed to leverage increased funding for water supply infrastructure from the Indonesian Government and the private sector; and worked with Indonesia to adopt a model for all its work on water and sanitation.

In 2016-17 Australia successfully leveraged a significant increase in Indonesia's funding for water and sanitation works. In February 2017 the Indonesian Government announced that the *Water and Sanitation for Low Income Communities Project (PAMSIMAS Phase 3, AUD10 million; 2016-2021)* would become the 'national platform program' for improving rural water and sanitation, committing approximately AUD1.4 billion to implementing the third phase of the program (including a AUD378 million loan from the World Bank). Australia's new AUD10 million commitment to the program follows a ten-year, AUD100 million investment in phases one and two of the program. By supporting PAMSIMAS over the long term, we helped demonstrate the success of this model which is now being taken to scale to better the lives of millions. In 2016-17 these programs helped over 800,000 women and 3,000 people with a disability by working with communities to build accessible water and sanitation facilities using locally available materials.

Many attempts have been made over a period of decades to provide 1.3 million people living in Surabaya with piped drinking water from nearby Umbulan Springs. Through the IndII program, in 2016-17 we developed a business case which provided vital financial and technical analysis and highlighted the need for the Indonesian Government to support the project with capital. Australia's investment of AUD680,000 has helped leverage approximately AUD250 million in funding in what will be Indonesia's first regional-water



public-private partnership (PPP). The Umbulan Springs water supply project is designed to give investors confidence in Indonesia's ability to run PPPs, by demonstrating the use of performance-based government funding for projects where direct user fees may not be commercially feasible. An independent evaluation of the IndII program concluded that this project represented a significant step forward by Indonesia in attracting private sector investment in water supply.

Australian investments have seen real improvements in people's access to water and sanitation. In 2016-17 an additional 1,630,000 people from poor households gained improved access to safe water and basic sanitation, helping to mitigate the impacts of climate change by reducing reliance on shallow wells, which are prone to drying up. This result far exceeded our target of 300,000 new beneficiaries. We set a conservative target for 2016 because we expected our handover to Indonesia of the *Water and Sanitation Hibah Phase 2 program (AUD119.6 million; 2009-2019)* to slow progress. However, results from all programs exceeded their individual targets, in some cases against expectations and previous trends.

However, progress under the *Australian Infrastructure Grants for Municipal Sanitation (sAIG, AUD40 million; 2012-2019)* was slow, achieving just 39 per cent of its end-of-program target for connections. Only 28 of the 38 participating local governments engaged actively and just AUD1.3 million of the AUD40 million program grant funds were disbursed. This is largely due to administrative delays at the local government level and grant disbursement issues at the central government level. The program has helped open pathways for local governments to invest in sanitation – a traditionally difficult area – but building demand from communities and encouraging buy-in from local governments continues to be an uphill battle. To improve performance, we will seek to remove barriers to local governments' participation in the program and introduce a community water, sanitation and hygiene education program.

While we fell short of targets under sAIG, we overachieved milestones for access to water and sanitation, and have therefore rated this outcome green. In 2017-18, we will help more people in rural and peri-urban areas access sustainable water supplies and sanitation services.

Outcome 6: Children have improved literacy and numeracy

Outcome 6 has been rated amber, as our new focus on improving literacy and numeracy through evidence-based approaches is at an early stage and did not fully meet our expectations for 2016-17.

Indonesia has made significant progress on improving education access, including through support provided by the *Australia-Indonesia Education Partnership (AEP, AUD366.4 million; 2010-2017)*, which, among other things, supported the

Improving Economic Development through Better Health and Nutrition

More than a third of Indonesia's children under five are stunted. Stunting is the result of malnutrition and has been shown to reduce people's cognitive abilities and result in less time at school. A person who has experienced stunting is therefore likely to earn less as an adult. As Indonesia's economy grows it will need more, better educated workers, but stunting limits people's potential and can compound existing inequalities. The most effective way to tackle stunting is to intervene in the first 1000 days of life by improving health services, providing nutrition counselling and support, and improving access to water and sanitation.

Indonesia recognises the need to act on stunting, tasking TNP2K to develop coordinated approaches to address the issue. We will support this effort through the MAHKOTA program and the World Bank's analytical work on poverty, building on our long running partnership with Indonesia and the *World Bank's Healthy and Bright Generation* which helped 2.1 million women and children access health services, and helped 58,000 children reach a healthy weight in 2016.

We are also working to improve nutrition in some of the poorest parts of Indonesia through Nutrition International. In June 2017 Australia announced an AUD2 million contribution to expand our support to Nutrition International to include adolescent girls.

Partnering in the Papuan Provinces

Indonesia's Papua and West Papua provinces have the highest rates of poverty in the country. Australia works in partnership with Indonesia to improve development outcomes through programs in education and teacher performance, service delivery, social inclusion, safe water and sanitation and agricultural productivity.

Australia's partnership with UNICEF is helping to improve teaching and learning in the Papuan provinces. This program has trialled new ways to improve literacy in rural and remote schools, delivering a 21 per cent reduction in illiteracy in target schools from 2015 to 2017.

Under special autonomy arrangements the Papuan provinces receive extra funds (Otsus) to develop infrastructure and to provide services. Indonesia has asked Australia to determine, through KOMPAK, how the Otsus funding can be used more effectively to address poverty and improve development in Papua.

Ministry of Education and Culture to build new schools in poor, remote and under-served areas. Australia's support for education now concentrates on raising learning outcomes for all Indonesian children by providing high-quality advice, piloting innovative approaches, and helping Indonesia collect evidence needed to make better education policies. This favours an approach that has innovation, teaching and learning at its core.

In 2016-17, 58 new junior high schools were built in low enrolment areas, resulting in a total of 1,154 completed schools during the life of the AEP (one short of the revised target of 1,155). In 2016-17, the *AEP Analytical and Capacity Development Partnership (ACDP)* completed 16 studies which resulted in policy changes and the allocation of government budgets to initiatives designed to improve education quality. For example, four district governments in Sumba province committed a combined AUD2.1 million to education reform priorities advocated for through an ACDP study.

An independent completion report for the AEP

(December 2016) found that it improved education access in many of Indonesia's remotest areas, contributed to better school management and strategies to improve education quality in schools and *madrasah* (Islamic schools), and supported better quality dialogue and decision-making in important areas. The school construction program achieved commendable levels of transparency and accountability and represented good value for money, with physical infrastructure sustainable due to strong community engagement and quality control. However, implementation of the AEP's professional development component was delayed and did not deliver the full systemic improvements expected, and the AEP did not engage effectively with district governments to address education challenges. Lessons learned are being taken forward in our new education programs.

A central part of Australia's increased focus on education quality following the completion of the AEP is the *Innovation for Indonesia's School Children (INOVASI, AUD49 million; 2016-2019)* program. INOVASI aims to improve student learning by trialling local solutions to local problems. Through its first pilot, known as Guru BAIK, INOVASI has helped teachers to find their own solutions to classroom challenges. INOVASI has worked with school principals, supervisors, education lecturers, literacy advocates and district and national government officials. Overall, 857 beneficiaries have been involved in INOVASI activities, including planning, workshops, innovation forums and the implementation of the pilot. Exceeding expectations, all six INOVASI partner districts in West Nusa Tenggara province allocated their own budget (approximately AUD176,000 total) to the first cycle of INOVASI activities. While enthusiasm for INOVASI is building, this outcome is rated amber overall because effective, replicable models for districts to improve classroom learning have not yet been built; and accelerated efforts are needed in 2017-18.

Teacher absenteeism and poor teacher quality are two of the main factors that inhibit the quality of education in Indonesia. Australia is working with the World Bank and Indonesia through the *Improving Dimensions of Teaching, Education and Learning Environment (ID-TEMAN, AUD9 million; 2016-2019)* Trust Fund to improve the quality of teaching and learning in Indonesia. In 2016-17 ID-TEMAN started a series of studies to look at how Indonesia can improve teacher quality, the use of information on teacher recruitment and deployment, and the use of school funds to improve learning. Through the World Bank's *Local Solutions to Poverty (LSP, AUD191.5 million; 2008-2020)* Trust Fund, we helped train 7,797 community

early-childhood education and development teachers, to work in community pre-schools supporting the critical early stages of development for Indonesian children. We tested whether linking the payment of teacher allowances to attendance would improve quality of teaching in 203 schools. Preliminary results are expected in 2017.

Madrasah (Islamic schools) make up 20 per cent of Indonesia's basic education system. Improving the quality of teaching and learning in mainstream *madrasah* is important for combating inequality. Building on good relationships with the Indonesian Government established through the AEP, under the *Technical Assistance for Education System Strengthening Facility (TASS, AUD11.9 million; 2016-2019)* we assisted the Ministry of Religious Affairs to design a system for the professional development of madrasah teachers and principals.

The *Australia-UNICEF Rural and Remote Education Initiative for Papuan Provinces (AUD16.8 million; 2014-2018)*, encouraged Indonesia to allocate a total of IDR20.9 billion (approximately AUD1.9 million) to improve learning outcomes in rural and remote Papuan schools. This paid for additional teachers, infrastructure, facilities and learning materials. Through this partnership we supported Indonesia's Papuan provinces to improve planning and, in Manokwari District, UNICEF worked with the District Education Office to review and prepare a new education plan for the 2016-2020 period. This helped identify gaps in service provision and resulted in the development of a 'roadmap' to address these gaps.

To improve performance in 2017-18 against outcome six, INOVASI will take on two additional pilot provinces and develop models for teaching foundational literacy and numeracy, formative assessment and inclusive education which can be scaled up by government. We will also encourage the Indonesian Government (and local governments) to allocate funds to help improve learning outcomes, and expand the evaluation of KIAT Guru – a pilot program designed to improve education quality in remote areas by linking teacher performance to incentive payments – from 10 to 33 sub-districts.

OBJECTIVE 3: AN INCLUSIVE SOCIETY THROUGH EFFECTIVE GOVERNANCE



Table 4 Rating of the Program's Progress towards Australia's Aid Objective 3

Objective	Previous Rating	Current Rating
Objective 3: An Inclusive Society Through Effective Governance	Green	Green
Outcome 7: Governments – national and local – deliver the services communities need		Green
Outcome 8: Women have a voice in decision making and access to better jobs and services		Green
Outcome 9: Marginalised groups can advocate for and access basic services		Amber
Outcome 10: Climate change impacts are lessened through better land management		Green
Outcome 11: Public policies are inclusive and informed by evidence		Green

■ **Green.** Progress is as expected at this stage of implementation and it is likely that the objective will be achieved. Standard program management practices are sufficient.

■ **Amber.** Progress is somewhat less than expected at this stage of implementation and restorative action will be necessary if the objective is to be achieved. Close performance monitoring is recommended.

■ **Red.** Progress is significantly less than expected at this stage of implementation and the objective is not likely to be met given available resources and priorities. Recasting the objective may be required

Inequality has many dimensions in Indonesia. It occurs between genders (Indonesia is ranked 88th out of 144 countries on the World Economic Forum's Global Gender Gap index), between regions (people in Indonesia's Papuan provinces are seven times more likely to be poor than those in Jakarta) and between people living in rural and urban areas, while people with disability are often the most disadvantaged within all communities. Agriculture and forestry are important industries for those living in remote areas. Increasing funding to villages is central to the government's strategy for addressing inequality. In 2016, transfers to villages amounted to AUD 4.6 billion, increasing to AUD 5.7 billion in 2017. By supporting marginalised groups, more effective land management and promoting more inclusive and evidence-based policy making, we are helping Indonesia achieve a more inclusive society.

Outcome 7: Governments – national and local – deliver the services communities need

Progress is rated green for outcome 7, as most of these milestones are on track.

In 2016-17 Australia helped Indonesia improve the way it calculates and transfers revenue to sub-national governments, enhance the capacity of selected governments to identify and respond to local needs, trial better ways of delivering local services, and expand the referral system for accessing local social assistance programs from five to 50 districts.

Through *Governance for Growth (KOMPAK, AUD81 million; 2015-2018)* and the LSP program we helped revise formulas for fiscal transfers from the national government to support district and local governments to deliver better basic services. For example, changes to Indonesia's IDR 7.5 trillion (AUD710 million) District Incentive Fund now reward districts which improve performance with additional funding.

Through KOMPAK, we worked with the Ministry of Finance and Bappenas to develop a fairer method for allocating Indonesia's AUD5.7 billion Village Fund (*Dana Desa*), which we expect will be applied in the 2018

Budget. Previously, all villages received the same funding regardless of their population or poverty rates. Our work on 26 pilots helped local governments use village funds to help people access health and education services and obtain birth certificates and other identification needed to access many government services.

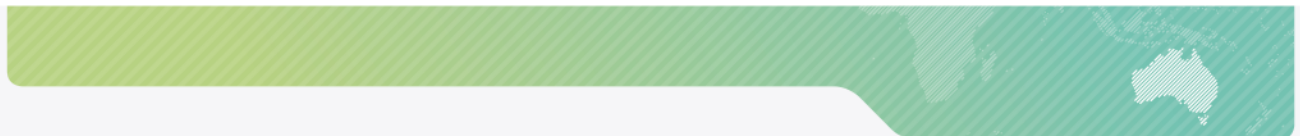
In 2016-17 we developed innovative ways to strengthen local service delivery. For example, KOMPAK collaborated with the Ministry of Villages and a local tech-based education organisation, to pilot a mobile phone application that helps village officials to use village funds to best address local priorities. The Ministry for Villages plans to scale up use of this application nation-wide.



President Joko Widodo with Australian Ambassador Paul Grigson at the launch of Indonesia's National Financial Inclusion Strategy

Photo: Press, Media and Information Bureau, Office of the President of Republic of Indonesia.

Just 36 per cent of Indonesian adults have bank accounts, with most people relying on risky, informal means of managing their money which are more expensive and make people more vulnerable to poverty. Through MAHKOTA we helped TNP2K and the Coordinating Ministry for Economic Affairs develop a National Financial Inclusion Strategy, which was launched by the Indonesian President in late 2016. The strategy aims to increase



the number of people with bank accounts to 75 per cent by 2019. Through MAHKOTA we supported a pilot which used digital technology to make social support payments, helping increase the number of Indonesians in the formal banking sector.

Through MAHKOTA, we supported Indonesia to expand a referral system which helps poor people access social services. This system now reaches 59 districts, exceeding our target. An internal review found that the system was effectively referring people to local services and programs, but its rapid expansion exposed flaws in the technology and monitoring systems which will need further attention.

Even with increased spending on government services, overall reductions in poverty and inequality may not be achieved. At times, government programs have been rolled out too quickly, compromising the quality of implementation, and expenditure of village funds is yet to deliver on Indonesia's ambitious targets for economic growth and poverty reduction. There are increased risks relating to financial mismanagement and fraud as the volumes of Indonesian government funds transferred to local levels increases over time. Indonesia has sought further support from Australia to help address these risks.

In 2017-18 we will support selected local governments to improve policies and management of their budgets and use their funding to improve health and education, support poor people to access local programs and services, and enable more people to access identity documents.

Outcome 8: Women have a voice in decision making and access to better jobs and services

Outcome 8 has been rated green, as progress against milestones is on track.

Through the MAMPU program, a network of more than 50,000 women in 2,200 local community groups across 1,800 villages became more active in community decision-making. In Cilacap district, in Central Java, a MAMPU partner, *Aisyiyah*, successfully advocated for more government funding for women's health services in local clinics. Evidence from the 2016 *Women's Collective Action for Empowerment in Indonesia Study* showed that involvement in the MAMPU network had strengthened women's confidence, self-belief, skills and knowledge. This empowered them to influence local decision-making in their villages.

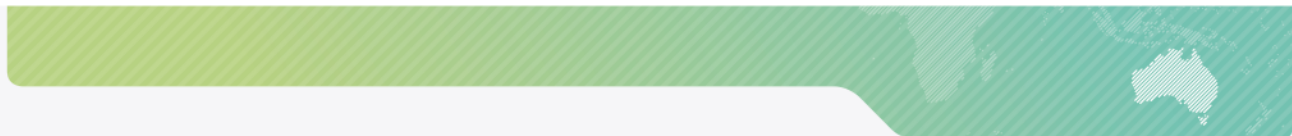
Through LSP and KOMPAK we helped the Ministry of Home Affairs to develop a regulation requiring that women and other marginalised groups are represented on village councils. This will help improve accountability of village funds and expand leadership opportunities for women in local governance. During 2017-18 our programs will monitor and support effective implementation of this new regulation.

Millions of Indonesian workers travel abroad each year seeking better-paying jobs. Many of these 'migrant workers' come from poorer backgrounds and most of them are women. While this is an important source of income, incidents of abuse and mistreatment have raised concerns. With support from MAMPU the Indonesian Ministry of Labour piloted the 'safer migration' program – a village-based service that helps migrant workers and their families access information about safe migration, entitlements, and exploitation of migrant workers. Migrant Care – a core MAMPU partner – persuaded the Ministry of Labour to expand the safer migration pilot from 18 villages in seven districts in 2016 to 140 villages in 50 districts in 2017.

The new regional program, *Investing in Women (IWI)*, works with Indonesia's private sector to improve women's participation in the economy and enhance women's roles in decision-making. In 2016-17, IWI established the Indonesia Business Coalition for Women's Empowerment which brings together leading Indonesian companies to improve gender equality in their workplaces. The eight founding

Women Against Corruption

Through the Australia Indonesia Partnership for Justice we supported Indonesia's largest women's anticorruption movement – I'm a Woman against Corruption. More than 1,000 women from across Indonesia's 34 provinces have been trained to detect and prevent corruption and the movement has reached over 1 million women, men and children with anti-corruption messages. Women from all walks of life have reported improved confidence, public speaking and advocacy as a result of their involvement in the movement.



members of the coalition are among Indonesia's most high-profile companies in the manufacturing, retail and finance sectors. *Investing in Women* will work with impact investors to co-invest in women-led small and medium enterprises. It is expected this will increase access to investment finance and, over time, provide a model for private sector financing of women-led small and medium enterprises.

Our Australia Awards programs are also helping to promote gender equality in Indonesian workplaces. A Tracer Study showed that alumni are promoting gender equality by building people's understanding of gender issues and through their leadership and decision-making.

In 2017-18 we will support increased engagement between civil society and government, so that policies better reflect the needs of women, help more women to get involved in village level planning, and support Indonesian Government efforts to help women access services and safer work.

Outcome 9: Marginalised groups can advocate for and access basic services

Outcome 9 has been rated amber because implementation of Indonesia's new Disability Law has been limited this year.

In Indonesia, approximately 7,000 children are charged with crimes every year and 90 per cent of them are sentenced to jail. Over half of these children were convicted of minor crimes, such as stealing or fighting. Eighteen prisons are designated to house children, with a capacity of 2,400. But around half of the 4,100 children in Indonesia's corrections system are currently housed in adult prisons. Through Program Peduli (*Peduli, AUD13.1 million; 2016-2018*), Australia supported an Indonesian organisation, PKBI, to develop and trial guidelines to protect children's rights. These were tested in the South Sumatra Children's Correctional Facility and PKBI is now advocating for broader implementation.

An identity document is needed to access many government services, enrol in school and open a bank account. Research by DFAT shows that poor households, particularly those headed by women, are less likely to have legal documents. In 2016-17 AIPJ, KOMPAK, MAMPU, and Peduli improved access for marginalised groups to identity cards, thereby helping them benefit from government services and engage with the economy. Through AIPJ we contributed to policy changes which increased from 69 in 2015 to 362 in 2016 the number of mobile courts providing services, including issuing legal identity documents.

Through KOMPAK we worked with the Indonesian Government to reform its policy on civil registry and vital statistics (CRVS) to increase coverage of legal identity services, which include birth certificates, ID cards, family cards, and marriage and death certificates. The approach streamlines procedures, eliminates fees and charges, and expands the use of mobile CRVS services. While work on a national CRVS strategy continues, the KOMPAK model is already showing results at lower levels of government, with CRVS services significantly expanded in KOMPAK areas. In six KOMPAK target districts in NTB and Aceh provinces, 238,282 birth certificates have been issued, increasing coverage from 60 per cent to 80 per cent in less than one year.

MAMPU partners are working with local governments to extend mobile outreach services that enable disadvantaged women to obtain identity documents more quickly and cheaply. We estimate that 3,590 individuals and 830 families have been assisted by MAMPU partners to obtain identity cards, birth certificates, marriage and divorce certificates and family cards.

A 2016 strategic review of Peduli found that the program had been very effective in encouraging civil society organisations to address barriers to marginalised groups receiving support, accessing services and participating in politics and the economy. In 2016-17 Peduli helped 3,773 people get access to identity cards or services such as birth and marriage certificates.

People with a disability are among the most marginalised in Indonesia, with nearly 25 per cent of people with disability living in extreme poverty. Through AIPJ we supported disabled people's organisations to give effect to Indonesia's Disability Law which makes it easier for people with disabilities to fully participate in society and access services. The new law was introduced in March 2016, but budget cuts and administrative complexity (30 ministries are responsible for its implementation) have delayed the completion of the National Action Plan, which is critical for its implementation.



Despite challenges in implementing the law, Australian programs continue to support practical actions to improve livelihoods and help people with a disability access services. Peduli has helped almost 4,000 people with a disability access livelihood assistance, social protection programs and education and health services. Working through Peduli and with disabled people's organisations, we facilitated access to services by informing people with a disability of their rights, helping the organisations increase services and improve data collection at provincial and district government levels. For example, in Bone District, South Sulawesi, the local government provided an additional 1,000 health insurance policies to people with disabilities following Peduli's successful advocacy for the collection of data on people with a disability in the District. Through KOMPAK we collaborated with Bappenas and OJK (the Financial Services Authority) to spread awareness of the importance of financial inclusion for people living with a disability, especially the visually impaired. Access to information in braille helps the visually impaired to understand financial services.

To improve performance in 2017-18 against outcome nine, we will advance Indonesia's disability agenda by supporting the National Human Rights Action Plan. We will continue to fund disabled persons organisations working directly with government to implement the Disability Law and to make sure that progress against its implementation can be measured. We will collaborate through our Peduli and AIPJ Phase 2 programs to support community-based initiatives as well as national and sub-national efforts to implement the Law.

Outcome 10: Climate change impacts are lessened through improved environmental governance

Outcome 10 has been rated green as progress against the milestones has been as expected.

The 2015 forest and land fires in Indonesia caused an economic loss of approximately USD16 billion (approximately AUD20 billion) and discharged over one billion tons of CO₂. Forest and land fires are an annual crisis in Indonesia and a significant contributor to global greenhouse gas emissions. To support Indonesia's efforts to prevent the recurrence of fires and to reduce emissions, Australia initiated an environmental governance program as part of Australia's Indo-Pacific Land Action Package (*Indonesia-Australia Partnership for Environmental Governance, AUD10 million; 2017-2019*) in 2017. This responds to Indonesia's renewed interest and involvement in addressing forest fires and climate change.

Through this program, we promoted sustainable land-management practices, and strengthened governance and law enforcement. We worked with the World Bank and Norway to establish the Sustainable Landscape Management Multi-Donor Trust Fund, which helped develop a national strategy and coordination mechanism for land fire prevention and finance for peatland restoration. Australia, through the UNDP, facilitated an agreement between the Ministry of Environment and Forestry and the Attorney General's Office to support increased prosecution of environmental crimes.

In 2017-18 Australia will work with Indonesia and other international partners towards the launch of a plan for fire prevention and forest and plantation management and a platform for coordination on landscape management, as well as mobilisation of more finance for peatland restoration.

Outcome 11: Public policies are informed by evidence

Outcome 11 has been rated green as progress towards these milestones is largely on track.

Our partnership with Indonesia across all sectors contribute to evidence-based policymaking. During 2016-17, we responded to Indonesian requests to support research and analysis to inform major public policy reforms on a wide range of issues, including tax reform, social protection policies, financial inclusion, technical and vocational education, public expenditure management, and protection of migrant workers.

We also sought to strengthen the system for applying evidence in public policy through our knowledge partnership, KSI. In 2017, KSI supported the Ministry of Finance to develop a regulation making it easier to do research through Indonesian universities. Previously, accounting for money spent under research grants was complex, costly and time-consuming. The new regulation reduces 'red tape' and introduces streamlined requirements for financial reporting. Because of this change, Indonesia's increased budget allocation for research funding — IDR1.2 trillion (AUD113 million) in 2017— will be spent more effectively.

Humanitarian Support to Indonesia

In 2016-17, we helped the Indonesian Red Cross to support over 5,500 people with essential household items, shelter, health and first aid, clean water and employment following an earthquake in Aceh Province. Australia also deployed 1,500 family kits, which were distributed by the Indonesian Red Cross (PMI). Australian-built schools in the Province withstood the earthquake, demonstrating how the risks of disasters can be reduced through good planning and design. We worked with Indonesia to strengthen its ability to respond to a large-scale humanitarian crisis and helped Indonesia deliver improvements in national and sub-national disaster risk management policy and coordination efforts. We built awareness, in high risk areas, of how to respond to disasters. Indonesia's use of impact assessment tools in recent disasters shows that Australia has helped Indonesia build lasting skills.



In 2016-17 Australia rapidly responded to an earthquake in Pidie Jaya, Aceh Province
Photo: DFAT

In 2016, KSI supported the Australian and Indonesian Academies of Science to hold the Australia-Indonesia Science Symposium (AISS). This event brought together over 100 of Australia and Indonesia's brightest scientific minds to discuss challenges both countries face in health, marine science, climate change, agriculture and big data. Through the AISS we improved scientific cooperation between Australia and Indonesia with over 10 joint research proposals developed following this event.

In 2017-18 we will continue to support increased use of evidence in policymaking; and support research organisations and universities to play a greater role in public policy.

MUTUAL OBLIGATIONS

The Indonesian Government and our development partners showed continued commitment to achieving agreed development goals throughout 2016-17. The Indonesian Government is the major planner, funder and implementer of development activities in Indonesia. We work closely and effectively with the Indonesian Agency for Development Planning (Bappenas) to consolidate the program. Indonesia's RPJMN 2015-2019 includes the targets outlined below. Indonesia established a secretariat to report on progress towards the global Sustainable Development Goals (SDGs) and submitted its first report against the SDGs this year.

Australia provides policy and technical advice to support Indonesia's efforts to deliver the RPJMN. We trial new or improved ways of planning and delivering infrastructure and services, and work with the Indonesian Government, multilateral development banks or private sector organisations to scale up proven approaches. This amplifies the impact of our programs. We are closely monitoring the extent to which Indonesia takes these programs to scale. This year, the Indonesian Government funded and rolled out water and sanitation programs, implemented policy advice from our programs, improved budget planning, and improved targeting of electricity subsidies for poor households. These reforms were initiated through Australian-funded programs.

Australia and Indonesia reviewed development priorities and progress throughout the year, including through ministerial-level meetings. The regular Senior Officials Meeting on the economic partnership was not held in the review period, but is scheduled to take place before the end of 2017.

Progress against Indonesia's development targets was mixed. Inequality has declined slightly since 2014. Economic growth has been steady, but has not reached Indonesia's ambitious eight per cent target. The *Ease of Doing Business* ranking improved from 120 in 2015 to 91 in 2017, which placed it amongst the biggest improvers globally, but below the President's goal of breaking into the top 40 nations. Poverty continues slowly to reduce; an estimated 21 million Indonesians live below the global extreme poverty line in 2017. More people have access to the government-backed health insurance scheme and Indonesia's rating on the Human Development Index continued to improve across all dimensions including life expectancy, education

and per capita income. A number of Indonesia's own policies, and delays in reform, continue to limit economic growth and development. Protectionist policies and red tape constrain trade and investment while the dominance of state owned enterprises limits competition and the growth of the private sector.

RPJMN 2015–2019 Macro Development Targets			
Indicator	2014 (baseline)	2017 (most recent available data comes from the 2015-2017 period)	2019 (endline)
Human development index	68.6	70.18 (latest data 2016 ⁱ)	76.3
Gini index	0.41	0.39 (at March 2017)	0.36
Increased % of community who participate in health insurance programme through health sector	51.8% (Oct 2014)	67.7 % (171.939.254 people by end of 2016)	Min 95%
Economic growth	5.1%	5.3%	8.0%
- GDP per capita (IDR. thousand) base year 2010	43.403	45,176 (in 2015) ⁱⁱ	72.217
Inflation	8.4%	4.37% (at July 2017) ⁱⁱⁱ	3.5%
Poverty rate	10.96%	10.64% (at March 2017) ^{iv}	7.0–8.0%
Open unemployment rate	5.94%	5.33% (at February 2017) ^v	4.0–5.0%

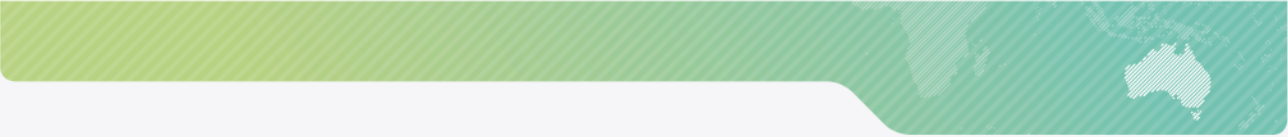
PROGRAM QUALITY AND PARTNER PERFORMANCE

We place strong emphasis on quality, management oversight and performance in Australia's economic partnership in Indonesia. This is critical to success given the nature and scale of our work, which spans many sectors and is delivered by a broad range of implementing partners. Throughout 2016-17 we bedded down the architecture for performance management and strategic oversight.

We measure performance across the program against a **Performance Assessment Framework (PAF)**, which provides the overall structure for this APPR. The framework articulates what we expect to deliver each year out to 2019 against the 11 outcomes rated in this report. We refined the framework this year (see Annex E), drawing on experience from the first implementation cycle. The PAF now captures 11 outcomes and annual milestones that describe what we expect to achieve by 2019. We will use a selection of these annual milestones as the program benchmarks – these are indicated in bold at Annex E. We have embedded strategic management oversight into our aid management architecture through the **Aid Management Meeting**. This monthly meeting of senior managers considers strategic targets, risk management, policy and program strategies and expenditure. We have shared within the department a 'dashboard', which covers targets, risks and policy issues to inform overall approaches to risk management. We strengthened further our operational management of the economic partnership.

We published four **evaluations** that were completed in 2016-17 (Annex C) and drew on evidence from evaluations and reviews for program planning, to inform the ratings in this APPR, and for scoring in our Aid Quality Checks (see below). We used evaluations to inform our designs — for example, for new investments in infrastructure and rural development — and we continued a strong focus on improving **monitoring and evaluation**. To improve efficiency and better target our efforts, we continued to **consolidate** the program, reducing the number of investments to 52, compared to 86 in 2013 (against a target of 68).

This year, following concerted efforts through the Indonesia program **Gender Action Plan (GAP)**, we improved our approach to gender equality. We met the target set out in *Making Performance Count*, with 89 per cent of programs rated effective compared to 74 per cent last year and 69 per cent in 2015. The major



improvements were in stronger approaches to monitor, evaluate and report on gender and sex-disaggregated data; clearer gender and social inclusion strategies and plans; and increased allocation of resources and budgets for gender-focused activities in some programs. We produced internal guidance for improving gender effectiveness and held two gender network forums with staff and implementing partners to share lessons and good practice and increase cross-program collaboration on gender.

Aid Quality Checks

This year we rated 37 investments against DFAT's quality criteria (full ratings are at Annex D.) The Aid Quality Check (AQC) enables DFAT program teams to identify what is working and what needs improvement in their investments. Senior staff who do not work on the program moderated the scoring to ensure accurate ratings and clear-eyed assessments. Our major area of improvement was in gender equality (see above). Gender advisers reviewed over 90 per cent of the AQC reports to ensure the ratings were accurate and valid, based on evidence. Last year we found that the Development Credit Authority investment was under-performing. This year we assessed that it had made sufficient progress in implementing the agreed remediation plan to move out of the 'Investments Requiring Improvement' category. We will continue to monitor and engage closely with USAID. We assessed two initiatives (infrastructure grants for Municipal Sanitation or sAIG and the IndoBeef Project) as requiring improvement and will develop plans to rectify these issues which will be monitored by senior management.

Performance of key delivery partners

Delivery partners mostly continue to perform effectively. They made significant contributions to policy and performance reporting, were responsive to DFAT requests and provided high quality material for communicating the results of their interventions. The majority of Australia's ODA continues to be delivered by commercial contractors, followed by multilateral banks and international organisations. We completed 32 **performance assessments** of partners with agreements worth more than AUD3 million, including 18 with commercial suppliers, 11 with multilateral development banks, two non-governmental organisations and one research institution. The assessments found that our largest contracts are being delivered effectively, with risks managed well and DFAT's policy agendas and safeguards requirements adequately met. Areas for improvement include a better process for the selection of personnel, stronger evidence of value for money, and closer collaboration and involvement of DFAT teams in implementation.

The **World Bank** and **Asian Development Bank** remain important partners. The World Bank provided strong levels of recognition for Australia's funding support at high-level meetings and events including launches of the Indonesia Economic Quarterly reports. These partners remain important to Australia for their ability to support the preparation of large-scale infrastructure, social programs and policy reform agendas in Indonesia. Further work is still needed to ensure that Indonesian policy-makers understand the extent of Australia's support for these activities, including loan preparation. **Commercial suppliers** performed effectively, and provided the bulk of our technical and policy advice to Indonesia, as well as testing and scaling up pilot activities. Much of Australia's support to strengthen Indonesian civil society organisations is managed by commercial suppliers, who provide good oversight and accountability for grants to Indonesian organisations at the national and community level. In total, Australia directly supported 54 **national NGO partners** in Indonesia, and indirectly supported a further 162 community organisations through our development programs. A total of 21 **other Australian Government agencies** worked with Indonesian counterparts under our economic partnership. This included the departments of Finance, Treasury, Agriculture, the Attorney-General and Education, as well as CSIRO, Geoscience Australia, the Australian Federal Police, and the Australian Taxation Office.

RISKS

Table 3: Management of Key Risks to Achieving Objectives

Key risks	What actions were taken to manage the risks over the past year?	What further actions will be taken to manage the risks in the coming year?	Risk Rating (low, medium, high, very high)	Are these in in Post's Risk Register (Yes/No)*
The Indonesia aid program is perceived as ineffective, not relevant, or poor value for money	<p>We implemented a robust Performance Assessment Framework to monitor program performance</p> <p>We ensured senior management oversight of program strategy and performance</p> <p>We communicated program results through a variety of forums and media</p>	The Performance Assessment Framework will be further strengthened to focus on measuring achievement against program milestones, with senior management oversight.	MEDIUM	YES
Lack of trust or misunderstandings in our relationships with key Government of Indonesia partners, including as Indonesia approaches the 2019 elections	<p>We work closely with Indonesian officials in monitoring program strategy and performance</p> <p>Our program management complies with Indonesian Government requirements</p>	We will hold a Senior Officials Meeting in 2017 to review progress against our Aid Investment Plan and re-confirm our shared vision for the development partnership	MEDIUM	YES
Failure to comply with standards and safeguards puts program outcomes at risk	We provided training, policy guidance and support for staff and implementing partners on standards and safeguards issues (including fraud control, financial management, child protection, gender and disability)	We will continue monitoring safeguards, fraud risks and the effectiveness of control measures, and support staff and partners to strengthen contract management.	HIGH	YES

The overall risk profile for the program has not changed considerably over the last twelve months.



MANAGEMENT ACTIONS

The following management actions respond to the amber ratings for outcomes three, six and nine

1. To improve performance against **outcome three** (more jobs and higher incomes, especially for poor households) in 2017-18 we will support Indonesia's efforts to attract foreign investment and reduce barriers to business and trade by making it easier to register a business and obtain construction permits. Through AIP-Rural we plan to enable 124,000 farm households to access markets and increase their incomes by at least 30 per cent. We have reviewed our Red Meat and Cattle Partnership and will make a number of recommended changes to ensure it remains relevant. This will include an increased focus on research and evidence gathering helping to support more informed policy making; improving our communications with key Indonesian Ministries; and making it easier for Indonesian cattle producers to take part in the Partnership.
2. To improve performance in 2017-18 for **outcome six** (children have improved literacy and numeracy) INOVASI will take on two additional pilot provinces and develop models for teaching foundational literacy and numeracy, formative assessment and inclusive education which can be scaled up by government. We will also encourage the Indonesian Government (including local governments) to allocate funds to help improve learning outcomes, and expand the evaluation of KIAT Guru – a pilot program designed to improve education quality in remote areas by linking teacher performance to incentive payments – from 10 to 33 sub-districts. We are also supporting local stakeholders to prepare a sustainability and replication plan for improving rural and remote education quality in Papua using the UNICEF model.
3. To improve performance in 2017-18 against **outcome nine** (marginalised groups can advocate for and access basic services), we will advance Indonesia's disability agenda by supporting the National Human Rights Action Plan, which includes disability rights. We will continue to provide funding to disabled persons organisations working directly with government to implement the Disability Law and to make sure that progress against its implementation can be measured. We will collaborate through our Peduli and AIPJ Phase 2 programs to support community-based initiatives as well as national and sub-national efforts to implement the Law.

We have also identified four areas requiring management action across the broader country program

4. **Strategy:** Over the next year, we will engage closely with the Indonesian Government on the implementation of Indonesia's medium-term development plan and Australia's Aid Investment Plan. We will hold a Senior Officials' Meeting with the Indonesian Government, and will analyse potential policy priorities for the partnership over the medium term. This analysis and dialogue will inform preparation of the next Aid Investment Plan commencing in 2019.
5. **Performance:** We will continue to improve our approach to program performance management and assessment. We will do this by ensuring that senior management provides oversight of joined-up strategies that enable our programs work together, and leverage off each other, to achieve our annual program milestones.
6. **Gender equality:** Strong efforts will be required to maintain our performance on gender equality and the departmental target of 80 per cent. This will require ongoing training and messaging to staff about the importance of embedding gender equality in programs and in our policy engagement. We will focus on investments that identified through the AQC process as underperforming on gender equality, and we will undertake a third review of the GAP in May-June 2018 to further strengthen performance.
7. **From pilots to impact at scale:** We will consider experience across our programs in moving from policy reforms and pilots to implementation at scale, and share lessons on what works (and what does not). We will focus on lessons from successful pilots in local-level service delivery, empowering women and engaging marginalised groups. We will continue to follow through on our policy engagements to ensure this work leads not just to new laws or regulations, but to tangible improvements in people's lives.

ANNEX A- PROGRESS IN ADDRESSING MANAGEMENT ACTIONS

Management actions identified in 2015-16 APPR	Rating	Progress made in 2016-17
1. Continue to reorient our investments to provide the quality of assistance which earns us the position as Indonesia's partner of choice.	Achieved	Australia's aid investments have supported Indonesia's most significant reform priorities, including addressing inequality; expanding financial services and financial inclusion for poor households; improved management of Indonesia's village funds program; reforms to energy subsidies; expanding services to enable safe work for migrant workers. In the past year, over AUD3.2 billion in additional, external investment has been committed to programs designed or piloted by Australia (comprised of Indonesian national and provincial government funding, and loans from multilateral banks). These commitments demonstrate that Indonesia sees Australian expertise as invaluable for informing economic and social reforms across many sectors.
2. Further improve the program's gender equality outcomes.	Achieved	Our approach to gender equality was strengthened through the Gender Action Plan. This is reflected in the scores increasing from 74 per cent effective to 89 per cent effective. Further details are provided above in Program Quality and Partner Performance.
3. Invest in our staff's ability to deliver quality technical advice.	Achieved	We provided opportunities for staff to build capabilities in technical areas, through training, workshops and seminars. We developed and shared guidance on using technical advice, such as through design-and-implement programs.
4. Improve our ability to measure our results in policy advice and technical assistance.	Partly Achieved	We further developed our Performance Assessment Framework (PAF), and refined our 'significant policy change technique' – a tool which enables us to identify and describe our contribution to policy change in Indonesia. Through the PAF we developed outcomes which capture the aggregate impact of programs across the many strands of our economic partnership.
5. Increase the effectiveness of our communications	Achieved	We have improved our communication, building on the availability of new forms of data through our PAF. In addition, the Embassy's drive to better communicate results and impact to a wide range of audiences has seen production of high-quality media products, presentations and data packs.

Note:

- Achieved. Significant progress has been made in addressing the issue
- Partly achieved. Some progress has been made in addressing the issue, but the issue has not been resolved
- Not achieved. Progress in addressing the issue has been significantly below expectations

ANNEX B – PERFORMANCE BENCHMARKS

Progress towards Performance Benchmarks in 2016-17

AIP Objective	Performance Benchmark	Rating	Progress in 2016-17
Objective 1: Effective Economic Institutions and Infrastructure	Additional funding (public or private sector) leveraged for infrastructure investments (PAF Indicator 1)	Achieved	AUD3.2 billion of additional, non-Australian Government financing was leveraged against a target amount of AUD500 million. 'Leverage' refers to additional sources of financing, external to the Australian Government, that were directed towards more effective infrastructure as a result of Australian-funded technical advice, project design, loan preparation, or pilots scaled up by the Indonesian Government.
	Improvements to market efficiency, regulation and financial systems (PAF Indicator 3)	Partly Achieved	Australia contributed to one significant improvement to markets and financial regulation. The Financial Technology Law, which supports expansion of financial services, was passed. A Ministry of Home Affairs regulation defines the role and services of one-stop integrated service centres that streamline business registration. However, this is not considered 'significant' as further work is needed to make a more substantial impact on improving the business and investment climate.
	Number of smallholder farmers, in particular women, with increased incomes through business partnerships (PAF Indicator 4)	Achieved	Australia's support has enabled 44,088 smallholder farmer households to increase their incomes, against a cumulative target of 37,740 farm households. Results exceeded expectations.
	Increased engagement with private sector organisations for pro-poor development (PAF Indicator 5)	Partly Achieved	We almost achieved this target, with 104 business partnerships across the Indonesia program against a target of 112.
Objective 2: Human Development for a Productive and Healthy Society	Number of women and men with improved access to safe water and basic sanitation (now PAF Indicator 7)	Achieved	Australia supported a further 1,631,000 people to access improved water and sanitation, against a target of 305,000. We set a conservative target for 2016 because we expected our handover to government of the Water and Sanitation Hibah Phase 2 to impede progress. However, results from all programs exceeded their individual targets, in some cases against expectations and previous trends.
	Number of districts that made improvements in service delivery practices and policies (PAF Indicator 12).	Achieved	We identified 194 districts that improved practices and policies as a result of Australia's programs, against a target of 196. Improvements covered a range of areas, such as: identifying, mapping and preparing for disaster hazards; better planning and financing for local water connections; better education opportunities for women and girls; and expanded services and training for migrant workers.
	Number of instances of improved policy for human development (PAF Indicator 15).	Achieved	Australia contributed to significant improvements in 11 human development policies. These included a pilot of performance payments for teachers; the launch of the National Financial Inclusion Strategy; pilot and scale-up of the Integrated Referral System; and scale-up of the conditional cash transfer program.

Objective 3: An Inclusive Society Through Effective Governance	Number of people, especially women and from marginalised groups, who contribute to improved policy (PAF Indicator 16).	Achieved	Our support enabled 57,700 people (54,500 women) to participate in policy development against a target of 51,000. These activities include, for example, forums with government and civil society organisations, and participation and contribution to government policy reviews, and consultation on village government plans and expenditure.
	Number of instances of improved policy for inclusive development (PAF Indicator 19).	Achieved	Australia contributed to significant improvements in two policies for social inclusion and governance. These included strengthened community consultation on village funds, improved representation of communities in road planning in NTB Province, and expansion and acceleration of the provision of identity documents (essential for marginalised groups to access support).
Objective 4: Aid Effectiveness Agenda <i>(previously 'Strategic Program Management')</i>	Percentage of investments assessed as effectively addressing gender equality in implementation (PAF Indicator 21).	Achieved	We assess that 89 per cent of programs effectively address gender equality, against a target of 80 per cent. Refer to the sections above on gender, and on program performance, for discussion of the Gender Action Plan and implementation of management actions on gender from the previous APPR. In addition, all strategic targets for the year were achieved and are on-track for future years.

Note:

- Achieved. Significant progress has been made and the performance benchmark was achieved
- Partly achieved. Some progress has been made towards achieving the performance benchmark, but progress was less than anticipated.
- Not achieved. Progress towards the performance benchmark has been significantly below expectations

Performance Benchmarks for remainder of Aid Investment Plan

For the remainder of the Aid Investment Plan, the program has set a comprehensive range of performance benchmarks in the Performance Assessment Framework (see below).

Aid objective	Performance Benchmark 2017-18	Performance Benchmark 2018-19
Objective 1: Effective Economic Institutions and Infrastructure	AUD600 million in additional financing is leveraged.	AUD600 million additional finance is leveraged.
	Further reforms are adopted to make it easier to do business, including by local governments and courts.	Indonesia makes further improvements in the <i>Ease of Doing Business</i> index.
	124,000 cumulative farm households can access markets and increase their incomes by 30 per cent.	300,000 cumulative farm households (i.e. 176,000 additional households) can access markets and increase their incomes by 30 per cent.
Objective 2: Human Development for a Productive and Healthy Society	More poor people receive social assistance payments through bank accounts.	Poor households receive greater amounts of support through integration of Indonesian Government social programs and subsidies.
	200,000 women and men have improved access to safe water and basic sanitation.	More people in rural and peri-urban areas can access sustainable water supply and sanitation services.
	Indonesia allocates budget to activities supporting improved learning outcomes.	Literacy and numeracy scores increase for children in target communities.
Objective 3: An Inclusive Society Through Effective Governance	More people can access identity documents enabling them to access services	More people from marginalised communities can access services they need
	More women in target locations are actively involved in village-level decision-making	Government policies and programs better reflect the needs of women.

ANNEX C- EVALUATION PLANNING

List of program prioritised evaluations planned for the next 12 months

Evaluation title	Investment number and name (if applicable)	Date – planned commencement (month/year)	Date – planned completion (month/year)	Purpose of evaluation	Evaluation type
Water and Sanitation Hibah Phase 2 independent evaluation	INJ149 Water and Sanitation Hibah Phase 2	August 2017	January 2018	Demonstrate results (water hibah) Improve existing investment (sanitation hibah)	DFAT led (includes consultants engaged by DFAT)
Generasi Sehat dan Cerdas (Healthy and Smart Generation) Wave IV Impact Evaluation	INI506 Local Solutions to Poverty	October 2016	May 2018	Evaluate impact on health and education outcomes	Partner led (World Bank and JPAL)
KOMPAK Independent Review	INL631 Governance for Growth (KOMPAK)	September 2017	January 2018	Demonstrate results Improve existing investment to inform DFAT's decision on whether to proceed with a proposed second phase	DFAT led (includes consultants engaged by DFAT)
MAMPU Mid-term review	INL923 AIP Gender Equality & Women Empowerment (MAMPU) Phase 2	July 2018	September 2018	Verify performance Improve existing investment Examine value for money	DFAT led (includes consultants engaged by DFAT)
MDP IAP Independent Evaluation	INL082 MDB Infrastructure Assistance Program	October 2017	December 2017	Demonstrate results and improve existing investment	DFAT-led (includes consultants engaged by DFAT)

ANNEX D- AID QUALITY CHECK RATINGS

AQC RATINGS

No	Investment Name	Approved budget and duration	Year on Year	Effectiveness	Efficiency	Relevance	Gender equality	M&E	Sustainability
1	INL873 - Towards a Strong and Prosperous Indonesian Society (MAHKOTA)	\$40,200,000	2017 AQC	5	4	5	4	5	4
		2015 - 2019	2016 AQC	N/A	N/A	N/A	N/A	N/A	N/A
2	INK714 - Empowering Indonesian Women for Poverty Reduction (MAMPU)	\$56,400,000	2017 AQC	5	4	6	5	6	5
		2012 - 2017	2016 AQC	5	5	6	6	5	5
3	INL923 - Empowering Indonesian Women for Poverty Reduction Phase II (MAMPU)	\$51,900,000	2017 AQC	5	4	6	5	6	5
		2016 - 2020	2016 AQC	N/A	N/A	N/A	N/A	N/A	N/A
4	INM040 - Support to Marginalised Group (PEDULI)	\$13,000,000	2017 AQC	5	3	6	4	3	4
		2016 - 2018	2016 AQC	N/A	N/A	N/A	N/A	N/A	N/A
5	INK532 - Institutional Design Research and Capacity Building Initiative	\$10,000,000	2017 AQC	5	6	6	4	4	5
		2012 - 2017	2016 AQC	5	5	6	5	5	4
6	INL631 - Governance for Growth (KOMPAK)	\$81,000,000	2017 AQC	4	4	5	5	4	4
		2015 - 2018	2016 AQC	4	4	6	5	4	5
7	INK640 - AIP 4: The Knowledge Sector Initiative	\$109,000,000	2017 AQC	4	4	5	4	4	4
		2012 - 2022	2016 AQC	4	4	5	4	4	5
8	INJ498 - AIP Rural Economic Development Program	\$112,000,000	2017 AQC	5	4	6	5	6	5

		2010 - 2019	2016 AQC	5	4	6	5	6	5
9	INL710 - Development Credit Authority	\$3,000,000	2017 AQC	4	3	4	4	4	4
		2015 - 2015	2016 AQC	3	3	4	4	3	4
10	INL931 - World Bank TF - Teaching and Education	\$9,000,000	2017 AQC	4	4	5	4	5	5
		2016- 2019	2016 AQC	N/A	N/A	N/A	N/A	N/A	N/A
11	INL131 - Australia Awards in Indonesia (AAI)	\$82,000,000	2017 AQC	5	5	6	5	5	5
		2013 - 2018	2016 AQC	5	5	6	6	6	5
12	INJ247 - Scholarships Jakarta (ADS) Intake 2011	\$120,000,000	2017 AQC	5	5	6	5	5	5
		2010 - 2018	2016 AQC	5	5	6	6	6	5
13	INL086 - UNICEF Papua Rural & Remote Education	\$16,811,000	2017 AQC	4	4	5	4	5	4
		2014 - 2018	2016 AQC	5	4	5	4	5	4
14	INL808 - AIP-Emerging Infectious Diseases Combined-2	\$9,900,000	2017 AQC	4	4	5	4	4	4
		2015 - 2018	2016 AQC	4	4	5	3	4	4
15	INL512 - Innovation for Indonesia's School Children (INOVASI)	\$56,100,000	2017 AQC	4	4	5	4	4	5
		2014 - 2019	2016 AQC	N/A	N/A	N/A	N/A	N/A	N/A
16	INJ859 - Building Relation Through Intercultural Dialogue – III (BRIDGE)	\$6,700,000	2017 AQC	4	4	4	4	4	4
		2011 - 2018	2016 AQC	4	3	4	4	4	4
17	INK993 - PAMSIMAS 2	\$49,950,000	2017 AQC	6	5	5	4	4	5
		2013 - 2018	2016 AQC	4	5	5	4	5	4
18	INM115 – PAMSIMAS 3	\$10,000,000	2017 AQC	6	5	5	4	4	5
		2016 - 2021	2016 AQC	N/A	N/A	N/A	N/A	N/A	N/A

19	INJ149 - Water and Sanitation Hibah Phase 2	\$119,656,000 2009 - 2019	2017 AQC	4	4	5	4	4	4
				5	4	5	3	5	6
20	ING406 - AIPRD: EINRIP – Implementation, Planning & Support Facility	\$38,877,000 2005 - 2018	2017 AQC	5	5	6	4	6	5
				5	5	6	4	6	4
21	ING633 – Eastern Indonesia National Road Improvement (EINRIP)	\$300,000,000 2007 - 2016	2017 AQC	5	5	6	4	6	5
				5	5	6	4	6	4
22	INK886 - Infrastructure Grants Municipal Sanitation (SAIG)	\$40,000,000 2012 - 2019	2017 AQC	3	2	3	4	4	4
				4	4	4	4	4	3
23	INL802 - MDB Infrastructure Assistance Program	\$50,500,000 2013 - 2019	2017 AQC	3	4	4	3	3	4
				4	4	5	4	3	4
24	INL337 - Provincial Road Improvement & Maintenance (PRIM)	\$30,900,000 2014 - 2017	2017 AQC	5	4	5	4	4	4
				4	4	6	4	5	4
25	INH848 - AIP for Economic Governance (AIPEG) ³	\$111,000,000 2008 - 2017	2017 AQC	6	5	6	5	4	5
				5	4	6	4	3	4
26	INJ689 - Government Partnership Fund Phase (GPF) II	\$66,000,000 2011 - 2018	2017 AQC	4	5	5	3	4	5
				4	4	6	3	4	4
27	INK331 - Support Enhance Macro Economy & Fiscal Policy Analysis	\$5,000,000 2011 - 2018	2017 AQC	4	4	4	4	3	4
				4	4	4	3	4	4
28	INL486 - Red Meat and Cattle Partnership	\$60,000,000 2013 - 2024	2017 AQC	4	3	3	4	4	4
				3	4	5	3	3	4

³ Australia-Indonesia Partnership for Economic Governance program (AIPEG) is managed under two investments; INH 848 with approved budget in amount of \$59.4 million and INJ689 (Activity 15A662) approved budget in amount of \$51.6 million.

29	INK550 - Indobeef Project	\$13,005,000	2017 AQC	3	3	4	4	4	4
		2012 - 2021	2016 AQC	N/A	N/A	N/A	N/A	N/A	N/A
30	INI035 - The Indonesian Project (ANU)	\$9,900,000	2017 AQC	4	5	5	4	4	4
		2008 - 2020	2016 AQC	4	5	5	3	4	4
31	INL812 - Disaster Response and Preparedness	\$23,000,000	2017 AQC	5	4	4	4	5	4
		2015 - 2018	2016 AQC	4	4	5	3	4	4

FAQC RATINGS

Final AQC's assess performance over the lifetime of the investment (ratings are not compared to previous years).

No	Investment Name	Approved budget and duration	Overall Rating	Effectiveness	Efficiency	Relevance	Gender equality	M&E	Sustainability
1	INH251 - Australia-Indonesia Partnership for HIV	\$123,000,000 2007 - 2016	5	5	4	5	4	4	4
2	INJ648 - Australia's Education Partnership (AEP)	\$368,800,000 2010 - 2017	4	4	4	4	3	5	4
3	INJ137 - Australia Indonesia Partnership for Justice (AIPJ)	\$57,500,000 2009 - 2017	5	5	4	6	5	4	5
4	INL032 - Democratic Governance Support (DG Support)	\$9,500,000 2014 - 2017	5	4	5	5	4	3	5
5	INL048 - Australia-Indonesia Security Cooperation (AISC)	\$5,100,000 2013 - 2017	4	4	4	5	2	3	4
6	INH582 - Indonesia Infrastructure Initiative (IndII) Phase 2	\$227,500,000 2007 - 2017	5	5	4	5	4	4	5

Definitions of rating scale:

Satisfactory (4, 5 and 6)

6 = Very good; satisfies criteria in all areas. 5 = Good; satisfies criteria in almost all areas.

4 = Adequate; on balance, satisfies criteria; does not fail in any major area.

Less than satisfactory (1, 2 and 3)

3 = Less than adequate; on balance does not satisfy criteria and/or fails in at least one major area.

2 = Poor; does not satisfy criteria in major areas. 1 = Very poor; does not satisfy criteria in many major area.

ANNEX E – PERFORMANCE ASSESSMENT FRAMEWORK

Objective / Outcome	Milestones 2016/17	Milestones 2017/18	Milestones 2018/19
Objective 1: Effective Economic Institutions and Infrastructure			
1. Stronger economic institutions	<p>The financial technology (FINTECH) sector has a regulatory framework to sustain growth and protect consumers.</p> <p>Indonesia implements multi-year budget planning.</p> <p>State assets are better managed and contribute to revenue.</p>	<p>Indonesia improves budget transparency giving citizens a greater say in resource allocations.</p> <p>Better supervision of conglomerates decreases the risk of financial system instability.</p>	<p>Public resources are directed more to infrastructure and socio-economic outcomes, with less money spend on administration.</p>
2. Infrastructure is better planned, delivered and maintained	<p>Contribute to improvements in public transportation in Jakarta.</p> <p>Improved budget allocation to road maintenance.</p> <p>Improved infrastructure asset management.</p> <p>Increased private sector, multilateral development bank and Indonesian Government investment in infrastructure. AUD500m dollars in additional financing is leveraged.</p>	<p>High quality projects prepared and financed by the Indonesian Government, the private sector and / or multilateral development banks. A national performance-based road maintenance program is rolled out.</p> <p>National roads database (for asset management) rolled out.</p> <p>AUD600m dollars in additional financing is leveraged.</p>	<p>High quality projects prepared and financed by the Indonesian Government, the private sector and / or multilateral development banks.</p> <p>High quality infrastructure delivered, managed and maintained by the Indonesian Government (to 2020).</p> <p>AUD600m dollars in additional financing is leveraged.</p>
3. More jobs and higher incomes, especially for poor households	<p>Indonesia adopts reforms that make it easier to invest and do business.</p> <p>37,740 farm households can access markets and increase their incomes by 30 per cent.</p> <p>Increased engagement with private sector organisations through 112 business partnerships.</p>	<p>Further reforms are adopted to make it easier to do business, including by local governments and courts.</p> <p>Growth in international investment is observed in targeted areas.</p> <p>124,000 cumulative farm households can access markets and increase their incomes by 30 per cent.</p>	<p>Indonesia makes further improvements in Ease of Doing Business.</p> <p>300,000 cumulative farm households (i.e. 176,000 additional households) can access markets and increase their incomes by 30 per cent.</p>

Objective 2: Human Development for a Productive and Healthy Society			
4. Government spending is better targeted to reduce poverty	<p>Inefficient spending on subsidies is reduced. New government program to replace subsidised rice program piloted in cities.</p> <p>Indonesia's Family Hope Program (PKH) expands to 6 million families (from 3.5 million in 2015).</p>	<p>More poor families are purchasing rice from market (in lieu of subsidised rice distribution). Indonesia develops mechanism to dynamically update poverty data.</p> <p>More poor people receive social assistance payments through bank accounts.</p>	<p>Poor households receive greater amounts of support through integration of Indonesian Government social programs and subsidies.</p> <p>Delivery systems supporting effective implementation of the Family Hope Program (PKH) are strengthened.</p>
5. More households can access water and sanitation	<p>Improved rural water and sanitation systems are adopted. The Indonesian Government and private sector funding for water supply infrastructure is increased.</p>	<p>200,000 women and men have improved access to safe water and basic sanitation.</p>	<p>More people in rural and peri urban areas can access sustainable water supply and sanitation services.</p> <p>Improved quality of water supply services. Increased local government investment in sanitation infrastructure.</p>
6. Children have improved literacy and numeracy	<p>Pilots for better approaches to improving learning are designed with the Indonesian Government.</p> <p>Indonesia allocates budget to activities supporting improved learning.</p>	<p>Pilot programs for improving learning outcomes are implemented.</p> <p>Indonesia allocates budget to activities supporting improved learning outcomes.</p> <p>An evaluation of pilots of teacher performance incentives is expanded from 10 to 33 sub-districts.</p>	<p>Indonesia adopts and funds improved systems and practices for learning, using evidence from pilots.</p> <p>Targeted subnational governments implement effective education activities suitable to the context.</p> <p>Teacher attendance and performance in pilot schools improves.</p> <p>Literacy and numeracy scores increase for children in target communities.</p>
Objective 3: An Inclusive Society Through Effective Governance			

<p>7. Governments – national and local – deliver the services communities need</p>	<p>Indonesia improves the formula and model for sub-national transfers.</p> <p>Higher capacity of governments in target areas to identify and respond to local needs. Better ways of delivering local services are trialled in target provinces.</p> <p>The referral system for accessing local social assistance programs is expanded from 5 to 50 districts.</p>	<p>Local governments in targeted areas improve policies and budget management. Villages in target areas are using Village funds to invest in health and education.</p> <p>Target areas make improvements in service delivery. Poor people are accessing local programs and services through referral. More people can access identity cards and services.</p> <p>Child grant pilot established in 3 districts in Papua Province.</p>	<p>Local governments plan and deliver contextually appropriate services. Poor people are accessing local and national social programs through referral.</p> <p>The incidence of child marriage is reduced in four target areas.</p> <p>Children and families in 3 districts in Papua Province receive child grant.</p>
<p>8. Women have a voice in decision-making and access to better jobs and services</p>	<p>Civil society organisations are better equipped to improve lives of women and people from marginalised groups.</p> <p>Models of service delivery that assist women access services and safer work are established.</p>	<p>Government adopts models to help women access services and safer work in target districts.</p> <p>Increase engagement between civil society and government contributes to policies that better reflect the needs of women.</p> <p>More women in target locations are actively involved in village level development planning.</p> <p>Targeted impact investors incorporate gender into investment decision-making, and investment in women's small medium enterprises (WSMEs).</p>	<p>Indonesia's ranking on the UN Gender Inequality Index improves.</p> <p>Civil Society organisations have demonstrated ability to increase women's participation in decision making and employment.</p> <p>Women's active involvement in village level decision making results in tangible responses from government.</p> <p>Essential services provided by Government service units better reflect the needs of women and girls.</p> <p>Targeted impact investors make direct investments into WSMEs and expand their presence in Indonesia.</p> <p>Government policies and programs better reflect the needs of women.</p>
<p>9. Marginalised groups can advocate for and access basic services</p>	<p>Justice and legal services can be accessed by more people.</p> <p>Marginalised groups can access identity documents and government services.</p> <p>Implementation of the Disability Law is on track.</p>	<p>Implementation of the Disability Law remains on track and a greater number of persons with disability can access services.</p> <p>Increased Indonesian Government funding for inclusive programs.</p> <p>Civil society actors assist in countering radicalisation through public discourse.</p>	<p>More people from marginalised communities can access services they need.</p> <p>Local and national policies promote social inclusion.</p>

10. Climate change impacts are lessened through improved environmental governance	<p>Indonesian agencies agree to cooperate on the prosecution of environmental crimes using a 'multi-door approach (MDA)'.</p> <p>Strengthened international cooperation on sustainable land use, including with Australia, Norway and the World Bank.</p>	National Grand Design for Forest, Plantation and Land Fire Prevention is launched and national platform for coordination on landscape management is established. Finance is mobilized for peatland restoration.	<p>Monitoring Reporting and Verification (MRV) system operationalised. Peatlands restoration underway. One Map standards and policies are developed. MDA is institutionalised.</p> <p>Land management policy reforms supported through research and analysis.</p>
11. Public policies are informed by evidence	<p>Evidence is used in key reforms. Government funding of research is increased.</p> <p>Research organisations, including universities, play a stronger role in public policy making.</p>	<p>Evidence, including from pilots, is used in key reforms and to improve policies and programs.</p> <p>Indonesian research organisations, including universities, play a stronger role in public policy making.</p>	<p>Evidence, including from pilots, is used in key reforms and to improve policies and programs.</p> <p>Indonesian research organisations, including universities, play a stronger role in public policy making.</p> <p>The volume of Indonesian funding for research increases.</p>
Objective 4: Aid Effectiveness Agenda			
12. DFAT delivers effective programs in Indonesia	<p>DFAT meets Ministerial targets for gender effectiveness. All strategic targets are on track. An updated PAF with clearer outcomes and milestones is produced.</p>	<p>PAF implementation continues to improve and contributes to decision-making. Planning is underway for new Aid Investment Plan.</p>	<p>Ministerial targets to 2019 are achieved. New Aid Investment Plan is agreed.</p>

PAF indicators

1. Amount of additional funding directed towards more effective infrastructure and economic development
2. Number of women and men who apply improved technical skills to improve economic governance
3. Number of improvements to market efficiency, regulation and financial systems
4. Number of smallholder farmers, in particular women, with increased incomes through private sector investment
5. Increased engagement with private sector organisations for pro-poor development
6. Number of improvements to public revenue and expenditure management
7. Number of women and men with improved access to safe water and basic sanitation
8. Number of women survivors of violence receiving services
9. Number of women and men who apply improved technical skills to deliver better quality services

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10. Number of female and male Australian Awards awardees who completed their course in the previous year
 11. Percentage of female and male alumni who apply improved technical or specialist knowledge and skills in performing their work duties
 12. Number of districts that made improvements in service delivery practices and policies
 13. Number of service units with improved institutional capacity to address frontline service needs
 14. Amount of additional funding directed towards more effective human development
 15. Number of instances of improved policy for human development
 16. Number of people, especially women and from marginalised groups, who contribute to improved policy
 17. Number of online platforms that support inclusive development
 18. Amount of additional funding directed towards more effective inclusive development
 19. Number of instances of improved policy for inclusive development
 20. Reduce the number of individual investments to focus efforts and reduce transaction costs
 21. Percentage of investments assessed as effectively addressing gender equality in implementation

ANNEX F – LIST OF ACRONYMS

AUSTRAC	Australian Financial Intelligence Agency
ACDP	Analytical and Capacity Development Partnership (for Education)
ADB	Asian Development Bank
AIP	Aid Investment Plan
AIP – Rural	Australia-Indonesia Partnership for Rural Development
AIPJ	Australia-Indonesia Partnership for Justice
AISS	Australia Indonesia Science Symposium
APPR	Aid Program Performance Report
AQC	Aid Quality Checks
AUD	Australian Dollars
AIPEG	Australia-Indonesia Partnership for Economic Governance program
Bappenas	Ministry of National Development Planning
CO ²	Carbon Dioxide
CRVS	civil registry and vital statistics
Dana Desa	Village Funds
DFAT	Department of Foreign Affairs and Trade
EP	Education Partnership
FinTech	Financial Technology
GAP	Gender Action Plan
GDP	Gross Domestic Product
Gini index	A statistical measure of inequality
GPF	Government Partnerships Fund
HDI	Human Development Index
IDR	Indonesian Rupiah
ID-TEMAN	Improving Dimensions of Teaching, Education and Learning Environment Trust Fund
INOVASI	Innovation for Indonesia's School Children
KIAT	Australia Indonesia Partnership for Infrastructure
KIAT Guru	Improving Teacher Performance and Accountability in Remote Areas
KSI	Knowledge Sector initiative
KOMPAK	Governance for Growth Program
LSP	Local Solutions to Poverty
MAHKOTA	Towards a Strong and Prosperous Indonesia Program
MAMPU	Empowering Indonesian Women for Poverty Reduction Program
MDA	Multi-Door Approach
MDB	multilateral development bank
NTB	Nusa Tenggara Barat Province
OJK	Indonesian Financial Services Authority
OTSUS	Special Autonomy
PAF	Performance Assessment Framework
PAMSIMAS	Water and Sanitation for Low Income Communities Project
PKBI	Indonesian Planned Parenthood Association
PKPR	Partnership for Knowledge-based Poverty Reduction
PPATK	Indonesia's Financial Transaction Reports and Analysis Centre
PPP	Public Private Partnership
PRIM	Provincial Road Management and Maintenance program
PRISMA	Promoting Rural Income through Support for Markets in Agriculture
RAMS	Road Asset Management System
RPJMN	National Medium Term Development Plan

sAIG	Australian Infrastructure Grants for Municipal Sanitation
SDGs	Sustainable Development Goals
TASS	Technical Assistance for Education System Strengthening Facility
TNP2K	National Team for Accelerating Poverty Reduction
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	US Agency for International Development
USD	US Dollars
WATSAN Hibah	Water and Sanitation Grant Program

ⁱ Source: BPS Indeks Pembangunan Manusia (<https://www.bps.go.id/linkTableDinamis/view/id/1211>)

ⁱⁱ Source: BPS (<https://www.bps.go.id/linkTabelStatis/view/id/1865>)

ⁱⁱⁱ Source: Bank Indonesia (<http://www.bi.go.id/id/moneter/inflasi/data/Default.aspx>)

^{iv} Source: BPS (<https://www.bps.go.id/Brs/view/id/1379>)

^v Source: BPS (<https://www.bps.go.id/linkTabelStatis/view/id/981>)