
IAT: Mission 1 Report

Indonesia Infrastructure Initiative (IndII) Phase 2

February 2014



Document:	IAT: Mission 1 Report
Version:	2.1 Final
Assignment:	Impact Assessment Team
Client:	Department of Foreign Affairs and Trade (DFAT)
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Date:	10 April 2014

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AID ACTIVITY SUMMARY

Aid Activity Name	Indonesia Infrastructure Initiative (IndII)		
AidWorks initiative number	INH582		
Commencement date	1 July, 2011	Completion date	30 June, 2015
Total Australian dollars	AUD330 million (AUD240 million grants; AUD67.8 million TA)		
Total other dollars			
Delivery organisation	SMEC		
Implementing Partner(s)	Bappenas		
Country/Region	Indonesia		
Primary Sector	Infrastructure		

ACKNOWLEDGEMENTS

The IAT wishes to record its appreciation for the efficient and untiring work of the DFAT Senior Program Manager, Sue Ellen O'Farrell, who facilitated interviews and co-ordinated logistics; and to Wendy Emerton for administrative support including smooth hotel and transport arrangements. We thank Anne Joselin, David Hawes, Ely Andrianita and other DFAT colleagues for their frank and open dialogue and support to the mission, and acknowledge the positive attitude of DFAT Counsellor Lachlan Pontifex (with Infrastructure portfolio oversight).

We are also grateful to David Ray (IndII Programme Director), Jeff Bost (IndII Deputy Director), Jim Coucouvinis (Water and Sanitation Technical Director), John Lee (Transport Technical Director), Lynton Ulrich (Policy and Investment Technical Director), Jeff Morgan (SMEC Representative & Financial Controller), Carol Walker and the Communications team, and other IndII Management and staff for their wholehearted co-operation and assistance during this mission. Their provision of office space, documents, email records, reports, data and most of all their time, has been supportive, transparent and helpful.

We are particularly grateful for time provided by numerous Government of Indonesia senior ministry officials from Bappenas, CMEA, MoF, MoT, and MoPW; and representatives from IFI/MDBs who gave their time and knowledge willingly and openly to the IAT team.

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EXECUTIVE SUMMARY

This document reports the findings of an impact assessment team (IAT) assigned to Phase 2 of the Indonesia Infrastructure Initiative (IndII). A mission in Jakarta was conducted over the period 4 – 21 February, 2014 by three independent consultants. The terms of reference (ToR) defined five focus areas concerned with: i) facility progress and performance; ii) board function; iii) activity approval processes; iv) program approach; and v) program delivery. Findings are structured in line with these focus areas.

Background

Support to improve infrastructure and infrastructure planning is one of three priority areas of Australia's aid to Indonesia, and is the largest single element—comprising nearly 25 per cent of Australia's ODA in 2012 – 13. IndII was approved by the Australian Government in October 2007 at an initial cost of AUD64.8 million to provide technical assistance (TA) to GoI's infrastructure policy, planning and investments at national and sub-national levels. In May 2011, IndII was extended for four years (to June 2015). The second phase of activity was allocated AUD330 million of which AUD240 million was set aside for government-to-government grants; and AUD67.8 million was allocated to TA. Even as the largest bilateral grant donor in the infrastructure sector, DFAT's contributions represent a very small percentage of GoI spending—which is in turn small relative to need. In this context, using grants (supported by TA) to leverage government spending, and introduce efficiency-enhancing reforms to policy and process is sensible, and if successful in fostering lasting change, will represent value for money.

Facility Progress and Performance

IndII Phase 2 is behind anticipated progress and expenditure targets due to challenges encountered in both the implementation phase and the start-up phase. Delays in the start-up of Phase 2 may be traced to a confluence of five factors: i) Contract extension approval by DFAT; ii) DFAT-contractor negotiations; iii) Phase 1 stocktake; iv) Bilateral negotiations; and v) Grant development and approval.

DFAT has favourably rated SMEC's performance generally in managing IndII. However, SMEC advised the IAT of declining contractor performance assessments (CPA) over the past two years in relation to the financial management criterion—in part a consequence of the change from imprest accounting to working on a reimbursable basis. Under the new arrangements annual budget allocations require accurate expenditure forecasts. The issue of financial forecasting has become contentious in Phase 2. Both IndII and DFAT staff appreciate that forecasting early in the life of a dynamic program is fraught; and accuracy improves as the remaining pool of unallocated funds diminishes. The facility has endeavoured to respond to DFAT's need for accurate forecasting although no band for forecast accuracy has been defined. Contractually, there is only one type of measure of financial performance—activity contract values at nominated points in time. On this measure IndII has exceeded amended milestones with AUD52.1 million contracted ahead of the AUD50 million target for September 2014.

Board Function

IndII is governed by a board co-chaired by Bappenas and DFAT, with members drawn from: CMEA, MoF, and a non-government/academic member. An assessment of the board's functioning was challenging owing to the fact that there is no formal ToR or charter against which to assess functioning. The contract simply emphasises an approval function that was relevant during the early stages of the facility when resources were being allocated. The role of the board in implementation was not originally articulated. There is potential for the board to play a role in troubleshooting and internal advocacy within GoI to streamline implementation challenges. In this more proactive role, the board would need to be

assisted with focussed and succinct agenda and briefing materials that raise critical issues for discussion and resolution. Previously, the formal mechanism by which IndII informed the board of operations was the FRPD, however, this document is considered too long and dense to easily support strategic input. Participation in the board has waned. Notably, CMEA and MoF have tended to not field senior representatives. The rationale for CMEA's appointment to the board is self-evident given the agency's mandate for coordination. But this role seems not to have been utilised to the tactical advantage of the facility. Also, despite a core focus of much of the facility's work being at local government level, the Ministry of Home Affairs (MoHA)—which is responsible for coordinating and directing such engagements—has not been proactively involved with IndII.

The IAT was conscious of not having exposure to the full breadth of history and considerations—and hence is cautious about making a firm recommendation to restructure the board. However, there is merit in opening a short debate about the nature and extent of various government agencies involvement in IndII as the programme moves deeper into its implementation stage.

Activity Approval Process

The identification, development, approval and commissioning of IndII's projects broadly align with conventional arrangements for an initiative of this kind. But despite the conventional nature of the process, it has proved contentious between IndII and DFAT, with disappointing progress on resolution. The heart of the conflict seems to be a mismatch in expectations concerning the timing and intention of the approval process. From IndII's standpoint, the approval process seems unhelpfully bureaucratic, and in conflict with other pressure to spend quickly. From DFAT's standpoint, staff have obligations to assure program quality. There is no single cause of delays in the approval process. Rather, different issues contribute delays in different cases. The IAT observed that it is unhelpful for either party to make generalisations about project quality or timeliness; since such generalisations are not true in all cases. The fine point of judgement to be debated and agreed is the degree of autonomy that DFAT should provide to IndII.

Program Approach

IndII is a facility structured to support the development and management of government-to-government grants, and to provide TA. This structure is almost universally appreciated by GoI stakeholders, development partners and IndII's consultants because IndII provides a valuable complement in the Indonesia infrastructure context. The IAT concluded that having the grant program and TA domiciled in the same facility offers a number benefits. The only case for separating the administration of the TA and grants seemed to be if the combined program was unmanageable. However, most delays and challenges arise from externalities and imperfect internal processes rather than management burden.

A notable feature of the facility's engagements is the 'output-based' approach to grant aid. IndII is delivering an innovative program of TA and grants that could profoundly transform the way GoI's central agencies engage with local governments in the planning, delivery and maintenance of infrastructure services to citizens. This approach means that DFAT's funding—which would otherwise represent a very small proportion of GoI's budget—can leverage significant and lasting changes. DFAT is currently considering the contractual feasibility of an extension for up to 18 months to accommodate the impact of the delays. There are a number of contractual and administrative challenges, but of profound significance is the development risk of compromising the 'demonstration effect' if the grants program is not permitted to run its course. It is only through carrying the reform agenda through to full effect that best 'value for money' can be realised.

Program Delivery

At the time of this IAT mission, all grant activities were behind progress and expenditure expectations. On current projections, around AUD125 million of the AUD240 million grant allocation (i.e. 52%) will be expended by the end of the current phase (June 2015). The precise reasons why the grants have been under-subscribed are complex. The grants are supporting two of the three IndII technical programs (water and sanitation, and transport). No grants have been developed under the third of IndII's technical programs: policy and investment. The cumulative effect of delays to the water hibah is problematic, but it is worth noting that during Phase 1, average connections per PDAM per month were 133; while the current Phase 2 average (at January 2014) is 110. This suggests that the water hibah is proceeding at a broadly comparable rate to Phase 1. Delays in the implementation of the sanitation hibah are broadly a function of local governments prioritising water connections over sanitation works—a universal phenomenon. The AIGs for sanitation are concerned with the establishment of new waste water systems. There are complex institutional challenges associated with the requirement for local governments to pre-finance capital works; and with the establishment of a local government entity to manage the asset once operational. The provincial road improvement program (PRIM) took considerable time in design, and will take some time before grant disbursement occurs.

It is important for the IAT to highlight that although IndII is affected by significant delays, this should not trigger a throwing of the proverbial 'baby' out with the 'bathwater'. Many of the implementation delays are a function of working through GoI systems and partners. From an administrative standpoint there is understandable frustration with under-expenditure and delays. But from a development standpoint, the strong counterpart ownership of process and outcome—along with the early evidence that the facility is leveraging significant changes in GoI resource allocation, approach and mind-set—is encouraging.

IndII is highly regarded by GoI, development partners and DFAT. The IAT observed IndII to be professionally managed, with technical products of high content quality. Communication products are professional, the website is highly accessible/useable, and the MIS is comprehensive. Of particular note was the effective way in which IndII seemed to be balancing the need for the facility to be responsive (aka 'bottom-up') and yet proactive (aka 'top-down'). An Icarus-style issue that is emerging relates to the high profile and strong identity that the facility is developing in the sector. DFAT expressed concerns that IndII's engagement with GoI may be achieving greater prominence than the bilateral relationship itself. IndII expressed a willingness to facilitate engagements, but noted at least two pragmatic challenges: i) Contact with GoI representatives tends to be incremental and technically focussed rather than strategic and formal; ii) There is rarely engagement with senior GoI officials above Echelon 2.

CONSOLIDATED RECOMMENDATIONS

#	Recommendation	Page
1.	IndII should provide DFAT with high, medium and low forecast scenarios—outlining key contingencies that may influence expenditure. Regular updates to account for evolving circumstances will help the infrastructure unit to manage internal expectations and risks.	9
2.	DFAT should consider nominating a band for acceptable financial forecast accuracy.	9
3.	DFAT should ensure that any future contract of this kind appropriately includes performance measures and incentives for grant program delivery as well as TA delivery.	9
4.	DFAT should ensure that performance feedback is provided in a timely manner to enable meaningful engagement. Both DFAT and IndII should build the good will necessary for a joint approach to improving performance.	10
5.	IndII board members should discuss and agree on the board's terms of reference during the implementation phase of the facility.	11
6.	IndII should adopt a 'communications' approach to board briefing. This may include a series of short briefing sessions by IndII staff leading up to board meetings to ensure that board discussions are focussed on resolution of strategic issues. The FRPD could be reduced to a series of succinct, accessible and tightly focussed briefing materials for the board that describe the context and highlight the implications of various courses of action.	11
7.	DFAT and IndII should actively engage with CMEA to understand factors in the ministry's disengagement, and seek to remedy any issues with the aim of seeking CMEA's proactive involvement in supporting IndII's implementation.	12
8.	DFAT and the IndII board should explore potential avenues for fostering MoHA's engagement in implementation.	13
9.	DFAT should consider raising the financial threshold at which IndII can direct appoint consultants from facility pool to AUD200,000.	14
10.	DFAT should consider permitting IndII to release Eols on a 'no commitment' basis after TT approval while the ADD is being appraised.	14
11.	DFAT and IndII should review and evolve the process for streamlining project development and approval proposed in Appendix G.	15
12.	DFAT and IndII should convene a professionally facilitated workshop along the lines of the indicative agenda proposed in Appendix H to address key sources of conflict, and align expectations.	15
13.	DFAT should extend the facility to permit the 'demonstration effect' from output-based engagements. If DFAT agrees to extend the facility, this decision should be finalised before May 2014 to avoid having the implementation value of the extension truncated by the effect of local government planning and budgeting processes.	18
14.	DFAT, through the board, should make representations to GoI stakeholders (a) to identify ways in which larger and more consolidated grant nominations are provided; and (b) to ensure internal impediments to implementation are removed.	20
15.	DFAT should ensure that a future infrastructure support design explicates the roles and responsibilities of all GoI and DFAT stakeholders to promote clarity and ensure implementation efficiency.	20
16.	DFAT should nominate opportunities (stakeholders, issues, events) for which IndII may be able to facilitate contact; IndII staff should be mindful of and proactive with systematic and opportunistic ways of facilitating contact between DFAT and GoI.	23

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LIST OF ACRONYMS

ADD	Activity Design Document
AIIG	Australia Indonesia Infrastructure Grants
AIPRD	Australia Indonesia Partnership for Reconstruction and Development
ANAO	Australian National Audit Office
AP	Activity Proposal
ARF	Advisers Remuneration Framework
AUD	Australian Dollars
CBO	Community Based Organisation
CMEA	Coordinating Ministry for Economic Affairs
CPA	Contractor Performance Assessment
DFA	Direct Funding Agreement
DFAT	Department of Foreign Affairs and Trade
EINRIP	Eastern Indonesia National Roads Improvement Program
GDP	Gross Domestic Product
Gol	Government of Indonesia
IAR	Initial Activity Request
IAT	Impact Assessment Team
IndII	Indonesia Infrastructure Initiative
KII	Key Informant Interview
MoF	Ministry of Finance
MoHA	Ministry of Home Affairs
MoPW	Ministry of Public Works
MoT	Ministry of Transport
NTB	Nusa Tenggara Barat
ODA	Official Development Assistance
P&I	Policy and Investment
PRIM	Provincial Roads Improvement Program
RPJMN	National Medium Term Development Plan
SA	Subsidiary Agreement
TA	Technical Assistance
ToR	Terms of Reference
TT	Technical Team
USD	United States Dollars

1. INTRODUCTION

1.1 Document Purpose

This document reports the findings of the first of three missions by an impact assessment team (IAT) assigned to Phase 2 of the Indonesia Infrastructure Initiative (IndII). IndII is a facility funded by the Australian Government's aid program (administered by the Department of Foreign Affairs and Trade, DFAT); implemented by a managing contractor—SMEC; and governed by a board comprising DFAT and the Government of Indonesia (GoI)¹. The IAT mission was conducted in Jakarta over the period 4 – 21 February, 2014 by three independent consultants.

1.2 Background

Indonesian context

Indonesia has made progress in tackling poverty, emerging as one of the fastest growing market economies in the world—at a rate of six per cent per annum since the global financial crisis in 2008 – 09. However, 2013 growth forecasts were cut, and global macroeconomic analysis suggests that sustaining growth will become increasingly challenging amid softening demand for export commodities and declining access to international capital. It is widely acknowledged by the GoI and independent commentators that infrastructure is a key constraint to sustained growth and development. The tightening fiscal outlook underscores the need for reforms to boost productivity—and reduce inequity.

Indonesia's second National Medium Term Development Plan (2010 – 14)² linked infrastructure investment to the goal of achieving seven per cent economic growth by 2014 and reducing poverty to between six and eight per cent. Indicative total investment over the 2010 – 2014 period to achieve these targets was estimated at around five per cent of GDP, or over USD213 billion. Infrastructure development remains a core focus of Indonesia's third National Medium Term Development Plan (2015 – 19) currently under preparation for the new Government that will be elected in 2014. Revised targets include achieving 100 per cent access to clean water and sanitation for the population, the construction of 6,000 kilometres of new roads and a focus on improving the average percentage of maintainable provincial roads from 63 per cent to 80 per cent.

Australian context

Australia's development partnership with Indonesia is helping to strengthen bilateral trade, investment and economic cooperation³. Australia's official development assistance (ODA) to Indonesia grew strongly after the 2004 Boxing Day earthquake and tsunami when Australia committed AUD1 billion of assistance under the Australia Indonesia Partnership for Reconstruction and Development (AIPRD). Investment in transport infrastructure was a key part of this assistance⁴. Beyond the humanitarian underpinnings of AIPRD, support for sustainable growth and economic management was a foundation of Australia's aid to Indonesia. This focus was supportive of the newly elected government of President Susilo Bambang Yudhoyono⁵ which promoted economic growth, partly driven by increased investment in infrastructure.

¹ Bappenas, Ministry of Finance (MoF) and Coordinating Ministry for Economic Affairs (CMEA)

² RPJMN 2010-2014

³ DFAT (2013) *Indonesia Infrastructure Sector Delivery Strategy* (Draft), Jakarta

⁴ Principally via a AUD336 million package of grants and loan called the Eastern Indonesia National Roads Improvement Program (EINRIP), 2007 – 2014.

⁵ Sworn into office on 20 October, 2004.

Support to improve infrastructure and infrastructure planning remains one of three priority areas in the aid program’s Indonesia Country Strategy (2008 – 14), and is the largest single element—comprising nearly 25 per cent of Australia’s ODA in 2012 – 13. Over 85 per cent of Australia’s expenditure on infrastructure aid to Indonesia in 2012 – 13⁶ was delivered through EINRIP and IndII⁷.

Australia’s increased investment in infrastructure coincided with—and arguably was driven by—a period of rapid scale-up of Australia’s ODA in pursuit of a targeted 0.5% of GDP by 2015. Contracting fiscal conditions and a shift in Australian government priorities have downgraded this outlook; but a significant contextual factor for IndII that is relevant to this report is that the aid program in Indonesia was under pressure to grow by more than AUD135 million (25%) each year for four years.

1.3 Facility Overview

IndII’s goal is: *“to contribute to economic growth and poverty reduction through improved infrastructure access and service provision”*⁸. The facility is pursuing three program areas: water and sanitation; transport; and policy and investment. Each program area has its own end-of-program outcomes.

IndII was approved by the Australian Government in October 2007 at an initial cost of AUD64.8 million to provide technical assistance (TA) to Gol’s infrastructure policy, planning and investments at national and sub-national levels. In 2009 IndII was expanded to include a significant government-to-government infrastructure grant program—including the water and sanitation hibah. In May 2011, IndII was extended for four years (to June 2015). The second phase of activity was allocated AUD330 million of which AUD240 million was set aside for government-to-government grants⁹; and AUD67.8 million was allocated to TA¹⁰.

The *modus operandi* of the facility is the use of grants to ‘incentivise’ transformational changes in Gol policy and process in relation to infrastructure planning and investment. While Indonesia is Australia’s largest aid recipient, funding equates to less than 0.5 per cent of the Gol budget¹¹. Even as the largest bilateral grant donor in the infrastructure sector, DFAT’s contributions represent a very small percentage of Gol spending—which is in turn small relative to need. In this context, using grants (supported by TA) to leverage government spending, and introduce efficiency-enhancing reforms to policy and process is sensible, and if successful in fostering lasting change, will represent good value for money.

⁶ AUD111 million out of AUD130 million.

⁷ The remaining AUD19 million is comprised of Australian contributions to a number of smaller projects managed by, or funded in cooperation with, the World Bank and the Asian Development Bank.

⁸ Schedule 1B of the contract defines the goal as *“to improve infrastructure provision by reducing policy, regulatory, capacity and financing constraints on infrastructure expenditures at the national and sub-national levels”*. Of note, this goal is pitched at a conceptual level below poverty reduction and economic growth. Both goals can be critiqued from a technical standpoint for conflating two levels of logic into one (reflected in the use of the words ‘by’ and ‘through’, respectively).

⁹ Australia Indonesia Infrastructure Grants (AIIG) are administered through direct funding agreements (DFA) managed by DFAT.

¹⁰ TA is administered by IndII.

¹¹ AusAID, *Indonesia Annual Program Performance Report 2011*, Canberra, July 2012

2. METHODOLOGY

2.1 Scope

The subsidiary agreement (SA) for IndII prescribed an IAT to assess the effectiveness of the facility in meeting agreed objectives, and to gauge perceptions of the facility among Gol partners. Three missions will be conducted over the life of the facility¹². This first IAT mission focussed primarily on assessing the management of the facility—by both DFAT and the contractor. The terms of reference (ToR)¹³ defined five focus areas concerned with¹⁴:

- facility progress and performance;
- board function;
- activity approval processes;
- program approach; and
- program delivery .

The findings presented in this report (Section 3) are structured in line with these focus areas. The ToR also required the IAT to propose a short list of measures/indicators that could be applied in future missions to illuminate performance trends. The proposed measures are outlined in Appendix D.

2.2 Methods

The broad methodology for data collection was qualitative:

- **Document reviews:** a comprehensive review of key documents produced by the facility along with relevant sector literature helped to identify key issues ahead of the mission, and provided the basis for factual data presented in this report.
- **Key informant interviews (KII):** 59 purposively selected¹⁵ individuals (only 9 female) provided the backbone of the primary data collection¹⁶. The IAT was able to probe and triangulate stakeholder perspectives during the course of the mission.
- **Observation:** general observations during the mission supplemented the other methods in relation to issues such as: interactions/relationships between stakeholders, the degree of professionalism, the quality and appropriateness of deliverables, and the general attitude/engagement of various stakeholders.

IAT members compiled notes of interviews and discussions and used content analysis methods to identify common and exceptional themes against the evaluation questions. Given the narrow focus on management prescribed in the ToR, and the heavy reliance on stakeholder interviews agreed in the evaluation plan, this report relies heavily on verbatim to support and substantiate findings—arguably the strongest source of evidence in rapid qualitative evaluation methods.

2.3 Limitations

The IAT mission proceeded as outlined in an evaluation plan submitted to DFAT ahead of in-country work. Nevertheless, minor factors may have affected the findings, including:

¹² Indicative areas of focus for subsequent missions are proposed in **Appendix A**.

¹³ See **Appendix B**.

¹⁴ A question guide used to explore these focus areas is presented in **Appendix C**.

¹⁵ The IAT proposed a sample frame comprising: i) the **delivery team** (DFAT and IndII); ii) **Gol counterparts** (Ministry of Public Works (MoPW), Ministry of Transport (MoT), MoF, CMEA, Bappenas and DKI Jakarta); and iii) **informed third parties** (World Bank, Asian Development Bank, state-owned enterprise (TransJakarta)). DFAT and IndII jointly prepared a list of key stakeholders. DFAT arranged a meeting schedule with available interviewees.

¹⁶ A full list of interviewees is provided in **Appendix E**.

- **Immersion:** a recognised limitation of program evaluations is that external/independent evaluators are constrained to the extent that they can become immersed in the history, technical and managerial nuance, geopolitical context and cultural norms associated with a large and complex program. Notwithstanding, the IAT was given adequate time to explore key issues. DFAT's appointment of an Indonesian infrastructure specialist was crucial to ensuring that findings were grounded and relevant in the local context.
- **Interpretation:** the IAT employed rapid qualitative methods of inquiry to identify key issues. Such evaluation methods are known to ultimately rely on professional judgement. Individual team members each brought their assumptions and experiences to this task. The IAT adopted a consensus approach to findings and recommendations in the first instance; but was prepared to document diversity within the team if consensus was unachievable.
- **Stakeholder access:** despite the best efforts of all involved, it was not possible for the IAT to meet with key stakeholders involved in facility governance. A consequence is that it was not possible to make observations about the functioning of the Technical Teams. Some wider strategic perspectives (of both the Gol and DFAT) may also have been missed¹⁷.
- **Gender equity:** only around 15% of interviewees were female; despite wide recognition that aspects of infrastructure development disproportionately affect women. The gender asymmetry in this review is a function of the under-representation of women in the infrastructure sector. Future IAT missions that seek community perspectives will aim to achieve more equitable representation.
- **IAT engagement:** it was not possible for all three members of the IAT to be in-country for the initial stage/week of the mission. The limitations of this situation were managed by regular telephone and email communications.

¹⁷ One interviewee with a senior Bappenas official was carried out by a single member of the IAT following the formal conclusion of the mission.

3. FINDINGS

3.1 Overview

The findings of the IAT are presented in the following sections in line with the five focus areas defined in the ToR (see Section 2.1). In general, the IAT found IndII to be well regarded and valued by GoI stakeholders. The technical directors have authority in their respective domains. DFAT is appreciated for long-standing and generous support to the infrastructure sector. However, IndII is substantially behind target on expenditure and progress. A number of contextual factors and management challenges that have contributed to delays are discussed.

The following sections present findings in relation to each focus area. A high-level summary of key strengths/achievements, and key weaknesses/contextual challenges leads each section. Recommendations are offered to improve ways of working¹⁸. These are presented in numbered blue boxes in the narrative, and in a consolidated list on page v in the preliminary sections of this report.

3.2 Facility Progress and Performance

- Amended contractual milestones for TA expenditure achieved
- Protracted contract negotiations delayed Phase 2 start-up
- Accuracy of financial forecasting has been problematic for DFAT
- Contractor performance assessments not conducive to constructive performance improvement

This section discusses findings in relation to facility implementation delays and contractor performance concerns.

Implementation delays

IndII Phase 2 is behind anticipated progress and expenditure targets due to challenges encountered in both the implementation phase (discussed in detail in Section 3.6) and the start-up phase.

Delays in the start-up of Phase 2 may be traced to a confluence of five factors:

- Contract extension approval by DFAT;
- DFAT-contractor negotiations;
- Phase 1 stocktake;
- Bilateral negotiations; and
- Grant development and approval.

These five factors are discussed in turn:

First, approval for DFAT to enact Phase 1 contract extension provisions required lengthy internal discussion and justification—owing in part to new government policies that were released in the months leading up to the extension. A DFAT staff member described some of the challenges at that time: *“IndII Phase 1 started slowly...which made it difficult for us to make a case for extension...Eventually the decision was made that an extension could be offered to the same contractor on the basis that a number of reviews had found IndII to show promise. But bureaucratic and financial requirements within AusAID¹⁹ took time. We were very hectic in the last six months of Phase 1”* [DFAT].

¹⁸ The recommendations are understood to be cost neutral—including the recommendation 12 to extend the facility to expend unspent funds and ensure full value from the ‘demonstration effect’..

¹⁹ The agency formerly responsible for the Commonwealth’s aid program.

Second, the time taken to approve the extension was compounded by discussions between DFAT and the contractor concerning contract terms. Examples of issues that had to be worked through by the parties were reported in an Australian National Audit Office (ANAO) report²⁰: “Negotiations were complicated by the release of revised imprest account guidelines, which required adjustments to the terms of the contract. In addition, the release of the new adviser remuneration framework in March 2011, which affected the rates of remuneration of a number of IndII personnel, further delayed the finalisation of negotiations with SMEC” [ANAO]. The overall effect was a “dramatic slowing of IndII activity”²¹ because SMEC was unable to formally commit to expenditure beyond the life of the Phase 1 contract.

Third, the rapid rate of expenditure and implementation at the end of Phase 1 created some uncertainty within DFAT concerning the extent to which information and analysis had been assimilated to inform Phase 2 implementation—in particular the design of the Provincial Road Improvement Program (PRIM). This prompted a request for IndII to undertake a ‘stocktake’—which took six to nine months to complete and competed with the development of new activities.

Fourth, bilateral negotiations between DFAT and GoI created delays: firstly in relation to the subsidiary agreements (SA); and secondly in relation to direct funding agreements (DFA) for the grants. The IAT was advised that the signing of the IndII facility SA was delayed in part by discussions between Bappenas and the Ministry of Finance²² ahead of signing in September 2011. The SA for the grants was not signed until April 2012. Under GoI regulations, grants could not be nominated before DFAs were signed (June 2012 for the water hibah, and May 2013 for the AIIG for sanitation).

Fifth, some grant designs took considerable time to develop and approve; notably the AIIG for sanitation design (around five months) and PRIM which reportedly involved numerous iterations²³. Grant projects proposed for road safety and community-based organisation (CBO) sanitation were drafted then withdrawn; and a program to construct a large sewer system in Palembang has been challenging to develop and is currently undergoing appraisal by DFAT.

The cumulative impact of these five factors was reported by an IndII staff member: “*The first grants were nominated by Cipta Karya in October 2012 and local governments finally commenced implementation in February 2013—almost two years after Phase 2 notionally started*” [IndII]. The following graphs provided by IndII depict timelines for the water hibah and AIIG for sanitation rollout, illustrating the cumulative impact of the start-up delays.

²⁰ ANAO (2013) *AusAID’s management of infrastructure aid to Indonesia*, The Auditor-General, Audit Report No.39 2012–13 Performance Audit, Canberra, p 111.

²¹ Ibid.

²² There was internal debate within GoI concerning wording in the SA in relation to which agency would be nominated as the ‘executing agency’ and thus having a coordinating role.

²³ Both the AIIG for sanitation and PRIM started out as very short concept notes (approximately three pages), but after several iterations, both ended up as long documents. The PRIM concept was 69 pages including annexes, and the sanitation AIIG was 101 pages including annexes. While these concepts were both ultimately lauded for their detail (and hence readiness for design) the process absorbed considerable time (e.g. in the case of PRIM, the concept was approved in April 2012, and design document was approved in June 2013, more than a year later).

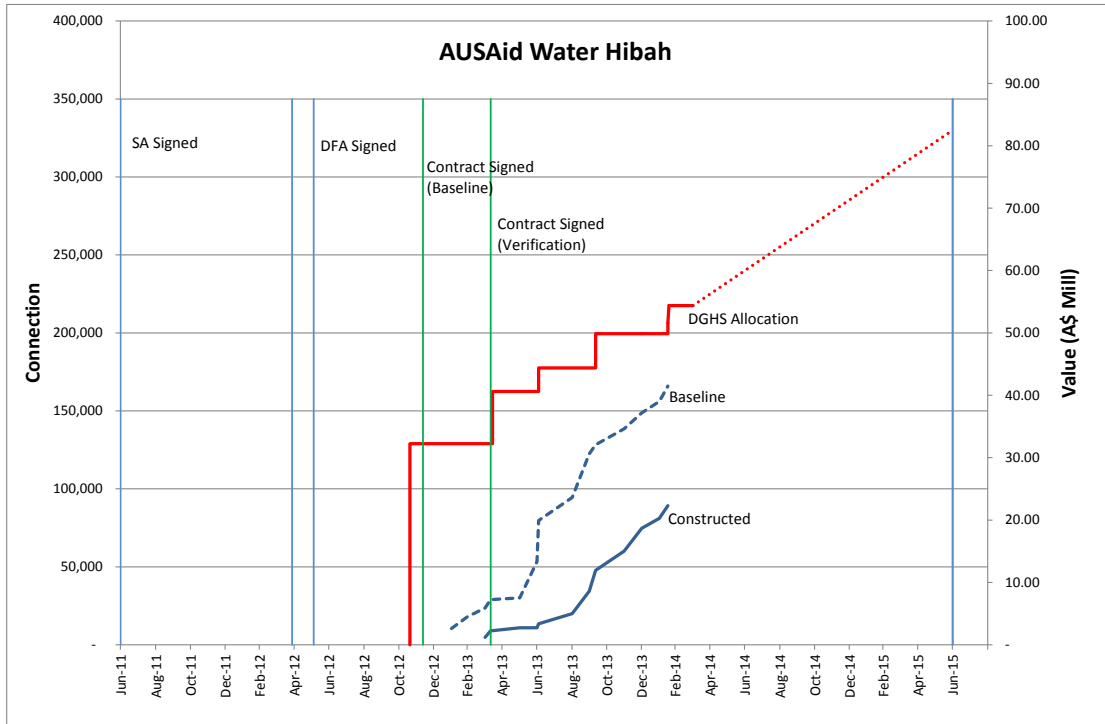


Figure 1: Timeline for the water hibah rollout

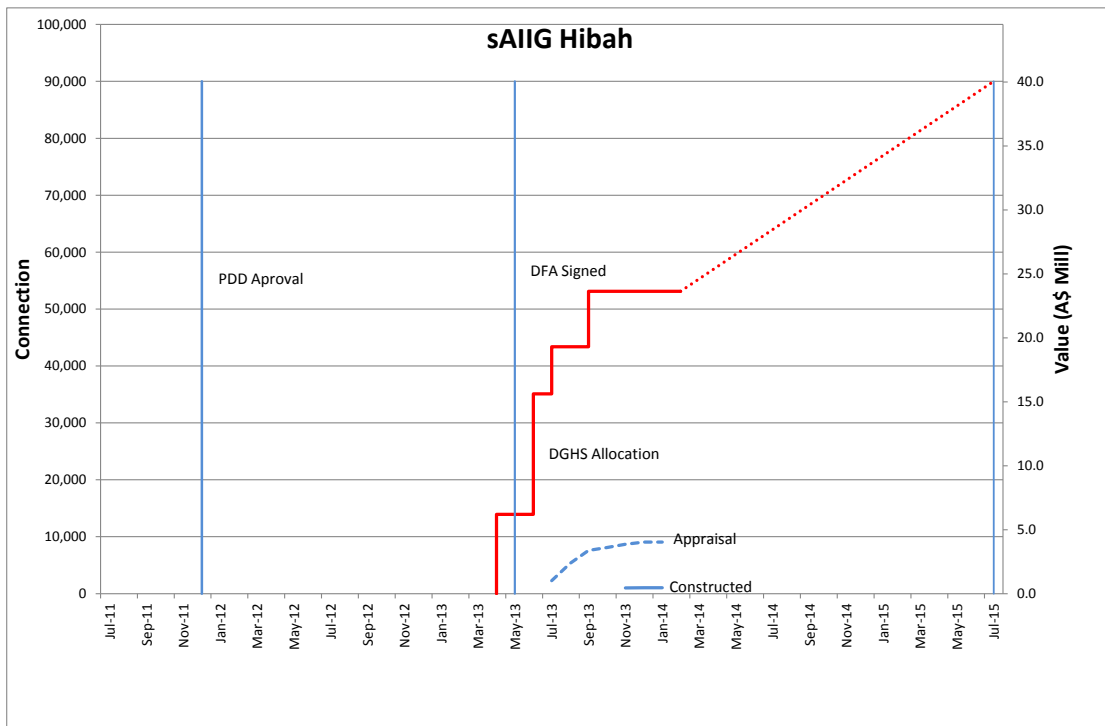


Figure 2: Timelines for the AIG for sanitation rollout

Beyond the significant challenges noted above in relation to the start-up of Phase 2, several factors have challenged implementation progress—both for the TA and the grants (see Section 3.6).

Contractor performance

DFAT has favourably rated SMEC's performance in managing IndII²⁴, with senior DFAT officials referring to the facility as a 'flagship' of the aid program. However, SMEC advised the IAT of declining contractor performance assessments (CPA) over the past two years in relation to the financial management criterion. A consequence of the change in Phase 2 from imprest accounting to working on a reimbursable basis is that annual budget allocations require more accurate expenditure forecasts. A DFAT staff member observed: *"The better IndII are at forecasting their expenditure, the better we are at managing financial risk to the facility. We are not guaranteed to get funding in subsequent years if our requests are inaccurate"* [DFAT].

The issue of financial forecasting has become somewhat contentious in Phase 2, as illustrated by comments by IndII staff and DFAT staff, respectively:

"The interface with the donor has become a problem...we haven't been able to communicate with DFAT. We're frustrated" [IndII].

"I think they feel over-managed by us. We don't want to micro manage, but the finances are exposing us to risk. It's not micro management, its risk management" [DFAT].

Both IndII and DFAT staff appreciate that forecasting early in the life of a dynamic program is fraught with difficulties; and accuracy improves as the remaining pool of unallocated funds diminishes. There is also acknowledgement that typically, the bulk of expenditure occurs in the latter part of programs. However, an ANAO review²⁵ highlighted risks associated with the extremely high rates of expenditure that occurred towards the end of Phase 1; and so DFAT is eager to avoid a similar situation in Phase 2. A DFAT staff member noted: *"If 'hockey stick' spending is simply inevitable with a program such as IndII, that's not what we're being told. If spending will be bunched at the end we should know this. It's the uncertainty that exposes us"* [DFAT].

DFAT's declining performance ratings in part arise from DFAT's perception that SMEC has not been responsive to DFAT's increased internal requirement for accuracy. A DFAT staff member highlighted some of the internal difficulties associated with inaccurate forecasting: *"In 2013, based on IndII's forecast we bid for AUD30 million, but spent only AUD16 million"* [DFAT]. An informed third party reflected to the IAT that there could be shared responsibility for the response to changed expectations for accuracy: *"DFAT needs to manage an appropriation for the whole package of funding, not just IndII or any individual activity...perhaps it took both IndII and DFAT a while to cotton on that they couldn't rely on fungible funds as in previous years"* [informed third party].

From SMEC's standpoint, the facility has endeavoured to respond to DFAT's need for accurate forecasting²⁶.

"We have seen a shift in the urgency and frequency of forecasting demanded by DFAT. We think that we have been able to meet their need. Almost two years ago we forecast AUD31.1 million, and we are now estimating AUD28.3 million. That's less than a 10% variation over two years" [IndII].

Evidently no band for forecast accuracy has been defined.

²⁴ Annual contractor performance assessment (CPA) ratings suggest good performance across most criteria.

²⁵ ANAO (2013) *AusAID's management of infrastructure aid to Indonesia*, The Auditor-General, Audit Report No.39 2012–13 Performance Audit, Canberra

²⁶ Accuracy should be further enhanced with a recent move to full accrual accounting. While IndII has always used accrual accounting this has not been done to the extent of charging for *services rendered but not invoiced*. The effect of this additional measure will be to smooth out reported cash flows, thereby reducing the margin of error in forecasts.

Recommendation:

1. IndII should provide DFAT with high, medium and low forecast scenarios—outlining key contingencies that may influence expenditure. Regular updates to account for evolving circumstances will help the infrastructure unit to manage internal expectations and risks.
2. DFAT should consider nominating a band for acceptable financial forecast accuracy.

Contractually²⁷, there is only one measure of financial performance—activity contract values at nominated points in time. Figure 3 shows that IndII has exceeded *amended* milestones. At the time of this report AUD52.1 million had been contracted ahead of the AUD50 million target for September 2014.

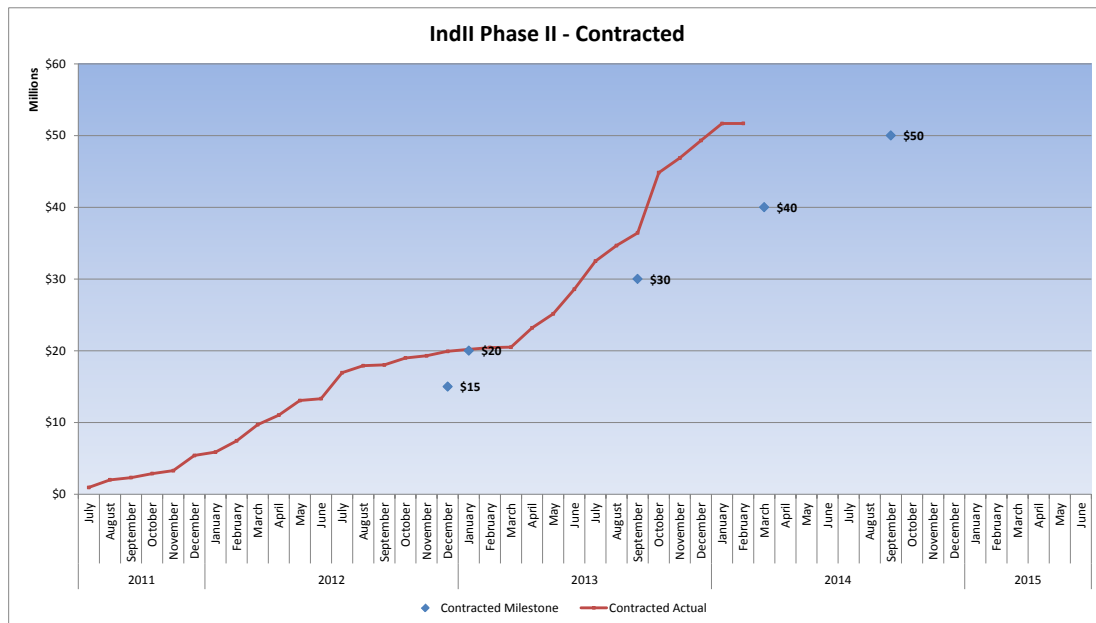


Figure 3: Amended contract financial milestones (Source: SMEC)

There are no contractual performance measures related to SMEC’s support for the grants program, although milestone payments in the contract in part relate to progress of the grants program. The IAT noted that it is challenging to construct appropriate incentives and performance measures for aspects of the operation that are beyond the contractor’s control.

Recommendation:

3. DFAT should ensure that any future contract of this kind appropriately includes performance measures and incentives for grant program delivery as well as TA delivery.

Seemingly a compounding factor in the conflict surrounding this issue has been the lateness and manner of CPA discussions. Performance feedback has been provided to SMEC up to a year late, and has been delivered by email rather than in an environment conducive to constructive dialogue. A DFAT staff member acknowledged that this is an area for development: *“We should recognise a need for some maturity in management on the DFAT side. CPAs can be used as a tool to build collaboration rather than as a weapon...we need*

²⁷ Schedule 2B Annex 1

some mutual accountabilities that reflect our shared interest in a strongly performing facility...that will help to build goodwill” [DFAT].

IndII staff also acknowledged a contribution to the dynamic: *“There have been times when we have not reacted well to what we’ve taken to be assertions...we’ve been a little outspoken or defensive” [IndII].*

An irony noted by the IAT is that there is in fact strong professional regard between IndII and DFAT.

Recommendation:

4. DFAT should ensure that performance feedback is provided in a timely manner to enable meaningful engagement. Both DFAT and IndII should build the good will necessary for a joint approach to improving performance.

3.3 Board Function

<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Strong Bappenas engagement in board <input checked="" type="checkbox"/> No formal terms of reference for board; undefined role in implementation oversight <input checked="" type="checkbox"/> Board material dense and provided with insufficient time for members to assimilate issues <input checked="" type="checkbox"/> Infrequent meetings <input checked="" type="checkbox"/> Ambiguous role for CMEA in board and Gol engagement <input checked="" type="checkbox"/> No engagement with MoHA, despite extensive work with local governments <input checked="" type="checkbox"/> Underutilisation of board influence by DFAT and IndII

IndII is governed by a board co-chaired by Bappenas and DFAT, with members drawn from: CMEA, MoF, and a non-government/academic member. The board supports a Facility Management Committee, which comprises the co-chairs of the board and is *“responsible for high level decision-making with respect to the overall planning and implementation of the Facility and the allocation of AIIG funding”²⁸*. The precise delineation of responsibilities between the board and the committee is not detailed in facility documents but appears to be geared towards fast/efficient decision-making when a board quorum is unavailable.

An assessment of the board’s functioning was challenging owing to the fact that there is no formal ToR or charter against which to assess functioning. The contract simply defines the board as a ‘forum’: *“The Facility Governance Board (the “Board”) will serve as a forum for considering the proposals presented in the FRPD and for exploring other promising options for utilizing program resources, and will act as source [sic] of strategic inputs for the Committee” [see footnote 28].*

This broad outline of responsibilities emphasises an approval function that was relevant during the early stages of the facility when resources were being allocated. The role of the board in implementation was not originally articulated. Staff from both IndII and DFAT acknowledge a need to refine the board’s role during the implementation phase:

“The board had a role at the beginning and was attended by everyone on a regular basis. But more recently it seems to have become less operationally relevant. Attendance has waned. We don’t get much direction” [IndII].

²⁸Contract 46379 Amendment No. 5 Attachment 1 Schedule 1B.

“I think there is a genuine role in direction setting...we need to make some trade-offs because Indll won’t be able to do everything that was envisaged...we’re not getting enough feedback from the board on these issues” [DFAT].

“The board can be used to bring issues and bottle necks to the attention of Gol...the board is there to help but I don’t think we’re making the most of it in implementation” [DFAT].

A change in the board’s focus towards oversight of implementation is now appropriate. There is potential for the board to play a role in troubleshooting and internal advocacy within Gol to streamline implementation challenges. Appendix F proposes—for the purposes of discussion—some roles and responsibilities that are relevant in the implementation phase.

Recommendation:

5. Indll board members should discuss and agree on the board’s terms of reference during the implementation phase of the facility.

The board’s active engagement in implementation will require a change of mindset by all parties—to conceive of it as an ‘enabler’, rather than a formality. A more ‘fleet-footed’ board would need to be assisted by Indll supplying highly focussed and succinct agenda and briefing materials that raise critical issues for discussion and resolution. A DFAT staff member indicated a need to *“reconsider the type of material that is presented to the board...how it is structured and how to best provide exposure to issues for resolution”* [DFAT]. The formal mechanism by which Indll informs the board of operations is the FRPD, however, this document is considered too long and dense to support strategic input:

“DFAT has struggled to get what it needs from the FRPD. Indll seems to use it to tell the world about all the things that have been done. DFAT wants something succinct that provokes discussion and debate” [Informed third party].

Board members indicated that briefing materials and analysis have frequently been provided too close to meetings to allow meaningful study. The issue of timing and frequency of meetings was also raised by stakeholders. Bappenas acknowledged that convening a meeting of Echelon 1 officials will always be difficult; suggesting that a six monthly meeting schedule is pragmatic. *“A monthly meeting of Echelon 2 officials should be sufficient to keep the program moving”* [Bappenas]²⁹.

Recommendation:

6. Indll should adopt a ‘communications’ approach to board briefing. This may include a series of short briefing sessions by Indll staff leading up to board meetings to ensure that board discussions are focussed on resolution of strategic issues. The FRPD could be reduced to a series of succinct, accessible and tightly focussed briefing materials for the board that describe the context and highlight the implications of various courses of action.

As noted above, participation in the board has waned. For example, CMEA was previously actively represented on the board by an Assistant Deputy/Director (Echelon 2 level) but more recently meetings have been observed by relatively junior staff (Echelon 3 or lower)³⁰.

²⁹ The IAT was advised that Technical Teams (TT) meet regularly and are considered the main mechanism for keeping the facility moving. The IAT was unable to meet with TT co-chairs, and hence is not able to provide informed commentary on the functioning of this body.

³⁰ N.B. The IAT was also advised that the MoF is also frequently represented by more junior officials. Evidently, the pervasive challenge of getting senior officials to routinely participate in board meetings was part of what prompted the establishment of the Committee.

Within GoI CMEA plays a coordinating role for 16 line ministries; with a mandate to ensure alignment with economic development objectives. The rationale for CMEA's appointment to the board is self-evident but seems not to have been utilised to the tactical advantage of the facility. A CMEA official noted: *"We were actively involved in the first year, but IndII seems to not see the need to engage us. IndII only reports to Bappenas...If CMEA was more engaged in IndII we could exert pressure on line ministries to change regulations...building the commitment of all stakeholders is more important than finishing projects on time"* [CMEA].

The potential supporting role of CMEA on the board was acknowledged by a MoT official: *"Bappenas doesn't have authority to coordinate and is sometimes overruled by parliament. Implementation involves the line ministries and CMEA has the political muscle to convene them"* [MoT].

The IAT was advised that CMEA representatives have felt sidelined. While these dynamics likely extend beyond IndII (and certainly beyond the exposure of this IAT mission), it is clear that a meaningfully engaged CMEA could assist IndII in implementation—especially in relation to matters requiring collaboration across line ministries.

Recommendation:

7. DFAT and IndII should actively engage with CMEA to understand factors in the ministry's disengagement, and seek to remedy any issues with the aim of seeking CMEA's proactive involvement in supporting IndII's implementation.

A core focus of much of the facility's work is at local government level³¹, and yet the Ministry of Home Affairs (MoHA)—which is responsible for coordinating and directing such engagements—has not been proactively involved by IndII. The IAT was advised that during the design of Phase 1 there was discussion about engaging MoHA on the board, but the outcome was that Bappenas was designated the 'Coordinating Authority', and MoF was tasked with interfacing with local governments through the Directorate General for Fiscal Balance. The importance of MoHA in any local government engagement is widely acknowledged: *"MoHA is the only ministry with vertical connections to local governments. They are very powerful...you can't do anything at local level without them. MoHA would have a role in institutionalising the hibah along with MoF, and monitoring the physical outputs"* [Third party contractor].

Although not part of the Phase 2 design, IndII has acknowledged MoHA's key role by installing an institutional development advisory team within MoHA's Directorate of Regional Affairs. This has become an important part of influencing regulatory reforms to support the water and sanitation grants, but is not designed to engage MoHA in strategic issues relevant to the board.

The IAT was advised that the seemingly obvious strategy of inviting MoHA's involvement in IndII is complicated by historical and political economy considerations. A DFAT staff member indicated some of the challenges with engaging: *"It's wishful thinking on the part of donors that Bappenas, MoF and MoHA will work together seamlessly. We have to approach each ministry separately"* [DFAT].

There have been longstanding institutional tensions between MoHA and MoPW...MoHA was the promulgator of regulation(s) to decentralise service delivery including infrastructure...the power of MoPW was diminished" [IndII sub-contractor].

³¹IndII is working with: 1 provincial government on PRIM; 120 local governments on the water hibah; 40 local governments on the AIIG for sanitation; 5 local governments on the sanitation hibah.

“Some local governments don’t want to be directed by MoHA; there are somewhat differing views. We have to work with MoF to channel the hibah... there are long running issues between MoHA and MoF” [DFAT]

Bappenas indicated to the IAT that MoHA’s involvement on the board or Technical Teams (TT) could help to address some of the implementation challenges being encountered by the grants program; but there should be open discussion to ensure the most appropriate directorate general is engaged.

The IAT was conscious of not having exposure to the full breadth of history and considerations—and hence is cautious about making a firm recommendation to restructure the board³². However, the wide agreement about the important role of MoHA in relation to local government suggests that there is merit in opening a debate about the nature and extent of MoHA’s involvement in IndII³³.

Recommendation:

8. DFAT and the IndII board should explore potential avenues for fostering MoHA’s engagement in implementation.

3.4 Activity Approval Process

- Process for activity approval aligns with usual practice/approach
- Encouraging management engagement by DFAT and IndII (including monthly management meetings with use of management ‘dashboard’)
- Disappointing history of miscommunication between DFAT and IndII; especially in relation to timing and expectations for activity approval

The identification, development, approval and commissioning of IndII’s projects broadly aligns with conventional arrangements for an initiative of this kind:

- **Strategic focus:** the board approves FRPDs bi-annually to set the overall direction and priorities for the facility.
- **Concept:** project concepts are prepared by IndII and reviewed by one of two Technical Teams (TT)³⁴ co-chaired by a DFAT manager and GoI Echelon 2 official. Concepts valued at less than AUD125,000 require an Initial Activity Request (IAR); concepts valued at greater than AUD125,000 require an Activity Proposal (AP)—approximately 8 - 10 pages.
- **Design:** Following concept approval by the relevant TT, a full Activity Design Document (ADD) is prepared by IndII and submitted to DFAT for appraisal and funding approval.

Following approval, activities valued at less than AUD125,000 can be direct-appointed from IndII’s consultant pool. Activities valued between AUD125,000 and AUD500,000 require a select tender, which can take 2 - 3 weeks. Activities over AUD500,000 require a global open tender and can take 2 - 3 months.

IndII technical directors suggested to the IAT two simple ways that might improve grant development efficiency—for DFAT’s consideration:

³² N.B. The IAT was advised that the GoI’s Committee for the Acceleration for Priority Infrastructure (KPPIP) is comprised of four members: CMEA, MoF, Bappenas and Land—which is essentially the same as the current IndII board composition.

³³ Options may include: i) a full new board member; ii) a co-opted member/adviser; iii) technical team member; iv) facilitator.

³⁴ One TT reviews and approves concepts in the water and sanitation sector, the other in transport and other infrastructure sectors.

First, the fastest way to mobilise projects is to direct-appoint proven consultants from the facility pool. Raising the financial threshold above AUD125,000 would mean that a higher proportion of TA could be rapidly mobilised through this mechanism. The robust assessment process that was undertaken to appoint the consultant pool suggests that this strategy would carry limited additional risk to DFAT. Indeed, the time, effort and cost incurred in establishing the consultant pool could attract a criticism of poor value-for-money if it is under-utilised. IndII indicated to the IAT that around 10% of the TA budget³⁵ was procured through direct-appointment from the consultant pool. But the more substantive issue is that *“the AUD125,000 limit distorts budgeting and planning decisions—essentially incentivising us to always cut program size...If it is more than AUD125,000 then we have to write a much longer document and schedule a Technical Team meeting, which could take weeks, if not months”* [IndII].

Second, supporting IndII to release project EoIs for projects approved by the TT but not yet approved at ADD could present no additional risk to the facility, and could truncate procurement and mobilisation timelines.

Recommendation:

9. DFAT should consider raising the financial threshold at which IndII can direct appoint consultants from facility pool to AUD200,000.
10. DFAT should consider permitting IndII to release EoIs on a ‘no commitment’ basis after TT approval while the ADD is being appraised.

Despite the conventional nature of the concept development and approval process, it has proved contentious between IndII and DFAT, with disappointing progress on resolution. An IAT report from 2011 (Phase 1) discussed communication challenges between the parties in some depth: *“AusAID staff and IndII management need more open, meaningful discussions....”* [IAT Final Report Phase 1 (8/2011) #27]

The heart of the conflict seems to be a mismatch in expectations concerning the timing and intention of the approval process. From IndII’s standpoint, the approval process seems unhelpfully bureaucratic, and in conflict with other pressure to spend quickly: *“We probably spend more time trying to get approval for activities than would be normal...the level of detail required to justify relatively small budgets is really quite painstaking”* [IndII].

From DFAT’s standpoint, staff have obligations to assure program quality: *“The approval process was raised as an issue in the ANAO audit. DFAT’s response was that DFAT staff are ultimately responsible for the facility and its outcomes”* [DFAT]. A DFAT staff member involved during earlier stages of the facility noted challenges faced by both the contractor and DFAT: *“Each step in the approval process was sensible on its own, but accumulated into a heavy load. The contractor felt the workload for approval was intensive. I’m sure it was. There was an element of ‘stop-go’; but it’s hard to change that because of staff obligations under the FMA Act”* [DFAT].

It was evident to the IAT that IndII keenly feels responsibility for generating facility deliverables and outcomes; and DFAT keenly feels responsibility for assuring the quality of the whole engagement. A DFAT staff member reflected: *“IndII may have a view that the approval process is burdensome. A counter view might be that if proposals were more robust, the process would be more efficient”* [DFAT]. The project approval process seems to be the key point at which differing expectations meet; but it is unhelpful for either party to

³⁵ 192 contracts valued at AUD7,229,891.

make generalisations about project quality or timeliness; since such generalisations are not true in all cases.

Recommendation:

11. DFAT and IndII should review and evolve the process for streamlining project development and approval proposed in Appendix G.

IndII acknowledged that as the client, it is DFAT's prerogative to manage the process how it sees best—but tension arises when this leads to perceived criticisms of the contractor's performance: *"Of concern to us is that there seems to be a growing narrative that 'IndII is not delivering'"* [IndII].

The fine point of judgement to be debated and agreed is the degree of autonomy that IndII should have. IndII—as a specialist technical facility—expects a high degree of autonomy (aka 'smart contractor'³⁶). DFAT—as a bilateral donor—expects a high degree of involvement, especially in issues that pertain to GoI engagement. An IndII staff member asserted: *"There is no point having a 'smart contractor' model onto which you impose 'dumb contractor' arrangements"* [IndII]. A DFAT staff member elaborated the issue: *"We don't see them as 'dumb contractors'. We greatly respect the huge expertise and technical capacity in that team. It's fantastic. We want to make the most of that. But it doesn't mean we just leave them to it...they're not an autonomous organisation...we want to have a close working relationship with IndII...that's not because we're second guessing them. It's because we think we can add value in the bilateral context in which IndII operates"* [DFAT].

The IAT perception is that mutual expectations are now muddled and a more constructive process of early dialogue needs to be re-started.

Recommendation:

12. DFAT and IndII should convene a professionally facilitated workshop along the lines of the indicative agenda proposed in Appendix H to address key sources of conflict, and align expectations.

There is no single cause of delays in the approval process. Rather, different issues contribute delays in different cases. Interviewees highlighted four general contributors to delays:

First, DFAT indicated that some concepts put forward by IndII, while arguably acceptable from a discrete standpoint, are problematic for wider contextual reasons. In such situations, IndII's work in developing the concept seems wasted when DFAT challenges foundational elements of the thinking. This situation can be remedied by IndII ensuring that informal engagement with DFAT staff takes place early in the development process—in line with the adage *'talk before you write'*³⁷.

Second, *"Sometimes DFAT changes the scope of an activity after TT approval. IndII then has to play a brokering role between the GoI partner and DFAT"* [IndII]. This issue should be manageable through DFAT's co-chairing of the TTs, and through the informal early engagement discussed above.

³⁶ N.B. the colloquial terms 'smart' and 'dumb' contractor are common in the Australian aid vernacular, and refer to a spectrum of aid modalities in which the contractor or the donor carries the weight of responsibility for implementation success.

³⁷ IndII argues that early engagement has been the practice (see **Appendix I** for an example of iterative engagement (although disputed as being atypical by DFAT)). DFAT acknowledges that *"in the past year there has been more early engagement"*. In the past year the bulk of new concepts have been from the transport sector. Both IndII and DFAT agree that there has been free-flowing dialogue around new concepts.

Third, delays commonly accrue in the steps between TT approval and DFAT’s ADD approval³⁸. This seems to be an issue of workload management within DFAT. A DFAT staff member acknowledged that: *“We could probably be more structured than we have been”* [DFAT]. DFAT has recently responded in good faith to improve the timeliness of approvals, but needs confidence that quality is assured: *“We’ve asked IndII for a list of urgent projects. We will meet deadlines for decisions...if there is low risk we can make decisions quickly, but we need to know that the quality assurance is in place from their side...we feel that in the past when we’ve held things up it has been justified”* [DFAT].

Fourth, DFAT’s appraisals of ADDs *“frequently require specific input from counterparts, which can take time to get”* [IndII].

Notwithstanding the long-running mutual frustrations between IndII and DFAT outlined above in relation to project approvals, the IAT stresses and acknowledges the professionalism displayed and new optimism that was expressed by both parties.

3.5 Program Approach

- | |
|---|
| <ul style="list-style-type: none"> <input checked="" type="checkbox"/> Complementary of other work in the infrastructure sector <input checked="" type="checkbox"/> Efficient and coherent combination of grants and TA <input checked="" type="checkbox"/> Indications that output-based approach may be transformative <input checked="" type="checkbox"/> Delays could compromise the value of a ‘demonstration effect’ if no extension approved |
|---|

IndII is a facility structured to support the development and management of government-to-government grants, and to provide TA. This structure is almost universally appreciated by Gol stakeholders, development partners and IndII’s consultants. A Gol official enthusiastically stated: *“There are so many benefits from DFAT’s grants, especially the targeting of low income people”* [MoPW].

IndII provides a valuable complement in the Indonesia infrastructure context at this time: i) the Gol is reluctant to use loans to fund TA; ii) the World Bank and ADB lack funding for TA; iii) the World Bank is unable to fund designs. An ADB representative confirmed: *“IndII’s grants fill a much needed gap. The development banks just don’t have the resources to take on this kind of work”* [ADB].

The IAT concluded that having the grant program and TA domiciled in the same facility offers a number benefits, including:

- **Efficiency:** greater transaction efficiency and programmatic coherence is possible than if the modalities were administered through different initiatives.
- **Synergy:** the TA is seen as a critical factor in preparing for, and supporting, quality grants. Correspondingly, reforms fostered by the grants create a context for TA.
- **Responsiveness:** the TA provides a way for IndII to be responsive to emerging Gol priorities³⁹ while the grants pursue agreed priorities.
- **Engagement:** the TA has reportedly had higher standing within Gol agencies because it is associated with the possibility of significant grants.
- **Inducement:** the combination of grants and TA offered under a ‘performance-based’ or ‘outputs-based’ approach is potentially transformational.

The only case for separating the administration of the TA and grants seemed to be if the combined program was unmanageable. However, as discussed elsewhere in this report,

³⁸ *“Most delays happen between the TT approval and DFAT’s ADD approval. For example, we submitted an IAR for P24304 on 8 December and the TT approved it on 12 December. The ADD was sent to DFAT on 16 December, but approval was not given until 23 January”* [IndII].

³⁹ E.g. a change in Gol regulations requiring master plans increased demand for IndII TA.

most delays and challenges arise from externalities and imperfect internal processes rather than management burden. IndII staff universally argued for grants and TA to remain co-located in a future infrastructure initiative: *“TA and grants go hand-in-hand. I wouldn’t advise that they be split ...using the hibah grant is a new way of working. You could have a separate grant program but that would fragment the operation”* [IndII]. Gol representatives also noted value in the combination of TA and grants: *“The benefit of IndII to Gol is that the grants and TA can help us engage in high risk issues”* [Bappenas].

A notable feature of facility engagements is the ‘output-based’ approach to grant aid. IndII is delivering an innovative program of TA and grants that could profoundly transform the way Gol’s central agencies engage with local governments in the planning, delivery and maintenance of infrastructure services to citizens. This approach means that DFAT’s funding—which would otherwise represent a very small proportion of Gol’s budget—can leverage significant and lasting changes. This subtly but profoundly changes the emphasis of IndII from a facility to deliver discrete (albeit highly regarded) infrastructure packages; to a facility that demonstrates and advocates a new (and more efficient) model of government infrastructure management. Both DFAT and IndII staff affirmed this approach in the Indonesia context:

“Indonesia is not a poor country. Our aim is not to fill a gap, but rather to help Gol spend its own money better...If you’re going to do infrastructure in Indonesia the approach has to be wider than just resource transfer” [DFAT].

“Previously local governments have tended to not accept responsibility for assets built by others, but IndII [through the AIGs] has local governments building AUD30 million worth of sewer schemes and putting them on their asset register...there are only 11 centralised local government-owned sewer schemes in Indonesia, and this program is prompting local governments to build 40 new schemes that they will own and operate...this is arguably the most ground-breaking sanitation initiative undertaken in recent years” [IndII].

The potential for leveraging change is being seen in relation to water and sanitation, but indications are that a similar effect is emerging in the transport sector through PRIM. The requirement for local governments to pre-finance projects, along with the requirement for independent verification has provided an impetus for changes in thinking in both the water and sanitation sector⁴⁰, and the transport sector. Several Gol stakeholders affirmed the incentive-based mechanism: *“The grant is disbursed through MoF, but only if the work meets specification...the HR capacity building and technical support is very important. IndII knows our weaknesses in road maintenance”* [MoPW].

A downside with the approach noted by the IAT was in relation to work in the sanitation sector due to the longer project lifecycles. The IAT was advised that fiscally weak local governments can be required to carry a significant outlay for up to two planning/budgeting cycles—which can be put them under financial duress⁴¹. Nevertheless, there appears to be growing interest within Gol in the model of outputs-based aid supported by TA: *“We’ve been advocating an outputs-based approach to grants with other donors, for example the Dutch”* [MoPW]. DFAT also indicated interest among other donors: *“Working on a performance basis is an innovation that is attracting a lot of interest from other donors...using resources tactically is what is powerful...we’ve got tiny resources but IndII is using those resources for good effect”* [DFAT].

⁴⁰ *“There are incentives for local governments to make household connections. They get 60% reimbursement of capital costs for each household connection”* [IndII].

⁴¹ The IAT was not provided with any specific cases where this situation had arisen. Rather the point was made to illustrate one reason for the slower uptake of the AIGs for sanitation.

“We’ve been able to do innovative work on policy and planning and follow through with actual capital works...with a powerful demonstration effect” [DFAT].

DFAT is currently considering the contractual feasibility of an extension for up to 18 months to accommodate the impact of the delays discussed in Section 3.2 and Section 3.6. There are obvious management, bureaucratic and bilateral implications arising from the delayed implementation in Phase 2. However, of arguably more profound significance is the development risk of compromising the ‘demonstration effect’ mentioned above. It is only through carrying the reform agenda through to full effect that ‘value for money’ can be realised⁴². However, a practical issue that demands attention is that the implementation value of an 18 month extension will be compromised if approval occurs after May 2014 due to the nature and staging of local government annual planning and budgeting processes which align with the calendar year⁴³.

Recommendation:

13. DFAT should extend the facility to permit the ‘demonstration effect’ from output-based engagements. If DFAT agrees to extend the facility, this decision should be finalised before May 2014 to avoid having the implementation value of the extension truncated by the effect of local government planning and budgeting processes.

3.6 Program Delivery

- TA expenditure projected to converge to target by end-of-facility life
- Working through GoI systems promotes ownership and sustainability
- Facility is professionally managed and well resourced, producing high quality outputs, a comprehensive website and clear communication products
- Stakeholder-valued cross-cutting studies and analyses
- Concept identification strikes balance between responsiveness and pro-activeness
- Grants and TA are behind progress and expenditure expectations
- Unanticipated institutional complexity encountered with local government engagements—especially for sanitation asset ownership and operation
- DFAT visibility overshadowed by IndII’s sector profile

Delays in grant implementation

At the time of this IAT mission, all grant activities were behind progress and expenditure expectations. On current projections, around AUD125 million of the AUD240 million grant allocation (i.e. 52%) will be expended by the end of the current phase (June 2015). The precise reasons why the grants have been under-subscribed are complex, but interviewees indicated that the original quantum of grant funding (*vis-à-vis* TA funding) was not based on systematic in-depth analysis—the implication being that the grant allocation exceeds potential: *“Delays in grant development relate mostly to agreed actions by GoI. It seems we didn’t understand the political economy within partner agencies sufficiently” [DFAT].*

⁴² The IAT was advised of alternative pathways under consideration, including prioritising the design of a new phase of infrastructure support followed by the novation of current agreements to the new initiative. The strongest arguments raised with the IAT for an extension to the existing facility were: i) the significant change in policy context likely to follow elections in 2014 which could influence the character of a new design; ii) the fact that a new design would be best informed by allowing the ‘demonstration effect’ of outputs-based support to run its course.

⁴³ The IAT recognises that there are likely to be contractual challenges for DFAT; for example it may be necessary to distinguish between an extension of the grants program and an extension of SMEC’s contract.

The grant under-expenditure has coincided with a tightening fiscal outlook for the Australian aid program; such that the slower-than-planned expenditure may help DFAT's Indonesia post to respond to declining Australian Government aid resources.

The grants are supporting two of the three IndII technical programs:

- **Water and sanitation program:**
 - **Water hibah:** a program to incentivise local governments to expand household water connections among poor communities in all provinces.
 - **Sanitation hibah:** a program to incentivise local governments to expand household sewer connections to five existing urban waste water systems.
 - **Sanitation AIG:** a program to incentivise local governments to construct and manage new waste water systems.
- **Transport program:**
 - **Provincial Road Improvement Program (PRIM):** a pilot program to incentivise increased investments in road maintenance by the local government of Nusa Tenggara Barat (NTB).

No grants have been developed under the third of IndII's technical programs: policy and investment. However, major TA packages such as the Gas Development Masterplan implemented under the policy and investment program are highly regarded by Gol, with an expectation of follow-up studies to further refine the financial and institutional detail that would be required by potential private and public-private sector operators.

Delays in the implementation of the water hibah have evidently surprised stakeholders. A DFAT staff member observed: *"The water hibah was a flagship project from Phase 1 that everyone loved. There was every indication that it would take off in Phase 2, but it has suffered delays"* [DFAT]. Having established processes and systems during Phase 1, the expectation that the water hibah could be rolled out efficiently in Phase 2 was reasonable. In retrospect, the larger number of local governments involved in Phase 2, combined with the (arguably) less capable PDAMs seems to have, in general, contributed to delays. Other specific sources of delays for the water hibah raised with the IAT included:

- **Grant nomination:** Gol's internal process for nominating grants for local governments took four months and was complex—having to manage a range of political and technical factors.
- **Barrier to entry:** Cipta Karya made access to the grants contingent on local governments first engaging with Perpres 2944—the effect of which was a subtle disincentive to engage with IndII because of the pre-financing requirements of the program.
- **Rollout efficiency:** Initial plans assumed that an average of 2,800 connections per local government would be granted. However, in practice grants have incrementally become smaller such that the most recent grant was for only 7,000 connections across five local governments.

The first of the above sources of delay affected the Phase 2 start-up, but the final two are continuing issues in implementation, and may benefit from DFAT making representations to relevant Gol authorities. A lesson that should be incorporated into a future infrastructure design is that the roles and responsibilities of key stakeholders should be made explicit from the outset. Such detail, agreed by all stakeholders, would enable the board to hold key players to account.

⁴⁴ Presidential Regulation no. 29/2009 is a Gol initiative to encourage local water companies (PDAMS) to invest in infrastructure to expand the number of household water connections.

Recommendation:

14. DFAT, through the board, should make representations to GoI stakeholders (a) to identify ways in which larger and more consolidated grant nominations are provided; and (b) to ensure internal impediments to implementation are removed.
15. DFAT should ensure that a future infrastructure support design explicates the roles and responsibilities of all GoI and DFAT stakeholders to promote clarity and ensure implementation efficiency.

Although the cumulative effect of delays to the water hibah is problematic, it is worth noting that during Phase 1, average connections per PDAM per month were 133; while the current Phase 2 average (at January 2014) is 110. This suggests that the water hibah is proceeding at a broadly comparable rate to Phase 1.

Delays in the implementation of the sanitation hibah appear to be a function of a global phenomenon: sanitation attracts lower demand than clean water. In practice, local governments have prioritised water connections over sanitation works—with the result that new connections to the five existing urban waste water systems are occurring at a slower-than-expected rate. An IndII staff member observed: *“Sanitation has not been prioritised as much as water or solid waste. It has taken time for LGs to nominate the local government unit that will be responsible”* [IndII].

The AllGs for sanitation are concerned with the establishment of new waste water systems. There are complex institutional challenges associated with the requirement for local governments to pre-finance capital works; and with the establishment of a local government entity to manage the asset once operational⁴⁵.

Since the output-based grant funds are not released until household connections are verified, low demand among poor households for sanitation services risks leaving local governments in deficit. These factors conspire to delay implementation of the sanitation AllG—notwithstanding that it is widely considered an innovative and influential design.

The design of PRIM took many iterations to be approved, and in implementation will take some time before grant disbursement occurs. A DFAT staff member noted: *“PRIM is a good project, but expenditure will only happen in the final year. If it had started earlier we would have had another whole year of spending”* [DFAT].

Delays in TA implementation

TA expenditure is also behind schedule⁴⁶, although IndII’s technical directors are confident that the TA allocation will be close to fully expended by June 2015.

The IAT noted that Transport TA has been strategically used and progressively better aligned with nearly every key national and sub-national transport element/institution (*viz*: Governance, Policy, Planning, Delivery, Standards and Road Safety activities). A DFAT staff member reflected: *“The national roads program is taking off. Our support to this sector was previously fragmented but now there are three coherent engagements in policy, planning and delivery”* [DFAT].

⁴⁵ An array of mechanisms for asset ownership and operation are being explored. This is a complex area in the decentralised Indonesian context. There is a compelling argument for IndII to proactively promote lessons from international experience *vis-à-vis* the merit of government owned/managed waste water schemes, versus fully privatised schemes; and the extent to which sanitation and water services should be owned/managed separately or combined. Indonesia’s relatively successful PDAM model for water management warrants scrutiny. This matter should be examined more closely in future IAT missions.

⁴⁶ The transport program is recognised to be on track.

The following graph shows the anticipated convergence of actual TA expenditure to planned.

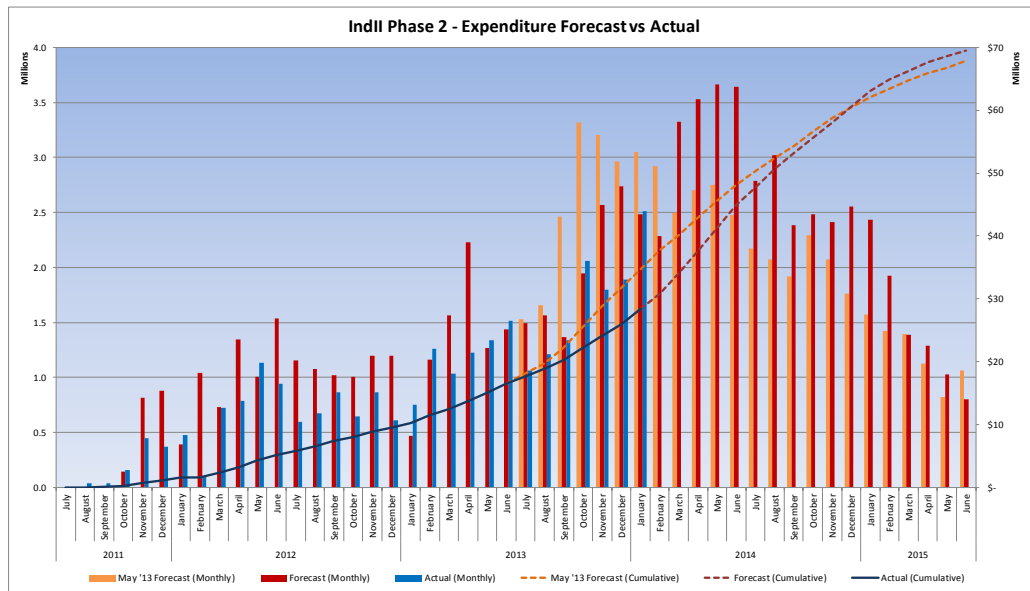


Figure 4: Forecast versus actual TA expenditure as at January 2014, and projected expenditure to June 2015 (Source: IndII)

The issues discussed previously concerning the grants are part of the reasons behind delayed TA expenditure—given that some TA is coupled to grants (e.g. preparation TA). Other contributory factors reported by IndII include dependency on Gol partners for actions or decisions in relation to TA; and delays in the approval process (see Section 3.4).

It is important for the IAT to highlight that although IndII is affected by significant delays, this should not trigger a throwing of the proverbial ‘baby’ out with the ‘bathwater’. Many of the implementation delays are a function of working through Gol systems and partners. This is most evident in work in the sanitation subsector where a seemingly opaque process of Gol nomination of local government grantees may attract criticism, but in reality is key to sustainability. From an administrative standpoint there is understandable frustration with under-expenditure and delays. But from a development standpoint, the strong counterpart ownership of process and outcome—along with the early evidence that the facility is leveraging significant changes in Gol resource allocation, approach and mind-set—is encouraging.

Program delivery processes and supporting systems

IndII is highly regarded by Gol, development partners and DFAT. The IAT observed IndII to be professionally managed, with technical products of high content quality. Much of the material is produced in Bahasa. Communication products are professional and attractively presented, and the wide readership is indicative of both the quality and demand for the resources produced. The website is highly accessible/useable and the MIS is comprehensive.

Of particular note was the effective way in which IndII seemed to be balancing the need for the facility to be responsive (aka ‘bottom-up’) and yet proactive (aka ‘top-down’)—a pervasive development challenge. Facilities that are purely responsive risk becoming fragmented—fostering diffuse impacts at best. Facilities that are entirely proactive tend to compromise counterpart ownership and sustainability. The balance was most evident in the transport program which was acknowledged to be piecemeal and lacking focus early in the life of the facility, but is now considered by DFAT and Gol to be guided by a coherent narrative for policy reform at central level.

Communication products are professional and attractively presented, and the wide readership is indicative of both the quality and demand for the resources produced. The website is highly accessible/useable and the MIS is comprehensive. Much of the material is produced in both English and Bahasa.

The overarching goals of the IndII communications and public diplomacy plan have been threefold:

- To facilitate IndII's work by ensuring that partners are well informed, have a positive image of IndII efforts, and understand that IndII is addressing priorities established by the GoI. In plainer language, IndII's outreach should pave the way for technical experts to obtain cooperation from counterparts.
- To meet public diplomacy goals, emphasising Australia's partnership with Indonesia and specifically targeting Indonesian audiences.
- To enhance the long-term effectiveness and impact of IndII's infrastructure development. For example, IndII facilitates the provision of physical infrastructure such as new water connections in poor neighbourhoods – this, in and of itself, is beneficial. But the positive impacts will be multiplied if an accompanying outreach campaign helps citizens to use the water wisely, to enhance public health, improve household economy, and conserve resources (as was demonstrated when rolling-out an AUD0.5M communications activity accompanying the water hibah Phase 1). Similarly, the impact of road infrastructure will be much greater when citizens understand how to use roads safely.

For the future, the IndII communications strategy/approach should extend beyond a 'PR' function, and should also focus on:

- Helping "unblock" misunderstanding and facilitating understanding of potential grant-activity benefits to local government and community stakeholders.
- A closer relationship with IndII's M&E team to package and disseminate results (successes and lessons learned)
- A new key message: IndII's activities have demonstrated that output-based mechanisms are a valuable tool for transformation, not only for IndII but also for the Government of Indonesia and the wider donor community
- A heightened emphasis on "the human side of infrastructure," examining program impacts in terms of individual citizens
- A renewed focus on public diplomacy: Stories about program impacts will be reinforced with the message that these impacts are the result of Australia's partnership with Indonesia

Facility profile and identity

An Icarus-style issue that is emerging relates to the high profile and strong identity that the facility is developing in the sector. DFAT expressed concerns that IndII's engagement with GoI may be achieving greater prominence than the bilateral relationship itself: *"If I'm honest it's IndII that has the engagement with GoI not DFAT"* [DFAT]. One DFAT staff member expressed frustration with this issue: *"IndII is not an independent entity. It is just a channel for our engagement with GoI. It shouldn't have its own profile"* [DFAT]. The IAT was advised of one occasion when IndII was invited to a GoI meeting about the RPJMN, when DFAT considered this type of engagement to be more appropriately handled directly by Australian Government officials.

The IAT concluded that IndII staff were not obstructing contact between Gol and DFAT; and indeed DFAT acknowledges that IndII has occasionally facilitated contact⁴⁷. IndII expressed a willingness to facilitate further engagements, but noted at least two pragmatic challenges: i) Contact with Gol representatives tends to be incremental and technically focussed rather than strategic and formal; ii) There is rarely engagement with senior Gol officials: *“We rarely engage at Echelon 1. DFAT is far more able to call a meeting at that level than we are”* [IndII].

This issue is fundamental for DFAT. There may be merit in DFAT taking the lead by identifying stakeholders, issues and events for which IndII may be able to facilitate meaningful engagement. A “Team Australia” approach is desirable generally.

Recommendation:

16. DFAT should nominate opportunities (stakeholders, issues, events) for which IndII may be able to facilitate contact; IndII staff should be mindful of and proactive with systematic and opportunistic ways of facilitating contact between DFAT and Gol.

⁴⁷ *“As we’ve made this known to IndII they have created opportunities for contact with Gol”* [DFAT].

APPENDIX A: FOCUS OF SUBSEQUENT IAT MISSIONS

Introduction

IAT Mission 1 (Feb 2014) focused primarily on operational performance and management arrangements in view of the immediate needs to address programme underspend. Our findings, conclusions and recommendations have been presented in this March 2014 Report.

Each IndII technical group has developed a strategic M&E framework that is based on logic modelling principles. Through this process, each technical group has defined ‘end of program’ outcome statements that are aligned in a logical fashion to defined outcomes for each proposed activity. There remains scope for additional and emerging activities to be included and the framework should be reviewed on an annual basis prior to submitting the Facility Review and Planning Document (FRPD) – the potentially excessive length and complexity of which has been considered in our Mission 1 findings.

For IndII, outcomes are defined around what can be directly attributable to deliverables and investments, although there is recognition that infrastructure generally has a broader impact on other sectors such as health and education, and can make a significant contribution to increased national economic well-being.

None of the above issues has been tested or evaluated substantively by the IAT, and this needs to be reflected in a shift in focus from inward-looking to outward and more output/outcome/impact-looking for the next two missions. The first mission was also entirely Jakarta-based, and views and perceptions did not take into account direct interview evidence from local government actors in other provinces and small towns, nor were any notional beneficiaries consulted – other than GoI Ministry officials and WB/ADB officers.

In addition, by the time mission 2 occurs, a decision will have been taken by GoI and GoA/DFAT as to the desirability of a programme extension and/or a new initiative “IndII-like Phase 3”. This will have implications for the detailed Terms of Reference (ToR) that are required of the IAT such that it can make a useful contribution to that design process.

Accordingly the IAT proposes the following outline ToR:

MISSION 2 (end August 2014?): Sectoral and Cross-Cutting Technical Output Evaluation

- a. This mission would take a more in-depth look at drinking water, wastewater, transport and cross-cutting design analyses, studies and reports, and would consult authors, recipients (clients) and potential beneficiaries.
- b. At least two provinces would be visited in addition to Jakarta-based inquiry, each with differing characteristics to provide input to help understand better the complexities faced during implementation.
- c. GoI perspectives would be given greater emphasis, especially as part of beginning lessons-learning to input into any new design – if a decision in principle had been taken on that by then.
- d. The relevance and effectiveness of engagements and outputs would be assessed.
- e. IndII’s own M&E baseline indicators and systems would be reviewed in depth and preliminary evidence of impact would be considered – although in some cases direct attribution will be difficult to assess, and in others, it may be too soon to tell if positive change has come about.

- f. Some high profile activities (AIG for sanitation, Road Safety and 20 PDAMs) will have had external baseline studies undertaken and in conjunction with IndII, Gol and DFAT, a representative sample of these will be evaluated.
- g. Recommendation implementation and follow-up proposals from Mission 1 will be reviewed and commented upon. – including a proposed more pro-active role for the Board.
- h. Overall programme expenditure profile and management performance will be re-checked.
- i. Thoughts & conclusions for an “IndII 3” would be provided.

MISSION 3 (Feb/March 2015?): Strategic Outcome and Impact Evaluation & additional re-design recommendations

- i. This mission would take a more strategic focus on outcomes and impact in target communities.
- ii. The evidence of and prospects for sustainability post-IndII inputs would be evaluated.
- iii. The political economy realities and priorities for the newly elected Gol would need to be factored into IAT planning and evaluation design – and early Gol engagement through DFAT and the Board would be desirable and helpful in this regard.
- iv. A re-check of other donor/lender infrastructure plans would be advisable.
- v. New opportunities for PPP-led investments that could complement or take forward IndII-initiated activities would be identified and reviewed.
- vi. Gender sensitivity in design and equality and equity in implementation would be considered – and IndII M&E’s ability to detect these matters re-evaluated.
- vii. Climate change resilience and DRR planning incorporated into IndII-sponsored interventions would be reviewed.
- viii. Additional provincial field-visits would probably be planned, to be determined following Mission 2 findings.
- ix. Additional more detailed recommendations for “IndII 3” would be proposed.
- x. A review of Mission 1 & 2 recommendation implementation and follow-through would be provided.
- xi. An end of mission Gol-IndII-DFAT workshop would be a possible positive dynamic with new key Gol interlocutors.

APPENDIX B: TERMS OF REFERENCE FOR MISSION 1

TERMS OF REFERENCE FOR THE INDII IMPACT ASSESSMENT TEAM (IAT)

1. These Terms of Reference outline the scope of the first IndII Facility Impact Assessment Team mission to be conducted in early 2014. The overarching purpose of this mission is to assess the facility's progress and performance to date, with a particular focus on management of the facility.

BACKGROUND

2. The Indonesia Infrastructure Initiative (IndII) was designed in 2007 as a program comprised of technical assistance and grant support delivered through two modalities: a bilateral facility and a World Bank Trust Fund (commonly referred to as the Indonesia Infrastructure Support Trust Fund - INIS). These ToRs relate specifically to the bilateral facility which is widely known in the sector as "IndII".
3. IndII is a \$394.8 million facility aimed at enhancing infrastructure policy, planning and investment in Indonesia. The first phase (\$64.8 million) started in 2008 and concluded in June 2011; the second phase (\$330 million – which includes a \$240 million government-to-government grant program) will conclude in June 2015.
4. IndII's overarching goal is "to contribute to economic growth and poverty reduction through improved infrastructure access and service provision". IndII focuses primarily on water and sanitation; road, rail, air and sea transport; as well as cross-sectoral policy issues.
5. Since 2008, the IndII facility has been implemented by the managing contractor SMEC, and is governed by a Facility Governance Board (the Board) co-chaired by the Department of Foreign Affairs and Trade (DFAT) – Australian Aid Program and Bappenas. In 2011 a Facility Management Committee (the Committee), comprising the co-chairs from the Board was added. The Committee is responsible for high-level decision making with respect to the overall planning and implementation of the Facility, including approving the [Facility Review and Planning Document \(FRPD\)](#) (prepared by SMEC for consideration and endorsement by the Board). The Board acts as a source of strategic input for the Committee on proposals presented in the FRPD and for exploring promising options for program resources. It includes representatives from the Coordination Ministry of Economic Affairs (CMEA) and the Ministry of Finance (MoF). Water and sanitation and transport technical teams sit under the Board and approve individual activities.
6. Since 2009, IndII has overseen the implementation of Australia's government-to-government infrastructure grants program, including the Water and Sanitation Hibah. For Phase 2, IndII is managing the design and implementation of up to \$240 million of government-to-government grants (including a new phase of the Water and Sanitation Hibah, Australia-Indonesia Infrastructure Grants for Sanitation (sAIIG) and the Provincial Roads Improvement and Maintenance (PRIM) Program).

HISTORY AND ROLE OF THE IAT:

7. According to the IndII Subsidiary Arrangement (SA), the IAT is commissioned by DFAT to assess the effectiveness of the facility in meeting the agreed objectives. The SA states that in conducting its assessments, the IAT will assess perceptions of the IndII program

from GoI partners and seek inputs from DFAT and Facility personnel to identify areas to improve efficiency and effectiveness.

8. In Phase 1, the IAT was commissioned to undertake three reviews. The first review, conducted in March 2010 focused on governance issues that were hampering the facility at the time. The mid-term review was conducted in April 2010 and assessed whether IndII was “on track” to achieve its goals and objectives. The third IAT was conducted in May 2011 and assessed the likely impact and effectiveness of Facility activities that are designed to support policy, planning and regulatory development and capacity building. These reports will be made available to the Phase 2 IAT.
9. The IndII M&E Plan states that for Phase 2 the IAT will address questions related specifically to the functioning of the facility as a whole, the level of and quality of partnerships established, development and use of policy and assistance provided to support governance arrangements. The M&E Plan outlines some key evaluation questions for IAT review, including:
 - a. Is the facility meeting the expectations and needs of GoI and GoA?
 - b. To what extent have the emerging findings and recommendations provided through IndII been accepted and utilised by partner agencies? How have these supported GoI policies and priorities?
 - c. To what extent did the partnership arrangements between GoI and IndII facilitate joint ownership and responsibility for outcomes?
 - d. To what extent have IndII-supported activities demonstrated an effective and efficient approach to development and what value has been added?
10. Over the course of the three Phase 2 IAT reviews, it is anticipated that the IAT will answer many of these questions, particularly in latter reviews that will be more focused on assessing IndII’s impact and achievements.

PHASE 2 IAT REVIEWS:

11. DFAT intends to commission three IAT reviews over the course of IndII Phase 2. It is DFAT’s intention to hold these IAT reviews late in the third quarter of each calendar year (August/September) to feed into December Committee/Board meetings.
12. The specific ToRs for IAT reviews 2 and 3 will be developed closer to the time of the missions. Initial thinking on these reviews includes:
 - a. Assessing whether flagship technical assistance activities have performed well and if they should be continued in any follow-on support post IndII-2
 - b. Outcomes of the grants programs, in particular whether the programs resulted in the intended institutional and governance outcomes.
13. The IAT will also be expected to report to DFAT on a set of progress/performance indicators for each of the three missions. This “health check” will feed into DFAT’s annual reporting on IndII. (More details on this in the next section).

POST 2015 INFRASTRUCTURE SUPPORT:

14. DFAT is currently in the process of developing a program of infrastructure assistance for post June 2015 when IndII-2 and the government-to-government grants programs conclude. This assistance is still in its initial phases (pre-concept) and will be developed over the next 12 to 18 months. It is likely that some of the findings and recommendations made by the IAT over its three missions will feed into the design and DFAT's thinking about this infrastructure support program. DFAT will provide more information to the IAT about this as the program develops.

IAT REVIEW 1 FOR PHASE 2**KEY REVIEW QUESTIONS:**

15. Based on the slow progress of both the TA and grant components of IndII, the first IAT review for Phase 2 will focus primarily on assessing the management of the facility. "Management" in this case refers to both DFAT and SMEC management of IndII and includes management of the governance arrangements, activity development, and the grants programs.
16. There are three parts/purposes to this assessment with corresponding review questions to be answered by the IAT outlined below:

	Part/purpose	Review Question/s
1	<p>To gauge IndII facility progress and performance. The IAT will be required to develop a set of performance indicators to measure IndII-2 progress (based on the targets and outcomes listed in the P2ID and first Phase 2 FRPD). These indicators will be used for all three IAT missions to assess IndII performance.</p>	<p>i. Is the IndII facility on track to achieve its expenditure and end-of-program outcomes?</p>
2	<p>To assess program governance arrangements. "Program governance" refers to how the Committee/Board and technical teams operate and includes the activity approval process.</p>	<p>ii. How can the Board be supported as it transitions from setting direction to reviewing and guiding existing activities? iii. How can approval processes better facilitate activity development and implementation?</p>
3	<p>To assess program delivery. "Program delivery" refers to DFAT's and SMEC's management of IndII and includes design and peer review processes (including realistic forecasting during design), monitoring of progress and performance, engagement with key stakeholders, and risk management. This component of the IAT applies to both TA and grants.</p>	<p>iv. What are the lessons learned re: housing TA activities and grants programs in the one facility? v. What are the primary reasons for the (design and implementation) delays in the grants programs?</p>

17. To answer these questions, the IAT should focus on Phase 2 implementation and documentation (including design, M&E and FRPD documentation).

18. The information and recommendations made by the IAT will inform how DFAT (Counsellor and Unit Managers) and SMEC (Facility Director, Deputy Director and Technical Directors) manage the TA and grants programs for the remainder of Phase 2. Specifically, the results on IndII's progress and performance will be used by DFAT for annual reporting purposes, discussed with SMEC in monthly management meetings and contractor performance assessments and presented to the Board for discussion and guidance. While questions relating to the governance arrangements and program delivery should be answered by the IAT with the objective of making feasible improvements in Phase 2, it is likely that some results and recommendations will be relevant to Australia's post-2015 infrastructure support package. Where this is the case, the IAT must clearly identify whether the recommendations are applicable to Phase 2 or for the future program design.
19. As part of the first review, the IAT is requested to consider and document key review questions for the second and third IAT missions. These review questions should be focused on program impact for both TA and grants programs. DFAT will consider these review questions and use them to inform the Terms of Reference for the second and third IAT missions.

REVIEW PROCESS

20. The evaluation process will be comprised of the following components:
- a. Seven days **preparation/familiarisation with the program**: this will include reading relevant documentation provided by DFAT (including advise the review manager of any additional documents or information required prior to the in-country visit). Telephone conferences between team members to discuss roles within the review may also take place during this timeframe (it is expected that the DFAT review manager will participate in these discussions).
 - b. The M&E specialist/team leader will have two additional days to develop an **evaluation plan** (for the first IAT visit) including the methodology, key review questions, identification of key respondents and a selection of IndII activities or outputs for review. The plan will outline the specific roles, responsibilities and expectations of review team members. The DFAT review manager will discuss the evaluation plan with the team leader before the plan is developed. Standards for this evaluation plan can be found at [Attachment A](#).
 - c. Participate in a **DFAT briefing session** in Jakarta at the start of the in-country field visit (approximately half a day on 28 January 2014).
 - d. **Conduct meetings in Jakarta** (from 28 January 2014 until 19 February – 20 days, with every Sunday in Jakarta as a rest day).
 - e. **Prepare an aide memoire** (of two pages) for submission on the final day of the field review which outlines the major findings of the review to DFAT Jakarta and the IndII managing contractor.
 - f. **Submit a draft report** (3 days data analysis and 5 days of writing for the team leader, up to 5 days for infrastructure specialist for analysis and writing). The team leader will discuss the contributions of other team members prior and/or during the mission in Jakarta. DFAT and the IndII managing contractor will require two to four weeks to compile and submit comments on the draft for the team leader to

consider. DFAT will coordinate comments from GoI. The draft report should follow the standards listed at [Attachment B](#).

- g. **Submit the final report** (up to 3 days of writing for the team leader). Other review members will be expected to support the team leader as appropriate (e.g. fact checking). The final report is expected to be published on the DFAT website and should be submitted in a format accessible to people with reading difficulties ([Attachment C](#) contains guidance on this).

REPORTING REQUIREMENTS:

21. The review team (led by the M&E specialist) will provide DFAT with the following reports:
 - a. **Evaluation plan** – to meet the standards at Attachment A and be submitted at least two weeks prior to the in-country visit for stakeholder consideration.
 - b. **Presentation of an Aide Memoire** and discussion – on the initial findings of the review to be presented to DFAT, the IndII managing contractor and to key GoI stakeholders at the completion of the in-country mission.
 - c. **Draft review report** – to be submitted to the DFAT review manager (for immediate distribution to the IndII managing contractor and GoI stakeholders) within two weeks of completing the field visit.
 - d. **Final review report** – to be submitted within two weeks of receipt of comments from DFAT, IndII and GoI on the draft report. The review team shall determine whether any amendment to the draft is warranted. The report shall be a brief and clear summary of the review outcomes and be based on a balanced analysis of the program. The final review report should be accessible to people with disabilities (guidelines are attached).

REVIEW TEAM:

22. The review team will be primarily composed of an M&E specialist and an infrastructure specialist. Additional team members will be included as appropriate. Further details are below:

- a. An independent monitoring and evaluation (M&E) specialist (team leader and permanent member of the IAT)

The M&E specialist will be experienced in M&E (preferably with a relevant tertiary qualification) and will have 15 years (or more) of experience implementing different evaluations of development programs. Experience in evaluating infrastructure, technical assistance and/or facility modalities is preferable. Experience in program and contract management is desirable. The M&E specialist must be an experienced evaluation team leader and can lead and manage senior sector specialists on the IAT. This is at least a C4 position on DFAT's Adviser Remuneration Framework (ARF).

- b. An infrastructure specialist (permanent member of the IAT)

The infrastructure specialist must have a relevant qualification, and 15 years or more experience working on infrastructure development programs (including Public Private Partnerships, Transport and Water and Sanitation) preferably

through partner/government systems. Experience on DFAT development programs and an understanding of DFAT – Australian Aid Program’s contracting processes is preferred. The infrastructure specialist must have a demonstrated understanding of different aid modalities in the infrastructure sector, including policy and project preparation technical assistance and capital investments. A good understanding of the Indonesian context is essential. This position is categorised as a C4 on DFAT’s ARF.

c. Translator/s (temporary members of the IAT)

A translator will be hired where/when appropriate. The translator will be briefed and provided background information before commencing duties. He/she must have experience undertaking simultaneous translations.

DFAT REVIEW TEAM:

23. Review Owner: will be the Counsellor for Infrastructure and Economic Governance. The Review Owner will be the primary decision maker for all IAT reviews, including the direction of the reviews. Final acceptance/approval of all IAT outputs will rest with the Review Owner.
24. Review Manager: will be the Infrastructure Analyst in Canberra. The Review Manager will contract the IAT members and will act as the key contact point for the IAT. The Review Manager will distribute IAT outputs to DFAT Jakarta Post and SMEC for comments/inputs.
25. Post Infrastructure Team: will assist with preparations for the IAT’s visits to Indonesia.

KEY DOCUMENTS:

- a. [IndII Monitoring and Evaluation Plan \(Phase 2\);](#)
- b. [Facility Review and Planning Document \(FRPD\);](#)
- c. IndII IAT Report 1 (Governance Arrangements);
- d. IndII IAT Report 2 (Mid-Term Review);
- e. IndII IAT Report 3;
- f. AusAID’s Management Response to the IAT Reports;
- g. IndII Project Design Document;
- h. IndII Phase 2 Implementation Document (P2ID);
- i. [IndII Phase 2 M&E Plan;](#)
- j. IndII Contract Scope of Services;
- k. IndII Subsidiary Arrangements – Phases 1&2;
- l. Subsidiary Arrangement for the Australia Indonesia Infrastructure Grants program;
- m. Design Documents for the Water and Sanitation Hibah, Sanitation Grants Program – sAIG and Provincial Roads Improvement and Maintenance (PRIM) Project;
- n. [ANAO Audit of AusAID’s Infrastructure Program to Indonesia;](#)
- o. Other documentation (such as Activity Design Documents, Activity Completion Reports) not listed here can be made available upon request.

APPENDIX C: QUESTION GUIDE

Top-level issue	Key questions	Probing	Data source
Progress and performance	Is the IndII facility on track to achieve its expenditure and end-of-program outcomes?	Small set of indicators to be developed and tested during mission; criteria will include: available data; meaningful measure; reliable measure; efficiently captured.	SMEC
		Reasons for variance between planned and actual expenditure/progress? Plans to respond/mitigate? Alternatives tried/considered?	SMEC Activity partners
		Perceptions of counterparts about progress? Views of counterparts regarding counterfactual (what has IndII enabled that would not have otherwise been possible?)	DFAT GoI counterparts Other donors
Governance arrangements	How can the Board be supported as it transitions from setting direction to reviewing and guiding existing activities?	Appropriateness of format, timing, resources and mandate? Clarity and delineation of roles (board, management, technical teams)? Changing nature of issues addressed and decisions made? Extent of uptake/utilisation of advice/direction?	SMEC Board
	How can approval processes better facilitate activity development and implementation?	Key steps in approval process? Rationale? Merit/relevance of processes? Reasonableness of time and resource allocations? Alternative processes considered/tried?	DFAT SMEC Board Activity partners
Program delivery	What are the lessons learned re: housing TA activities and grants programs in the one facility?	Commonality/divergence of management processes for TA and grants? Unforeseen challenges with TA/grants? Efficiencies and opportunities of co-managed grants and TA?	DFAT SMEC GoI counterparts Activity partners Advisers
	What are the primary reasons for the (design and implementation) delays in the grants programs?	Processes/steps in grant design and implementation? Rationale? Implications/risks of truncating processes? Key changes in context since design/Phase I? Steps/processes considered most challenging/delayed? Appropriateness of time/resource allocation?	DFAT SMEC Activity partners

APPENDIX D: IAT INDICATORS

Purpose

The IndII Impact Assessment Team (IAT) is required to define indicators that can succinctly illuminate the progress and performance for each of IndII's key areas of intervention. The intention is for these indicators to be meaningful (i.e. to communicate relevant information to stakeholders) but efficient (i.e. a small number of indicators that can be readily compiled from existing data sources). Where possible, the indicators should provide information about both *trend* and *state* to enable insights about overall facility performance⁴⁸. They should also avoid duplicating other M&E work⁴⁹.

Grant program

Water hibah

Number of connections per PDAM

- **Presentation:**
 - monthly total (no. households)
 - cumulative average
- **Calculation:**
 - **Numerator:** monthly total number of household connections
 - **Denominator:** number of PDAMs where connections have occurred

To illustrate the use of this indicator, we can compare the average connections per PDAM per month during Phase 1 (**133**) with the current average (at January 2014): **110**. This shows us that the water hibah is proceeding slightly slower but at a comparable rate to Phase 1. By nominating an end-of-facility target, the percentage achievement at any point in time can also be reported.

Sanitation hibah

Number of connections per local government

- **Presentation:**
 - monthly total (no. households)
 - cumulative average
- **Calculation:**
 - **Numerator:** monthly total number of household connections
 - **Denominator:** number of local governments where connections have occurred

sAIIG

Number of connections per local government

- **Presentation:**
 - monthly total (no. households)
 - cumulative average
- **Calculation:**
 - **Numerator:** monthly total number of household connections
 - **Denominator:** number of local governments where connections have occurred

⁴⁸ N.B. The indicators provided in this document allow insights into key trends (e.g. monthly average connections). IndII may also be able to nominate end-of-facility targets for these indicators so that the current state at any point in time can also be reported (i.e. % of target at a point in time).

⁴⁹ IndII has invested in substantial M&E processes and maintains a comprehensive MIS.

PRIM**Proportion of NTB provincial road network (1,369 km) subject to maintenance works per month**

- **Presentation:**
 - monthly total (no. km)
 - cumulative average
- **Calculation:**
 - **Numerator:** monthly total kilometres of provincial road subjected to maintenance works
 - **Denominator:** total number provincial roads in NTB (1,369 km⁵⁰)

TA program**Proportion of TA deliverables produced**

- **Presentation:**
 - Monthly total number of TA deliverables produced
 - cumulative average
- **Calculation:**
 - **Numerator:** monthly total number of TA deliverables produced
 - **Denominator:** monthly total number of TA deliverables planned

In addition to tracking indicators, the IAT suggests that a **Gantt chart** could be maintained to depict the stages of implementation for all local government engagements in water, sanitation and road maintenance. From such analysis, high level measures can then be derived, such as the percentage of activities that have reach defined stages (**e.g. % PDAMS that have been reimbursed for waste water scheme commissioning**).

⁵⁰ The gazetted provincial roads in NTB total 1,722 km, but 219 km have been reclassified as national road (and hence will be maintained under the national budget) and 184 km will be maintained under agreements with mining companies.

APPENDIX E: INTERVIEWEES

Date	Name	Organisation	Role	Gender
4 Feb	David Hawes	DFAT	Principal Sector Specialist	Male
	Anne Joselin	DFAT	Unit Manager, Water and Sanitation	Female
	Ely Andrianita	DFAT	Water and Sanitation	Female
	Sue Ellen	DFAT	Program Coordinator	Female
5 Feb	David Ray	IndII	Facility Director	Male
	Jeff Bost	IndII	Deputy Director	Male
	Sue Ellen	IndII	Program Coordinator	Female
	John Lee	IndII	Technical Director - Transport	Male
	David Foster	IndII	Lead Adviser, Road Implementation and Safety	Male
	Maria Renny	IndII	Program Officer, Transport	Female
	Syafrizal Rawindra	IndII	IT Manager	Male
	Jeff Bost	IndII	Deputy Director	Male
	Devi Miarni	IndII	Impact Specialist	Female
	Sulistiani	IndII	M & E Officer	Female
	Eko Utomo	IndII	Gender Officer	Male
6 Feb	Jim Coucouvinis	IndII	Technical Director – Water and Sanitation	Male
	Lynton Ulrich	IndII	Technical Director – Policy and Investment	Male
	Nur Hayati	IndII	Senior Program Officer, P & I	Female
7 Feb	Lachlan Pontifex	DFAT	Counsellor, Infrastructure and Economic Governance	Male
	Anne Joselin	DFAT	Unit Manager, Water and Sanitation	Female
	Sue Ellen	DFAT	Program Coordinator	Female
	Ely Andrianita	DFAT	Water and Sanitation	Female
	Christiana Dewi	DFAT	Program Manager	Female
	Paul Wright	DFAT	Transportation Specialist	Male
10 Feb	Ty Morrissey	IndII	Monitoring and Evaluation	Male
	Jeff Morgan	IndII	Program Coordinator	Male
	Joel Friedman	IndII	Institutional Development Adviser	Male
	Aries Gunawan	IndII	Program Officer, Institutional Development	Male
	Andreas Suwito	IndII	Grant Implementation Program Officer	Male
11 Feb	Sue Ellen	DFAT	Program Coordinator	Female
	David Hawes	DFAT	Principal Sector Specialist	Male

Date	Name	Organisation	Role	Gender
	Scott Roantree	DFAT	Program Designer	Male
13 Feb	Hasan Basri Saleh	Jakarta Provincial Government	Assistant Regional Secretary for Economic Affairs	Male
	Lachlan Pontifex	DFAT	Counsellor, Infrastructure and Economic Governance	Male
	Anne Joselin	DFAT	Unit Manager, Water and Sanitation	Female
	Sue Ellen	DFAT	Program Coordinator	Female
	Johnny Scholes	DFAT	Consultant	Male
14 Feb	Danny Sutjiono	Ministry of Public Works	Director of Water Supply Development	Male
	Dwityo Soeranto	Ministry of Public Works	Head of Subdirectorate for Foreign Cooperation	Male
	Chandra Situmorang	Ministry of Public Works	Head of CPMU	Male
17 Feb	Andrew Dollimore	DFAT	Former Director	Male
	Taimur Samad	The World Bank	Senior Urban Economist	Male
	Bambang Susantono	Ministry of Transportation	Vice Minister	Male
18 Feb	Robert Sianipar	Coordinating Ministry for Economic Affairs	Assistant to Deputy Minister for Water Resources Infrastructure	Male
	Monty Girianna	National Development Planning Agency	Director for Energy Development	Male
	Sunandar	National Development Planning Agency	Head of Subdirectorate for Gas Resources	Male
	David Hawes	DFAT	Principal Sector Specialist	Male
	Jessica Ludwig-Maarooft	DFAT	Director, Australia Indonesia Partnership for Decentralization	Female
	Rita Herlina Oemar	Ministry of Finance	Head of Subdirectorate for Regional Grants	Female
	Yuddi Saptopranowo	Ministry of Finance	Head of Section for Regional Grants IV	Male
	Anthony Gill	Asian Development Bank	Senior Country Specialist	Male
20 Feb	Didi	Ministry of Public Works	Head of Subdirectorate for Foreign Funding	Male
	Rien Marlia	Ministry of Public Works	Section Chief for Financing	Female
	Pargaulan Butarbutar	Transjakarta	Director	Male
	Gama Iswinnugroho	Transjakarta	General Affairs	Male
26 Feb	Dedy Priatna	National Development Planning Agency	Deputy Minister for Infrastructure	Male

APPENDIX F: DISCUSSION DRAFT BOARD TOR

IndII Board – Thoughts on Revised terms of Reference

The “roles and responsibilities” (ToR) of the IndII Board were set out clearly in the original programme document (as reproduced in the left-hand column of Table X).

The ToR did not identify clear institutional responsibilities for dealing with major programme underspend, nor did they envision policy or strategic “horizon scanning” responsibilities that should be considered and translated into forward-looking strategic programme guidance for the Managing Contractor.

The IAT recommend that these omissions are addressed as a matter of urgency, with suggested proposals being agenda items for the next Board meeting.

Key new features to consider adding are set out in the right-hand column of Table X. They include:

- a. Policy Guidance to facilitate enabling environment change or strengthening activities;
- b. Named institutional attendee representation (and alternate delegates with decision-making authority) from the defined Board institutions;
- c. Responsibility to use their best endeavours to reach the most senior official or Ministerial representation to unblock institutional complexities that may be impairing efficient identification, design and implementation of agreed IndII-supported activities.
- d. Agreement on “mutual” accountability for underperformance of IndII-supported activities.
- e. Timely responses to initial requests for concept review and project proposals, and agreement on a set of “no objection” default conditions after an agreed period from receipt of such requests.
- f. In view of the substantial underspend of grant finance available, agree to convene the Board at 3-, rather than 6-monthly intervals for 2014-2015.

In addition, a new section relating to Board Member Responsibilities (performance measures) is proposed to assist in stimulating active Board engagement.

Table 1: Roles and responsibilities of the IndII Board during concept, design, approval and now implementation.

Concept, Design & Approval Stages: Roles and responsibilities of the Board⁵¹	<u>Moving to Implementation:</u> proposed revisions & additions/amendments to roles & responsibilities of the Board
<p>The major responsibility of the Board is to oversee and guide the activities of the IndII.</p> <p>It will be made up of representatives from AusAID, BAPPENAS and CMEA.</p> <p>AusAID and BAPPENAS will co-chair the Board.</p>	<p>The major responsibility of the Board is to oversee and guide the activities of the IndII.</p> <p>It will be made up of representatives from AusAID, BAPPENAS and CMEA.</p> <p>AusAID and BAPPENAS will co-chair the Board, but should actively seek ways to ensure that CMEA can play a more active and influential role.</p>

⁵¹ 2007 October Indonesia Infrastructure Initiative, Program Design Document, Part 1, Chapters (Final Draft), Section 3.2 Roles and responsibilities, 3.2.1. Roles and responsibilities of the Board, p40-41.

Concept, Design & Approval Stages: Roles and responsibilities of the Board⁵¹	<u>Moving to Implementation:</u> proposed revisions & additions/amendments to roles & responsibilities of the Board
	<p>The role of GoI institutions should also be reviewed post autumn-2014 National Elections, after new Ministerial portfolios have be assigned.</p>
<p>The Board will meet on a six monthly basis, and members be available by email for out of session approvals.</p>	<p>The Board should meet as a matter of urgency twice before the 2014 elections to stimulate final approvals progress, consider revised roles during implementation, and agree interim contingency arrangements in the event of significant ministerial portfolio changes.</p>
<p>The Board will:</p> <ol style="list-style-type: none"> i. approve proposed SPS engagements; ii. approve documented strategies and initial workplans for SPS; iii. assess progress of SPS in the previous six months, and confirm or amend the green, amber or red assessment recommended in the Board Report; iv. approve six month workplans and budgets for SPS engagements subject to satisfactory progress; v. approve proposed IEI activities; and vi. rank the IEG applications (from those that satisfy the criteria). 	<p><i>The Board will retain its original responsibilities.</i></p> <p><u>Additionally</u> the following responsibilities are recommended for the implementation phase:</p> <ol style="list-style-type: none"> a. Policy Guidance to facilitate enabling environment change or strengthening activities; b. Named institutional attendee representation (and alternate delegates with decision-making authority) from the defined Board institutions; c. Responsibility to use their best endeavours to reach the most senior official or Ministerial representation to unblock institutional complexities that may be impairing efficient identification, design and implementation of agreed IndII-supported activities. d. Agreement on “mutual” accountability for underperformance of IndII-supported activities. e. Timely responses to initial requests for concept review and project proposals, and agreement on a set of “no objection” default conditions after an agreed period from receipt of such requests. f. In view of the substantial underspend of grant finance available, agree to convene the Board at 3-, rather than 6-monthly

Concept, Design & Approval Stages: Roles and responsibilities of the Board⁵¹	<u>Moving to Implementation:</u> proposed revisions & additions/amendments to roles & responsibilities of the Board
	<p>intervals for 2014-2015.</p>
<p>The Board will provide feedback to AusAID (now DFAT) on the MC performance at the request of AusAID.</p> <p>On an annual basis the Board will provide a broad indication of the desirable allocation of IndII funds across the different components and sub- components of the IndII.</p>	<p><i>The Board will retain its original responsibilities.</i></p> <p><u>Additionally</u> the following responsibilities are recommended for the implementation phase:</p> <p>g. The Board will require IndII to report on specific programme lines where there is significant under-/over-spend (>15% below/above planned amounts), and to advise the Board as to whether there are GoI institutional constraints at National, Provincial or Local levels where the GoI Board representatives can assist/facilitate improvements.</p>
<p>The Board can request presentations on any of the SPS strategies by the Technical Directors and/or the Lead Advisors to be given at the Board meetings.</p> <p>They can request an informal (non-decision making) meeting be undertaken for such presentations twice a year or otherwise as agreed.</p>	<p><i>The Board will retain its original responsibilities.</i></p>
<p>The Board is encouraged to identify IEI activities especially in areas that may be suited to develop into SPS engagements.</p>	<p><i>The Board will retain its original responsibilities.</i></p>
	<p><i>Suggested Board Responsibilities (Performance measures) should ensure that:</i></p> <p>h. <i>IndII must provide documents on which Board decisions are to be taken at least 10 working days in advance of scheduled Board Meetings;</i></p> <p>i. <i>Board Institutional representation record of attendance & formal minute of meeting records(to include actions & decisions agreed) produced within 5</i></p>

Concept, Design & Approval Stages: Roles and responsibilities of the Board⁵¹	<u>Moving to Implementation:</u> proposed revisions & additions/amendments to roles & responsibilities of the Board
	<p><i>working days of meeting;</i></p> <p><i>j. Key Agenda items should include review of Board member actions; assigned/agreed (by whom, what and by when) and progress update;</i></p> <p><i>k. Each Board meeting should consider Key Policy and Strategic Context issues – threats (& mitigation), opportunities (& actions – including leveraging co-finance from Gol/bilaterals/multilaterals);</i></p> <p><i>l. Indll documents and requests provided in advance in compliance with advance notice period (10wkd) should have a formal response from each Board Member – to be recorded by the Chair/Secretariat.</i></p>

APPENDIX G: PROPOSED PROJECT DEVELOPMENT & APPROVAL PROCESS

IndII - DFAT/Gol possible streamlining of initial Project Development Processes – ideas to discuss at facilitated workshop

The Concept Note (CN)

A CN should give an outline of the project and a summary of why this project is suitable for funding. A fully developed project is not expected at this stage.

The CN should be appraised according to key selection criteria (checklists), typically:

- Resources required to (a) design (b) implement & timescale(s);
- A clear link to the IndII Mission Objectives;
- A clear explanation of the key impact that the proposed project idea could make.
- Demonstration of a strong need for the project idea amongst well-defined target groups;
- The suitability of the proposed design to achieve the stated aims;
- Demonstration that the partner institution organisation & capability is appropriate to implement the proposed project idea;
- The suitability of the proposed management and partnership implementation arrangements; and
- Initial thoughts on risk management.

The CN should provide enough information to permit DFAT/Gol/The Board to approve development to at least full proposal stage – and preferably to design.

Concept Note – The Basics

- What (Narrative & A\$/IRp);
- Why;
- Who;
- How;
- Results/Impact (Quantity, Quality, Time); and
- Monit & Eval Outline.

On 10 October 2013, the IndII Project Director proposed to DFAT an A-E categorisation for a graded approach to facilitate a more streamlined approach to project concept, design and approval mechanism. Building on that helpful suggestion, the IAT proposes a modified categorisation system with built-in assumptions and agreements with respect to the level of detail, data, and number of iterations before a project is approved. The Categorisation approach is summarised in

Table 2: Initial “Project Category” IndII assessment– and could be used as the basis for discussion during the proposed IndII-DFAT facilitated workshop.

Figure 5: IndII - DFAT/Gol possible streamlining of Initial Project Development Processes illustrates the approach for each category as the process moves from defining the key information essentials (“The Basics”), to the initial formal summary application to proceed (“Concept Note”), to the fully fledged development case for approval (“Design”) and final approval. This over-arching process is summarised in the upper part of the Figure. In the lower two-thirds of Figure 5, the variously (& DFAT/Gol-agreed) Categorised Concepts then can follow a development pathway with clearly defined requirements and expectations of key stakeholders. Category A permits rapid design with minimal iteration and the expectation of rapid approval. Categories B to D define increasing complexity (within bounds), and also flag (E) where risk or complexity requires additional dialogue to assign a category.

Figure 6: **IAT 2011, attachment 3**, from the August 2011 then IAT Third & Final Report illustrates the current decision-tree & process flow approach to approval stage⁵². This is a complex process, and expectations of what is required from all parties are not clearly set-out and agreed. This can contribute to undue iteration and delay. The original design Document provides guidance for Strategic Partnership Support (SPS) engagements which is useful⁵³.

Suggested Project Document content requirements & key design issues

Summary (The Basics refined)

1. Strategic Case
(Context & Need)
2. Appraisal
 - a. feasible options;
 - b. counterfactual/do-nothing;
 - c. evidence Base;
 - d. Safeguard issues: Climate/Environment; Social; Conflict
 - e. Theory of Change & Logical framework
 - f. Economic analysis & Value for Money
3. Commercial:
(delivery Institutions; capability & capacity; costs)
4. Financial
(payments; costs; resources; expenditure profile; risks (corruption & fraud); M&E
5. Management
(arrangements; risks (& mitigation plan/effect); Monitoring & Evaluation; Activity Gantt Chart)

Table 2: Initial “Project Category” IndII assessment

IndII	Key Criteria	DFAT response (Agree & Approve ^a /or Alternative ^b)
A	<A\$125K Low Risk; simple design (costs <A\$10K); relatively quick implementation;	
B	>A\$125K <A\$1.0M Low Risk; simple design (costs <A\$10K-50K); relatively quick implementation;	
C	>A\$1.0M and/or Medium Risk Complex design & Longer implementation	
D	High Risk (including reputation/regardless of cost) Complex design; politically sensitive; implementation challenges severe	
E	Potentially High Risk/Complex/Sensitive – discussion required to assign Category	

⁵² 2011 Third & Final Report, Independent Assessment Team, August, Attachment 3, Flow Chart of Activity preparation & Decision-Making Process, p24.

⁵³ 2007 October, Indonesia Infrastructure Initiative (IndII), Design Document, Part 1, Chapters, p37-39.

^aProceed to design according to SoP for Category

^bIndII accept and proceed – or meet with adviser(s)/Prog Manager(s) to discuss

Figure 5: IndII - DFAT/Gol possible streamlining of Initial Project Development Processes

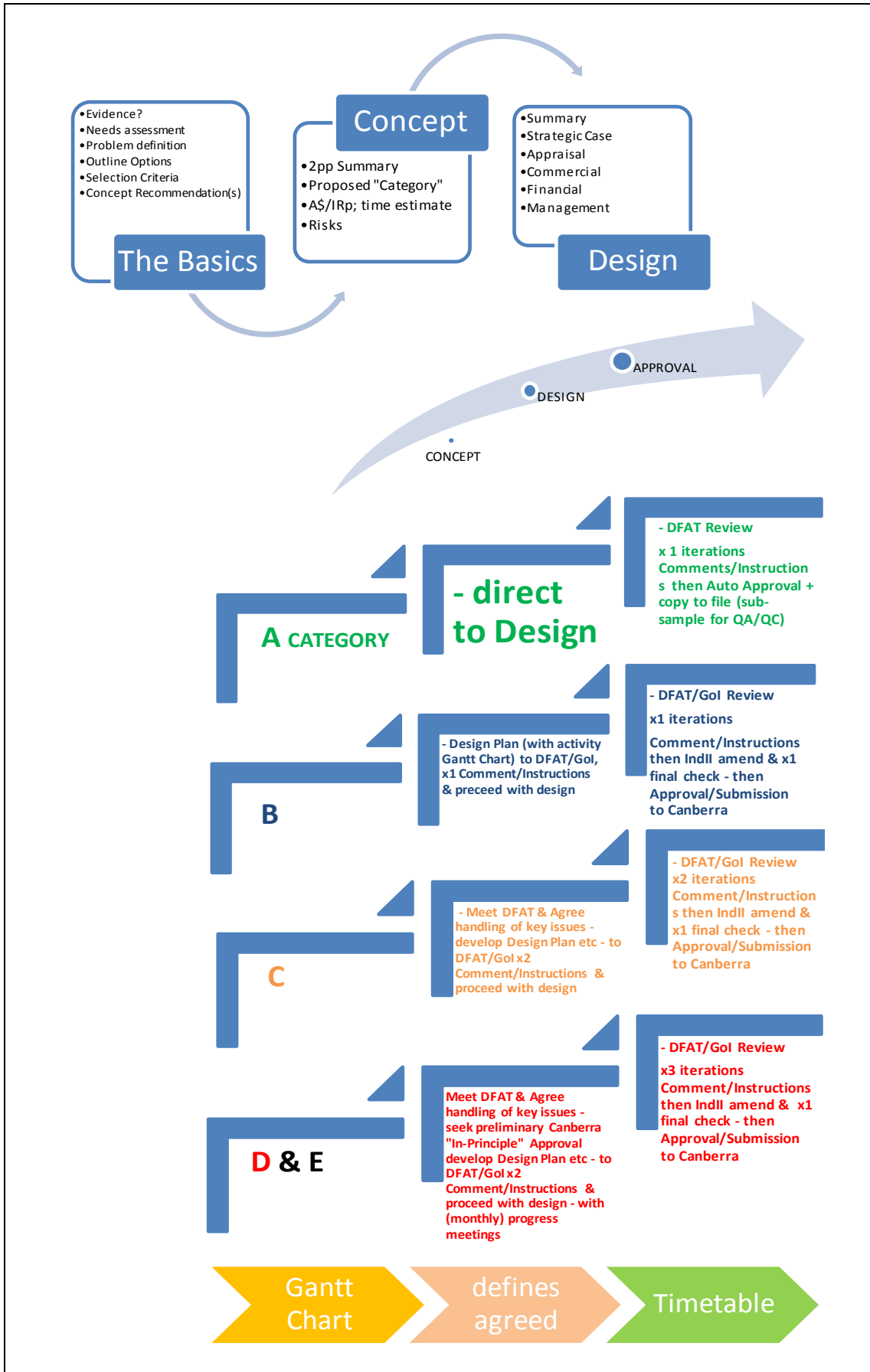
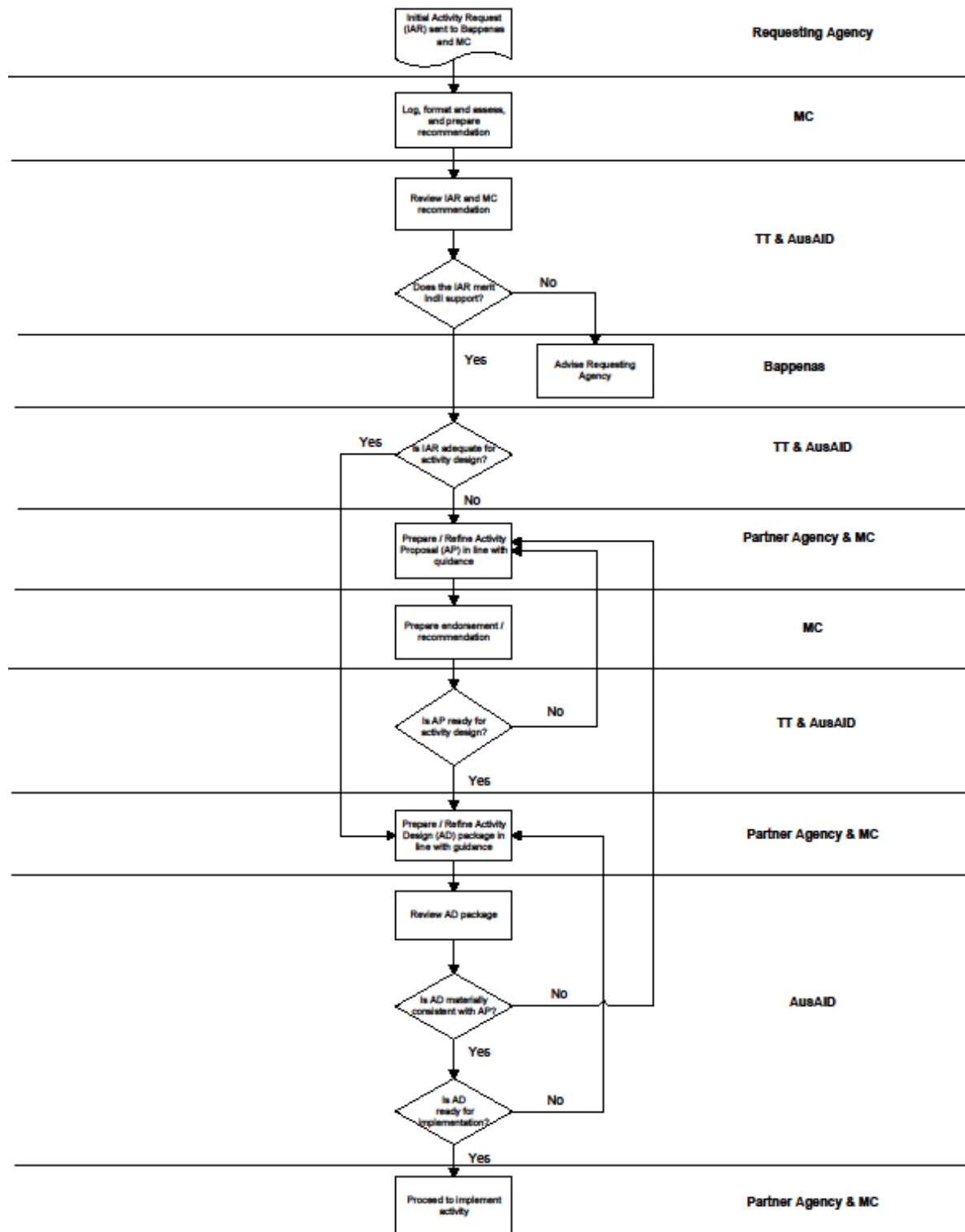


Figure 6: IAT 2011, attachment 3

Flow Chart of Activity Preparation & Decision-Making Process



APPENDIX H: DRAFT AGENDA FOR FACILITATED WORKSHOP

Draft Agenda for facilitated (working title):

“Faster, Better, Outcomes - IndII-DFAT Mutual Performance Enhancement Workshop”

08.45 Coffee/“Registration” (name badges suggested if there are any newcomers)

09.00 Introductions & outline of the day - facilitator

09.05 Elect am and pm “process monitors” from the group (not the most senior staff)
(*who reflect back to the group at intervals on the “dynamic” ...who held forth/who listened and responded reflecting back the opinions of others/who was overly dominant/who was too quiet or did not contribute terribly helpfully – giving this feedback nicely is an art in itself!*)

09.15 – 09.30 Agree on Outcomes/Objectives for the day

(e.g. Seek agreement on and define what are the key elements/processes/blocks that need to be tackled for:

1. What works well & why?
2. What is not working well & why?
3. What is our (shared) Vision for the next 6, 12, 18 months?
4. How will we get there?
5. What will I do differently and what will I undertake to do next week, next month, next quarter – before we review how things have changed at a regular management meeting.

09.30 – 10.45

Defining & Solving

Split into 2 sub-groups and divide Items 1 & 2 between you.....OR both address 1 & 2 (appoint note/key points-taker & feed-back to plenary speaker (not the most senior)

Define “the issues/elements”

Find solutions...at least identify the next steps (e.g. SoPs/inputs/skills/timescales)

10.45 – 11.15 Coffee/Tea break

11.15 – 12.30

Plenary feedback & discussion

(appoint note/key points-taker....the facilitator will also write up their observations & group summary findings/agreements/areas to work on)

12.30-12.45

Process monitors report to plenary

12.45 – 13.45/14.00?

LUNCH – Buffet?.....& allow time for prayer break if required

14.00 – 14.45

Developing a shared Vision (Plenary)

Facilitator to lead & capture key points on flip-chart

14.45 – 15.30

How will we get there/Work & Process Planning Part 1

(Split into two groups again – appoint different note-takers & rapporteurs)

15.30 – 15.45 Tea/Coffee Break

15.45 – 16.30

How will we get there/Work & Process Planning Part 2 – Plenary Discussion

(appoint note/key points-taker....the facilitator will also write up their observations & group summary findings/agreements/areas to work on)

16.30 – 16.45

"I wills" – What will I do next (definitely including senior staff !)

16.45 – 17.00

DFAT Summation

IndII Summation

Facilitator - Thanks & close

+++++

Facilitator: 10+ yrs development experience, suggest not infrastructure...maybe social development, health or education. Facilitation/conflict resolution experience.

APPENDIX I: A CASE HISTORY OF ENGAGEMENT

Note: This case history was requested by the IAT and prepared by IndII to document the nature and extent of contact between DFAT and IndII on project development. DFAT and IndII disagree about the extent to which this case is typical.

Chronology of AIIRA Activity Development and Approval

May/June 2011	David Ray starts to develop rough concept; informal chats with AusAID.
July 28 2011	David Ray attends briefing by AusAID on the proposed Knowledge Sector Initiative. David advises the KS people of the plan to develop a research grant program under IndII, and is encouraged to continue with the initiative, but in coordination with AusAID. David quickly finalises initial concept note.
2 Aug 2011	Initial draft concept paper submitted to AusAID.
2 Aug 2011	Comment received from AusAID infrastructure program (Sue Ellen).
5-8 Aug 2011	Comments from AusAID knowledge sector (Dias and Ben).
20 Aug 2011	Coordination meeting with AusAID infrastructure and knowledge sector (KS) programs, plus AusAID governance and economic advisors to discuss and provide input on initial draft concept.
24 Aug 2011	Initial activity request IAR (\$77,000 to cover design and development) sent to TT for no-objection approval (via email).
17 Oct 2011	Meeting with AusAID (KS) to discuss latest concept note draft.
18 Oct 2011	Further material/input received from AusAID (KS).
29 Nov 2011	AD (\$77000) sent to AusAID for funding approval .
7 Dec 2011	Following input from Canberra-based AusAID research advisor (Ian Bignell) that AusAID is developing a research strategy document, IndII asked to put this activity on hold pending completion of this strategy (Patrick Dennis).
12 Dec 2011	AusAID passes on comments from Ian Bignell (AusAID research advisor).
18 Dec 2011	Telephone discussion with Ian Bignell.
10 Feb 2011	AusAID (IAR) funding approval to proceed with design and development conditional to a number of comments/clarifications (advice from AusAID was that we no longer needed to wait for the strategy document).

Following this, development of activity proposal (AP)

27 April 2012	Activity Proposal presented at TT meeting, and approved.
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Following this, commenced development of the more detailed activity design document (ADD)

27 June 2012	Early draft of ADD sent to AusAID (Anne Joselin).
6 Aug 2012	Further comments/related material received from AusAID (KS).
7 Aug 2012	Meeting with AusAID KS and infrastructure team to discuss latest draft of ADD.
16 Aug 2012	Meeting with Prof. Dr. Ir. Danang Parikesit re peer review processes
31 Aug 2012	Revised ADD sent to AusAID.
20 Sept 2012	ADD approved by AusAID, subject to a range of conditions/clarifications.