Indonesian Infrastructure Initiative

Program Design Document

PART 2: ANNEXES

FINAL DRAFT

Prepared for:

AusAID Indonesia Program

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Contents

Boxes, charts and tables

Acronyms

ADB	Asian Development Bank
APBD	Pemda budgets
APCR	Activity progress and completion reports
BAPPENAS	National Development Planning Agency (Indonesian)
BEP	Basic education program
BUMN	State owned enterprises (Indonesian)
CMEA	Coordinating Ministry for Economic Affairs
CPPF	Country program performance framework
CPS	Country Program Strategy
DAK	Special purpose grants
DG	Directorate General
DG Postel	Directorate General of Posts and Telecommunication
DoTARs	Australian Department of Transport and Regional Affairs
EINRIP	Eastern Indonesian National Road Improvement Project
FED	Final engineering design
IEG	Infrastructure Enhancement Grants
ILGRP	Indonesia Local Governance Reform Program
GDP	Gross Domestic Product
GoI	Government of Indonesia
GPF	Government Partnership Fund
GTZ	German Technical Cooperation (German)
IAT	Impact Assessment Team
IDR	Indonesian Rupiah
IEI	Immediate and emerging issues
IFGI	Infrastructure for Growth Initiative
IIF	Indonesia Infrastructure Facility
IndII	The Indonesian Infrastructure Initiative
IPM	Infrastructure Project Management
JBIC	Japan Bank for International Cooperation
JICA	Japanese International Coordination Agency
KKPPI	*Komite Kebijakan Percepatan Penyediaan Infrastructure*
M&E	Monitoring and Evaluation

MC	Managing Contractor
MDBs	Multi-lateral development banks
MDGs	Millennium Development Goals
MoCIT	Ministry of Communications and Information Technology
MoF	Ministry of Finance
MT	Management Team
NTT	*Nusa Tenggara Timur*
NPP	New policy proposal
ODE	Office of Development Effectiveness
P&R	Policy and regulatory
PAMSIMAS	World Bank's Third Water Supply and Sanitation for Low Income Communities Project
PDD	Program Design Document
Pemdas	Provincial, kota and kabupaten governments
PPPs	Public private partnerships
PSOs	Public service obligations
RAN-PAK	National Action Plan on the Eradication of Corruption 2004-09
RMU	Risk Management Unit - *Pusat Pengelola Resiko*
SER	Strategic Engagement Report
SOfEI	Support Office for Development of Initiatives in Eastern Indonesia
SPA	Special Purpose Account
SPS	Strategic partnership support
TAMF	Technical Assistance Management Facility
TOR	Terms of Reference
WASPOFA	Water and Sanitation Policy Facility
WASPOLA II	Water and Sanitation Policy Formulation and Action Planning Phase II Project
WINRIP	Western Indonesia National Road Improvement Program
WSES	Water supply and environmental sanitation
WSLIC II	Water and Sanitation for Low Income Communities Phase II Project
WSP-EAP	Water and Sanitation Program-East Asia Pacific

A Program preparation and persons met

Program preparation

A number of delivery modalities were considered including budget support for multi-lateral programs or sectors, projects and grants. The best modality for delivery depends very much on what is to be delivered. The key features affecting modalities are:

- policy being a critical impediment at national level while capacity is at a sub-national level;
- uncertainty surrounding the entry points of engagement on national policy issues and the likely pace of reform in policy areas;
- highly variable capacities within sub-national governments in regard to infrastructure planning and delivery, that also differ across sectors;
- multi-lateral donor focus on infrastructure at national level mainly on PPPs — and their gap being an inability to mobilise technical resources quickly in response to needs as they arise. The relative scales of the AusAID contribution to that of the GoI and multilaterals also can present challenges for getting a seat at the table where budgetary support is provided;
- clear signal from the GoI that AusAID can make a contribution in its own right and some resistance to conditionality of the multilaterals; and
- AusAID's large commitment to infrastructure and own requirements for sub-national area focus and policy engagement.

These conditions suggest the need for a modality that can be an implement-design approach, is flexible in regard to engagement and can deliver required technical resources quickly. It needs also to be able to deliver across a fairly diverse range of needs. The facility modality was seen to be the only one that could deliver on the parameters set for the initiative.

Persons met during design mission

Name	*Position*	*Organisation*
Erica Ferguson	Program Manager, Indonesia Branch	AusAID
Tim Vistarini	DPS, Roads & Regional Infrastructure	AusAID
Robin Taylor	Counsellor, Infrastructure and Regional Development	AusAID
Jane Lake	Advisor, Advisory Group	AusAID
Sarah Ransom	Policy Officer, Indonesian Governance Unit	AusAID
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Dimas Purnama	Program Officer, Roads & Regional Infrastructure	AusAID
Hugh Brown	Advisor, Roads	AusAID
David Hawes	TAMF Advisor	
Peter Dirou	Consultant	
John Holdaway	Financial Research Assistant – Consultant	The World Bank
Joel Hellman	Governance Advisor/Acting Country Director	The World Bank
Paul McCarthy	Anti-Corruption Advisor	The World Bank
Hongjoo Hahm	Lead Infrastructure Specialist	The World Bank
P.S Srinivas	Lead Financial Economist, Finance & Private Sector Development	The World Bank
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Sally Burningham	Senior Transport Specialist	The World Bank
Kakioka Naoki	Assistant Resident Representative	Japan International Cooperation Agency (JICA)
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Kozo Nagami	Assistant Resident Representative, Road Sector and PPPs	Japan International Cooperation Agency (JICA)
Takehito Jasui		Japan Bank for International Cooperation
Jean-Marie Lacombe	Head, Portfolio Management	Asian Development Bank (ADB)
Ramesh Subramaniam	Principal Economist	Asian Development Bank (ADB)
A. Barend Frielink	Principal Programs Coordinator	Asian Development Bank (ADB)
Robert Valkovic	Project Implementation Specialist	Asian Development Bank (ADB)
Alfredo E. Pascual	Advisor (Public-Private Partnership), Southeast Asia Department	Asian Development Bank (ADB)
Arifin Rudiyanto	Director	Ministry of National Development Planning (BAPPENAS), Republic of Indonesia
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Name	Position	Organisation
Max H. Pohan	Deputy Minister for Regional Development and Local Autonomy Affairs	Ministry of National Development Planning (BAPPENAS), Republic of Indonesia
Bambang Prihartono	Head of Sub-Directorate of Water Resources Institutions	Ministry of National Development Planning (BAPPENAS), Republic of Indonesia
Oswar Mungkasa	Directorate for Settlements and Housing	Ministry of National Development Planning (BAPPENAS), Republic of Indonesia
Rionald Silaban	Director	Ministry of Finance, Republic of Indonesia
Mahendra Siregar	Deputy Minister for International Economic and Financial Cooperation	Coordinating Ministry Economic Affairs, Republic of Indonesia
Bambang Susantono	Deputy Minister, Infrastructure and Regional Development	Coordinating Ministry Economic Affairs, Republic of Indonesia
Eddy Satriya	Deputy Assistant V/5, Deputy for Infrastructure and Regional Development	Coordinating Ministry Economic Affairs, Republic of Indonesia
David Deziel	Team Leader	Canada-Indonesia Governance Reform Support Project
Savitri R. Soegijoko	Deputy Team Leader	Canada-Indonesia Governance Reform Support Project
Pak Hisnu	Head	Ministry of Public Works, Indonesian Toll Road Authority
Bambang Eko Hargianto	Chief of Investment Division	Ministry of Public Works, Indonesian Toll Road Authority
Agita Widjajanto		Ministry of Public Works
Sumaryanto Widayatin		Ministry of Public Works
Pak Sumarianto	Expert Staff for Minister of Public Works for Economy and Investment	Ministry of Public Works
Bapak Anton Simbolon	Secretary of Directorate General of Land Transportation	Ministry of Transportation
Moch. Karim Mustari	Direktur Pengembangan Wilayah	Departemen Dalam Negeri, Ministry of Home Affairs
Rio Silaban	Head	Fiscal Risk Management Centre
Bapak Kadjatmiko, MSoc.	Performance Evaluation of Region	MOHA-Direktorat Jenderal Anggaran

PDD development process

A concept note, prepared by the Post and Desk, was discussed at a Peer Review on 26 April 2007. A design mission was undertaken from 29 April to 8 May 2007 by Jenny Gordon (CIE), Peter Dirou and Erica Ferguson (AusAID, Canberra), John Holdaway and Dimas Purnama (AusAID, Jakarta). Meetings were conducted in Jakarta with Government of Indonesia agencies (BAPPENAS, CMEA, Ministries of Finance, Public Works, and Transport), donors (ADB, World Bank, JICA and CIDA) and AusAID. An options paper setting out a range of alternatives for the focus of

IndII, the delivery modality and management structures was discussed in a review on 12 June 2007, and extensive follow –up consultations were conducted in developing the draft Program Design Document (PDD). A summary of the preferred option was translated and distributed to the Government of Indonesia (GoI) for discussion. A list of potential activities to commence under the IndII was also developed by AusAID Jakarta.

Subsequent meetings were held with AusAID Canberra in July and August 2007 with Bob Shackley (Director, DPAG), Gai Sheridan (Design Advisor, DPAG), Brian Hearn (Manager DPAG), Elizabeth St George and Philip Fradd, (Q&I Team, Indonesia Group), James Gilling (ODE), Alan Coulthart (Principal Advisor), Luke O'Neill (Director), Marcus Howard and Jane Lake from the Infrastructure Thematic Group, Sally Moyle, (Gender Advisor), Suzanne Murray (Governance and Anti-Corruption Group), and Gerard Cheong (Environmental policy).

A peer review was conducted on 9 September 2007 and included representatives from the Coordinating Ministry for Economic Affairs (CMEA) and BAPPENAS. The design team wish to thank the GoI officials, donor agency staff and AusAID for their valuable contributions to the development of this initiative.

B Indonesian infrastructure background

Overview

Indonesia's needs for infrastructure services are immense. Basic water and sanitation services are inadequate from the back streets of Jakarta to isolated rural hamlets of Papua. The main arterial road network of Java — the most densely populated island in the world — is highly congested. Java and Bali are both facing an imminent power crisis as supply struggles to keep up with demand. Over the decade since the economic crisis, not only was new infrastructure not built, but existing infrastructure has been neglected resulting in a sizable maintenance backlog.

Lack of infrastructure maintenance and the failure to take a 'whole of life' approach to infrastructure planning is a major issue at all levels of government. The annual budgeting process may influence the failure to consider the financing of maintenance, as there is no requirement from the central government for maintenance to be considered in assessing the financial or economic viability of infrastructure. Having said this, some SOEs, notably PLN, are using 'whole-of-life' costing not only for feasibility studies, but also for bid evaluation.

National infrastructure

At the central level, much of the focus has been on increasing the role of the private sector in the provision of infrastructure, particularly through PPPs. GoI has a clear policy of only funding infrastructure that is considered to be economically viable, but not financially viable. But GoI is reluctant to finance infrastructure through loans from the multilateral development banks. Financially viable projects will be required to be pursued under PPP arrangements or as conventional SOE projects, with the SOE mobilizing financing. Accordingly, GoI has been developing a sound policy, regulatory and institutional framework to encourage PPPs in infrastructure by passing laws governing the transfer of GoI risk to private parties and creating a Risk Management Centre in the Ministry of Finance. Transport sector laws have been drafted to reduce state monopolies and two infrastructure summits have been held to promote opportunities in Indonesian infrastructure to domestic and international investors. Regrettably, while the framework is in place, the government has yet to bring a PPP deal to closure and the relative responsibilities of central government agencies for PPPs has become clouded.

There is no shortage of private sector interest in infrastructure projects under PPP arrangements, but this interest is constrained an unwillingness to finance feasibility studies in an uncertain investment climate (these studies can cost up to A$20 million for major projects), lack of certainty on access to land for toll roads and uncertainties surrounding Public Service Obligations (PSOs), and the still shallow domestic debt market, despite its steady growth.

Sub-national infrastructure

Decentralisation began in earnest in 2001 and provinces and local governments now handle around 40 per cent of public funds each year. Nevertheless, public spending on infrastructure is also lagging at the provincial and regional government level, local governments still lack capacity to implement infrastructure projects and, in a number of cases, the perception remains that the responsibility for infrastructure development remains with the central government. This is resulting in infrastructure backlogs and sub-national governments emphasizing current expenditures at the expense of capital expenditures. This lack of basic infrastructure services and corresponding lack of implementation capacity is most serious in Eastern Indonesia.

The sector ministries have only limited control over infrastructure investment at the sub-national level. This is mainly through influence over the allocation of the DAK (special purpose grants whose administration is heavily top-down) and requests for special project assistance made through the ministry. The provincial level arms of the sector ministries are largely focused on the national infrastructure located in the provinces and may have limited influence in sub-national governments.

Micro-infrastructure

On a brighter note, progress at the village level for micro-infrastructure projects has been commendable. GoI has decided to follow on from the work done by the donor - funded large-scale community development projects and with its own nationwide *Program Nasional Pemberdayaan Masyarakat.* Over the coming years, this program will channel trillions of IDR direct to communities to spend on village-level infrastructure. This program will also build village-level institutions to communicate community members' infrastructure and social needs to higher levels of government.

Recent infrastructure policy initiatives

The current government is attempting to address the lack of investment in key infrastructure through improving the policy and regulatory framework, improving the investment climate and improving the capacity of government agencies, so that the private sector can play a greater role in the provision of infrastructure. Several, high-profile initiatives have been taken, but the results, to date have been disappointing. The initiatives include the Infrastructure Policy Summit, the establishment of the National Committee on Policy for Accelerating Infrastructure Provision (KKPPI), the Infrastructure Policy Package and the Investment Climate Policy Package. In addition to the policy initiatives, the stronger fiscal position has allowed GoI to increase spending on national infrastructure through the development expenditures component of the national budget.

Infrastructure Summit

At the Infrastructure Summit in January 2005 GoI announced that it would focus its available resources for infrastructure on economically-viable but financially-unviable projects, with the private sector having the role of developing commercially viable projects. Ninety one projects worth an aggregate US$22.5 billion were offered for private sector participation, but this has not eventuated. None of the 91 projects has reached financial closure and progress has been hastened by distilling the list to ten model projects, which the ADB has been assisting GoI to progress.

KKPPI

KKPPI was established in 2005 as part of the wider GoI effort to improve the overall public sector management of infrastructure and to increase the private sector's participation in key infrastructure development to reduce the reliance on financially-constrained national and sub-national governments. A related development was the establishment of the Risk Management Centre within the Ministry of Finance to advise on how the risk associated with infrastructure projects could be best shared between the public and private sectors and also to manage any government financial support associated with this risk-sharing. (See 'Central Government Agencies' below for a further discussion of these entities).

Infrastructure Policy Package

In February 2006 CMEA released a comprehensive Infrastructure Policy Package that set out a reform agenda cutting across both central and sector ministries. The objectives were to encourage competition, eliminate practices that discriminated against private sector participation, and redefine the government's policy, regulatory and operational responsibilities. The package contained five elements:

- Financing of investment and attracting investment, particularly that which would lead to PPPs.
- Regulatory reform — realignment of regulations and laws to improve the environment for investment.
- Capacity building — while these were focused on PPP requirements, the skills identified have wider applicability. Areas of need include financial assessment of projects, contracting arrangements, and bank's capacity to undertake project finance (e.g. the use of the project as collateral).

- Communication — between all possible players in infrastructure to raise awareness about PPPs, in particular, and the implementation of the entire package, in general.

Implementation of the package has been poor, with efforts to date largely focussed on improving the environment for PPPs. Furthermore, little effort has been devoted to monitoring. All of the policy outputs in the Package were scheduled for completion by February 2007, but no assessment report is available.

Contributing factors to the lack of progress are the inadequate consultation with sector and other agencies in the preparation of the package, poor project preparation and the unsuitability of the PPPs that have been proposed for government support.

The MDBs have supported PPP development. The ADB has a US$400 million program loan to support the regulatory framework for PPPs. The World Bank (US$17.1million) and ADB (US$25 million, which includes a grant from the Netherlands) also implemented technical assistance loans under CMEA and BAPPENAS.

Investment Climate Policy Package

In March 2006 GoI announced an Investment Climate Policy Package that covered five areas:

- general investment policies;
- customs;
- tax;
- labour policy; and
- SME policy.

Improvements in to investment-critical legislation was a feature of this package and built on the earlier submission to Parliament of the three draft laws on general tax administration, income tax and value added tax and the draft customs law. The draft investment law was submitted in the same month that the policy package was released.

Development of new infrastructure financial institutions

Fiscal constraints have impeded infrastructure development in Indonesia through both limiting GoI’s ability to directly finance infrastructure or to bear the risks associated with PPPs. GoI has been working closely with been working closely with the World Bank and other donors to remove these constraints and proposals have been developed to establish an infrastructure fund (not to be confused with IndII) — to alleviate the financing constraint — and a guarantee fund — to encourage private sector investment in infrastructure and to allow GoI to better manage the risks associated with PPPs.

Indonesia Infrastructure Fund

The Indonesia Infrastructure Fund (IIF) is being designed to address the continued obstacles to mobilising long-term resources for infrastructure investment in Indonesia through providing financial products for infrastructure investments. Currently, around 90 per cent of bank deposits are short-term and this severely restricts banks' ability to provide long-term loans.

IIF will have a strong, commercial orientation and is to be structured as a corporate, non-bank financial institution, along the lines of successful infrastructure funds in India and South Africa. The target size for the fund is 20 trillion IDR within five years of the establishment of the fund. The fund will be capitalised with 2 trillion IDR of equity and 2 trillion IDR of subordinated debt. GoI will provide 0.6 trillion IDR of the equity (30 per cent of the total equity) and this amount has already been appropriated through the 2007 central government budget. The remaining 1.4 trillion IDR equity will be provided by development agencies — the Bank, IFC, ADB, JBIC, KfW and the Islamic Development Bank have expressed interest in becoming strategic investors — and national, regional and international private investors. GoI will also provide 3.0 trillion IDR additional capital in the form of subordinated debt, which The World Bank could help finance. IIF would supplement the initial capital through 15 trillion IDR of long-term bank and bond financing to give a total liability base of 20 trillion IDR for the fund.

The funds raised by IIF would finance bankable PPPs or purely private sector infrastructure projects through a variety of products, which could include take-out finance, senior debt, subordinated loans, refinancing of other financial institutions, deferred underwriting facilities, stand-by finance and liquidity support to market makers. Credit enhancement products could also be offered.

GoI has indicated to the World Bank that it would like IIF established by end 2007. This is an ambitious target and GoI has only very recently formed a Working Group within MoF to work on the establishment of IIF. The Working Group is headed by the Director of Non-Bank Financial Institutions at Bapepam, and the other members are the Director of the Risk Management Unit in the Fiscal Policy Office, and a director of the Directorate General of State Asset Management.

The Bank has prepared a preliminary business plan and a preliminary financial model for IIF and has identified three areas where further pre-establishment work is required: (1) continuing to work with the Working Group and other GoI agencies involved in the establishment of IIF; (2) issues related to the structure of IIF, especially the associated legal and management aspects; and (3) attracting international investors to invest in the fund's products. AusAID will finance up to three person-months of consulting services at the Bank's direction to support the Working Group and GoI agencies and other World Bank consultants progress the workplan for establishing IIF. One or more other donors will finance consultants to work with the Bank on the legal, management and governance issues related to the IIF structure.

An important associated benefit will be the impetus that IIF should give to the development of financial markets in Indonesia from raising funds through bank loans and bond issues to domestic financial institutions. IIF could also be a catalyst for similar funds. Investors from Qatar and Dubai have expressed interest in establishing an investment fund and the Islamic Development Bank has also expressed interest in establishing a Sharia-compliant investment fund.

Guarantee Fund

The Guarantee Fund (GF) would support the payment commitments of government entities participating in PPP transactions. As such it would be part of the wider risk management framework associated with PPPs and complement the role that the Risk Management Centre within the Fiscal Policy Office in the Ministry of Finance has in recommending whether MoF should provide government support such as guarantees for PPPs. The intent would be to structure the GF so that it increased the efficiency and targeting of any government support and to ring fence the associated contingent liabilities so that, if realised, there would not be direct recourse to the government budget.

The proposal under discussion would see the GF established as a government-owned entity under the control of the Minister of Finance, similar to the Indonesian Deposit Insurance Corporation, which was created to manage government guarantees of bank deposits. The assets of the GF would provide the guarantee that obligations for government support would be met, but these guarantees would necessarily be limited by the total asset base. The asset base could comprise government budgetary contributions, tradable shares of SOEs, such as PGN, and fixed income securities. The GF would receive support from multilateral donors with a strong credit rating (AAA rated). This support would enhance the capital of the GF through strengthening the credibility of GF in international and domestic markets, thereby increasing the number and quality of lenders and reducing the risk premium attached to the projects. The multilateral support would also cover the GF's solvency, liquidity and legal risks. The World Bank support would likely be through a contingent loan, where disbursements are triggered by GF's projected inability to meet its commitments and which would involve commitment fees, to cover part of any fund defaults, irrespective of the cause of the default.

Sector background

This section draws heavily on World Bank (2006 and 2007)

Roads

Improved roads are essential, if access to markets is to be increased. The interface between national, provincial and local roads is a critical area, as the links between rural towns and regional centres are particularly important for movement of goods and people. Planning capability at both the national and sub-national levels is mixed and constrains the further development of these linkages. The interface of the road network with port and rail infrastructure is also an issue that has not been well addressed in infrastructure planning and policy.

The major problems to be confronted are traffic congestion and the quality of rural roads. Congestion is particularly severe in Java. Over 40 per cent of the road network suffers from congestion and up to 55 per cent of the network is expected to be congested by 2010. The congestion problem is most severe in Jakarta. The quality of national roads is reasonably high, with around 95 per cent paved and 90 per cent maintained in good-to-fair condition. The quality of the provincial road network is also reasonably good, but, in contrast, only around 50 per cent of rural roads are maintained in good-to-fair condition. This underscores the potentially high economic and social returns that would come from increased maintenance expenditures in most regions.

The quality of roads is worse in the poorer regions and districts and sometimes not sufficient to provide year-round access. Eastern Indonesia has the lowest quality roads in the country and AusAID already has a major engagement on roads through the Eastern Indonesian National Road Improvement Project (EINRIP). The project includes grant assistance for preparation and a project loan (A$328 million) for the upgrading and betterment of national status roads.

Toll roads face major challenges in land acquisition. Rent seeking is a major concern, where land has to be purchased for new roads. The Land Law is still under development.

Water supply and sanitation

Adequate water and sanitation are major public health issues in Indonesia. There has been notable progress in improving access to water through rural, community-driven projects, but still only around 30 per cent of the urban population and 20 per cent of the rural population having access to piped water. Furthermore, the overall quality and regularity of service is declining. Boosting infrastructure in these areas is critical to Indonesia achieving the water-related MDGs. Since decentralisation local governments have been responsible for water supply and sanitation but investment has been constrained by politically sensitive tariff policies and a lack of investment associated with the financial management and operational practices of the PDAMs — the drinking water companies owned by the regional governments — and the geographical fragmentation of the PDAMs.

PDAMs set tariffs well below cost recovery, with the poor paying the highest tariffs. The problem is compounded by the failure to also cover maintenance costs and the dividend payments to local governments to fund other activities. PDAMs, consequently, are typically under financial pressure, incurring losses and have substantial arrears on the debt-servicing on on-lent funds from the central government. At one stage only 12 of around 300 PDAMs were meeting their debt servicing obligations on time. MoF will only agree to channel new central government funds (from on-lending or otherwise) into the PDAMs provided there is an agreed restructuring of arrears. Operational performance is also, typically, unsatisfactory, with around 50 per cent of production lost because of physical and administrative problems. These problems existed prior to decentralisation, but addressing these issues has become more difficult since decentralisation.

Very few PDAMs provide sanitation services. There is significant under-investment across the sector. Even in Jakarta, after 10 years of private investment, 45 per cent of water going through the purification plant is unaccounted for (i.e. not paid for). The World Bank and the ADB are trying to resuscitate this sector.

AusAID conducted a comprehensive scoping study for water supply and sanitation in July 2006 (AusAID 2006b). This study identified five areas that would benefit from AusAID assistance, based on sector needs, current and previous AusAID investments in the sector and consistency with the White Paper. These were:

- assistance to PAMSIMAS implementation;
- technical assistance for AMPL policy development and implementation;
- assistance to PDAMs for urban and rural water supply;
- support for scaling-up the Community-Led Total Sanitation (CLTS) approach; and
- long-term sustainability of rural water supply.

The Scoping Study proposed supporting PAMSIMAS either through financing the main project management consultant or another priority, central consulting package, or, through financing the range of PAMSIMAS activities in one Eastern Indonesia province. Suggested assistance for PDAMs would be through bilateral project/s directed at selected local governments in eastern Indonesia that have participated in an earlier AusAID water supply investment. Suggested activities included building capacity for operations and maintenance, improving financial management systems, developing and adopting performance-based contracts, developing plans for improving service quality and expanding the coverage of the system. Any work with PDAMs under IndII could also be closely integrated with the incentive-based and anti-corruption frameworks that AusAID is developing.

Electricity

Electricity availability and access are important underpinnings of economic growth through attracting investment in manufacturing and, more generally, to industrial production. Access to electricity has increased markedly in recent decades and around 70 per cent of the population has access to electricity. But this is still well below the access achieved by other countries in East and Southeast Asia and around 70 million people do not have access. Most of these people live in poor, rural areas that are relatively more expensive to service and that require higher investment costs.

The two critical issues confronting Indonesia are generation and transmission capacity, and access by the rural poor to electricity. Both are currently impacted by the regulatory environment, particularly the adherence to uniform pricing structures throughout Indonesia that do not reflect the cost of production and the regional differences in these production costs. GoI price and connection subsidises do not fully cover the difference between the regulated tariff and the costs of production. Aggravating the financial impact on PLN is the fact that the majority of customers have low usage at low tariffs, but the cost of servicing this number of customers is high.

Generation constraints have been compounded by the reliance on high-cost, oil-fired power plants that has been exacerbated by the reduction in fuel subsidies, and shortages of gas supplies requiring some gas-fired plants to be run on diesel. Substantial investment in coal-fired plants is planned in coming years and this will alleviate some of the existing capacity constraints. Recent tenders for new generating capacity were considered to be relatively under-prepared and in the absence of better government planning, the costs of comprehensive planning will be passed onto the tenderers. This could limit interest in subsequent tenders, or, alternatively, limit interest in the tender to those that have inside running.

PLN is formally required to prepare an expansion plan to implement the outline national electrification plan prepared by Ministry of Energy. This plan was amended recently to incorporate the 10,000MW coal-fired generation program mandated by PerPres No. 71/2006. Bidders have to provide their own finance under this program, but the export credit agencies are reluctant to have PLN risk borne by contractors. All five contracts so far awarded have been to Chinese firms. JBIC is prepared to provide finance based on a guarantee that PSO obligations will be met and the ADB's private sector group is keen to sign a similar MOU with MoF for IPP financing.

Railways

Railways are a small part of the overall transport system and financially a 'basket case'. The PSO for the rail sector has never been properly valued or properly implemented and the rail operator has not received the PSO entitlement for some time. Rail assets are now fully depreciated and there are major safety concerns with the quality of the rail system as a consequence of long term underinvestment in rolling stock and track maintenance. JICA has a project to support rail safety improvements.

There is good potential for greater development of passenger rail in Java and passenger rail transport is potentially important in other major urban areas outside Java. But there is limited freight potential in Java because of the absence of bulk freight, except possibly for the movement of steel products from the Krakatoa Steel plant in West Java throughout the rest of Java. Cheap air transport has gouged out the top end of the passenger rail market and the track gauge severely limits speed of travel.

Outside Java there are three railways in South, West and North Sumatra. South and West Sumatra mainly provide freight service for coal, but the track gauge is a limitation. The West Sumatra system is not economic due to the size of the investment in track and specialised locomotives, the difficult terrain—sometimes very steep—the track has to traverse, and the impact that the depletion of the resource has had on freight volumes. The North Sumatra system services plantations. There is good potential for rail in Kalimantan for freighting coal from accessible mines. There is private interest in developing the system, but the regulatory arrangements are far from clear.

Ports

Major **sea ports** are owned and managed by the 4 Port SOEs (PELINDO). There are major concerns over the location decisions of sea ports as kabupaten's bid against each other for investment in port infrastructure, without regard to the overall best sighting of ports. Other concerns are the absence of linkages with road networks, the mounting congestion in the main ports, particularly Surabaya (one of the 10 model projects) and the productivity of labour. Even good port operators like P&O and Hutcheson have struggled to improve labour productivity. The added costs are deterring shipping companies wanting a fast turnaround and good service. Maersk is better placed than other operators now that it has its own terminal.

The major **airports** — Jakarta, Bali and Medan — are owned and managed by SOEs. Subsequent to decentralisation, minor airports are now owned and managed by the sub-national MoT Dinas, although not all have been transferred. There is a lack of any coordinating mechanism for airport planning. In Papua, for example, the MoT Dinas has four international level airports in their proposal for infrastructure development.

Central government agencies

The institutional landscape is uncertain. BAPPENAS has re-exerted its influence in recent years, where only several years ago it was seen as an anachronistic institution with waning importance in policy formulation, and there are question marks over the future of the coordinating ministries. The role of CMEA in infrastructure has reduced in recent months and the future of KKPPI and its institutional positioning are also uncertain.

BAPPENAS

BAPPENAS has responsibility for overall planning of infrastructure, but identification of projects should still lie with the sectoral agencies. BAPPENAS maintains the 'Blue Book', which is specifically for projects that are being proposed by sector ministries for financing by foreign loans and grants, and the 'Green Book', which is the list of projects approved by the government. The process is set out in PP 2/2006 on Foreign Loans and Grants and their On-lending / On-Granting, and in the related regulations from the Chairman of BAPPENAS (PER 05/2006) and the Minister of Finance (PMK53/2006). The BAPPENAS regulation describes the purpose of the books and how they are to be prepared. BAPPENAS sign-off is required for all projects funded through the central government budget.

The Coordinating Ministry for Economic Affairs (CMEA)

CMEA is one of several coordinating ministries that are responsible for coordinating GoI policy in a particular area, leading policy change and facilitating solutions to pressing short term problems. Infrastructure policy falls within the mandate of CMEA. BAPPENAS also plays a coordinating role coordinating longer term planning decisions in the infrastructure sector. CMEA was responsible for producing GoI's policy packages on infrastructure and the investment climate.

KKPPI

KKPPI (the National Committee on Policy for Accelerating Infrastructure) is chaired by the Coordinating Minister for Economic Affairs, but the Chairman of BAPPENAS acts as the 'Daily Chair', as the KKPPI Secretariat is now maintained at BAPPENAS. The Secretariat is co-chaired by the Deputies of CMEA and BAPPENAS. In line with the changed institutional base of the Secretariat, the supporting consultant team financed under the WB PPITA loan that was working with CMEA has now been repositioned in BAPPENAS under an ADB project. As the name suggests, KKPPI is only a coordinating body, but its focus has been primarily on PPPs, but its authority over PPP assessment and prioritisation has been called into question by the Vice President taking over the role of coordinating infrastructure development from CMEA and forming sectoral teams to focus on the issue.

The Ministry of Finance

The Risk Management Centre within the Fiscal Policy Office of the MoF is tasked with approving the financial arrangements for anything requiring government budgetary support (direct or indirect, such as a guarantee). The MoF can only consider recommendations for government support that are forwarded by KKPPI and decisions on support must be compliant with PerPres No. 67. (19 proposed major toll road projects are non-compliant). Decisions on support for non-compliant projects have to be forwarded to the President. The Centre only looks at the budgetary implications for the year ahead and not over the life of the PPP and these assessments are project by project. That is, there is no link to an upstream sector program. Both factors are masking potential fiscal surprises in 2-3 years time.

TAMF has provided assistance to the Risk Management Centre using staff from Partnerships Victoria. This assistance was highly valued and the Partnerships Victoria model, under which Partnerships Victoria assesses a project's likely viability and whether a project is more suited to a PPP arrangement or direct government financing, is ideal if the Risk Management Centre becomes responsible for overseeing the whole project development process.

The Fiscal Policy Office is also responsible for PSO policy along with sector ministries and SOEs. TAMF has also provided assistance in this area through CMEA, but CMEA does not have an ongoing role in this area under the applicable law. Other donors have not been involved in PSO policy, although PSOs are likely to be a component of the World Bank's infrastructure policy loan that is under preparation and this could provide an entry point for IndII.

The Ministry for Home Affairs (MoHA)

MoHA oversees GoI's relationships with sub-national governments. With respect to infrastructure, its main role is to coordinate with line agencies, BAPPENAS and sub-nationals governments when these governments request additional budget support for infrastructure projects. (There were eight such requests in the period January to May 2007, although this was said to be lower than normal). A MoHA committee assesses the projects against a checklist, but this checklist does not include maintenance planning and financing. MoHA estimates that only 20 per cent of proposals were well drafted.

PP 2/2006 states that local governments seeking financing from foreign loans and grants must go through the sector ministry (for on-granting) or BAPPENAS (for on-lending). While MOHA is involved in the DAK grant allocation process, MoF and the sector agencies are nominally the key actors.

Sector agencies

The Ministry of Public Works is responsible for national roads, and for approving sub-national road investments funded from central government transfers. It is generally regarded as the most competent national agency involved in infrastructure development, and there are pockets of competence that are likely to be suitable for IndII SPS engagements.

The Ministry for Transport is responsible for railways and ports (air, sea and inland waterways). The administration of major sea and airports has been assumed by SOEs (Port Authorities). Its capability is generally considered to be lower than that of the Ministry of Public Works.

The Ministry for Communications and Information Technology is responsible for telecoms policy, among other areas. TAMF has provided support to this ministry and the telecoms sector has proved attractive to private sector investment. The telecoms sector has a quasi-independent regulatory body, BRTI, which could be a candidate for assistance, although the World Bank is currently providing support on key areas such as interconnection pricing.

SOEs

SOEs have right of first refusal on any proposed PPP project within their gambit of responsibility. To date they have proved willing to take on these projects. Progressing the projects, however, appears to be very slow. The reasons for this are not clear. SOEs do not generally seek donor support, as they have the capacity to access debt and bank finance in their own names. The capacity of the SOEs to plan and implement projects is, generally, not a concern, but this capacity may have declined in recent years for PLN (electricity) and some other SOEs.

The financial health of the SOEs varies. Some such as PT Telkom, which is partly privatised and listed on the New York Stock Exchange, Pertamina and PGN are financially strong. Others such as the Garuda, which recently received an injection of capital from GoI and which is seeking a strategic partner to alleviate its debt burden, and the SOEs operating railways and inter-island shipping are financially weak. Tariff restrictions constrain PLN and a number of SOEs have Public Service Obligations (PSOs). The extent of the dependence on these PSOs, the level of compensation, and the cash flow impacts of the timing of the payment of the PSOs have significant impacts on the financial health of several SOEs.

Sub-national financing in Indonesia

Sub-national governments finance their operations predominantly through revenues, which are derive from transfers from central government and own-source revenues from sub-national taxes and user fees. Overall, total sub-national debt is insignificant and a major reason for this has been the restriction on local governments that limits their use of long-term infrastructure finance to projects that will generate revenues for the local government budget. This restriction increases the reliance on sub-national revenues for infrastructure financing.

Sub-national revenues

Sub-national government revenues are derived from:

- transfers from central government; and
- own-source revenues from sub-national taxes and user fees.

Transfers

The transfers from central government are known as 'balancing funds' that are intended to reduce fiscal imbalances between central government and sub-national governments and across sub-national governments in discharging the functions prescribed for sub-national governments under Law No. 22/1999 on decentralisation. There are three types of transfer to all sub-national governments, including the autonomous regions of Papua and Aceh:

- shared revenues (DBH) – quarterly transfers directed to provinces and kabupaten/kota;
- general purpose grant (Dana Alokasi Umum – DAU) – a non-earmarked, monthly transfer directed to provinces and kabupaten/kota; and
- specific purpose grant (Dana Alokasi Khusus – DAK) – an earmarked quarterly transfer directed to kabupaten/kota.

Papua and Aceh also qualify for additional transfers under their special autonomy laws.

DBH and DAU are unconditional block grants that are not monitored by MoF. The use of DAK transfers, in contrast, is monitored by MoF.

Shared revenues

Under Law No. 33/2004 on decentralisation selected taxes — property tax, property rights tax and personal income tax — and natural resource revenues — forestry, mining, fishing, oil, gas and geothermal — are shared between central government and sub-national governments. For example, 80 per cent of personal income taxes are allocated to central government and 20 per cent to sub-national governments; 85 per cent of oil revenues are allocated to central government and 15 per cent to sub-national governments, except for Papua, which can retain 70 per cent of local oil and gas revenues under the local autonomy law (local governments will receive an additional 0.5 per cent of oil and gas revenues from 2009, in line with Law No. 33/2004); and 20 per cent of mining rents and royalties are allocated to central government and 80 per cent to sub-national governments.

Shared taxes account for around two-thirds of national shared revenue transfers. There are only a small number of regions eligible for the shared oil and gas revenue transfers (62 of the 440 kabupaten/kota and only 5 of the 33 provinces in 2006) and these regions are mostly concentrated in Riau Islands and East Kalimantan.

DAU

This has been designed as an equalisation grant intended to equalise overall funding imbalances across local governments. The national pool is calculated at 26 per cent of net national revenues, net of shared revenues. There are two components of the overall grant – a 'basic allocation' and a 'fiscal gap' component — and these are roughly equal in size. Since 2006 the 'basic allocation' equates to the full public service wage bill of each sub-national government. Previously, the 'basic allocation' comprised a lump-sum that was supplemented by an amount that partially covered public sector wages. The 'fiscal gap' component is calculated as the difference between fiscal capacity and expenditure needs, where fiscal capacity equals own-source revenue plus shared revenues, and where expenditure needs are based on a formula that multiplies the average expenditure of sub-national government by a weighted aggregate comprising a regional population index, a regional human development index, a regional area index, a regional cost index and a regional GDP per capita index. The fiscal gap component is allocated to the districts pro-rata of their fiscal gaps. Only those sub-national governments with a fiscal gap qualify.

Until now DAU transfers could not be less than the baseline transfer of 2005 (the hold-harmless provision), but this guarantee will be removed from 2008.

DAK

DAK transfers can only channel funds originating from domestic government revenues. That is, grants received cannot be distributed as a DAK transfer. DAK transfers are expected to become increasingly important in future years, particularly if MoF is able to re-channel funds currently being routed through line ministries for activities that have been decentralised, contrary to the requirements of Law No. 33/2004.

DAK transfers are earmarked for expenditures on sectors which are seen as being of national priority, but which are the responsibility of local government. The sector coverage was expanded in 2006 and now includes: primary health, primary education, infrastructure (roads, bridges, irrigation and clean water), fisheries and marine, agriculture, office buildings for newly-created local governments, and the environment. The process is central government-driven with local governments not permitted to apply for these transfers. Local governments are required, however, to provide counterpart funds equal to at least 10 per cent of any DAK transfer received.

The transfers are determined according to general, special and technical criteria. The general criteria are determined by the Ministry of Finance and assess the financial resources available to individual local governments after meeting non-discretionary expenditures, compared with a national average. Those local governments that have available funding less than the average are eligible for DAK transfers. The special criteria are provided in particular laws, such as the special autonomy laws for Aceh and Papua, and also apply to remote and backward areas covered by the Ministry for Underdeveloped Areas. Technical criteria are determined by sector ministries, such as Education and Public Works.

Special Autonomy Transfers

Under their respective special autonomy laws (Law No. 18/2001 and Law No. 21/2001) Papua and Aceh have received an additional oil and gas revenue share since 2002. Papua also receives a special autonomy transfer equal to two per cent of the national DAU pool. Aceh will also receive a special autonomy transfer equal to two per cent of the DAU pool under the Aceh Governance Law No.11/2006. This will commence in 2008 and last until 2008, after which the transfer will be reduced to one per cent of the DAU pool from 2023 to 2028.

The special autonomy funds are a significant revenue source. They add approximately about 20 per cent to Papua's other revenues and grants and will likely add around 30 per cent to Aceh's other revenues and grants. In Papua the Special Autonomy Fund is partly allocated to strategic programs, while the remainder is distributed to the districts on a formula basis that is similar to the DAU formula. The allocation formula for Aceh has not been finalised.

Own-Source Revenues

Under Law No.33/2004 local governments have the authority to institute their own taxes and user charges, and a wide variety of instruments have consequently been established.

Taxes account for around 90 per cent of provincial own-source revenues, with motor vehicle taxes — motor vehicle title transfer and motor vehicle registration — comprising the bulk of these taxes. The most significant user charges are for health, building permits and fees for the use of public assets. In contrast, own-source revenues are much less significant for district level revenues. The revenues are evenly distributed across local taxes, user charges and other own-source revenues. Taxes on electricity, taxes on hotels and restaurants, and charges for health services provided by local clinics (Puskesmas) are the largest revenue sources.

Not surprisingly, the business community sees the proliferation of local taxes and very inefficient local tax administrations, where the costs of administering local taxes and user charges account for more than 50 per cent of receipts, as a disincentive to investment. GoI is addressing the problem, in part, through a revision to Law No. 34/2000 on Regional Taxation to restrict sub-national taxes and charges to a pre-determined list.

Sub-national debt

While the debt of PDAMs is a severe constraint on PDAM operations and development, sub-national governments have made little recourse to debt finance, Sub-national debt was less than one per cent of total public sector debt at the end of 2005, but PDAMs accounted for 75 per cent of the sub-national debt. The majority of this debt financing is provided through the central government's RDA and RDI accounts and from on-lending of donor funds through subsidiary loan agreements.

While the sub-national debt level may be small, the repayment record is poor, on the whole, with around half of due payments in arrears. This constrains access to further loan finance, as sub-national governments are not permitted to borrow from central government or donors when there are payment arrears on prior loans. Having said this, most local governments have sufficient cash reserves to clear the arrears, but they have chosen not to.

Sub-national government entities can issue domestic bonds and Bapepam promulgated new regulations governing these bond issues in April 2007. PDAM issuance of corporate bonds in the Indonesian domestic market is being progressed under USAID assistance in conjunction with the state-owned Danareksa Securities. PDAMs in the larger cities could conceivably issue bonds in their own right, but the smaller PDAMs may need to combine to build the scale needed for a marketable offering.

C Donor activities

Donor coordination

Consistency and coordination with other donor programs is required to prevent duplication and maximise synergies. The World Bank and ADB are both funding infrastructure through project loans, but their capacity to offer technical assistance at the preparation stage is limited by overly bureaucratic processes, and for the WB this has to come from the loan funding unless another source of grant funding can be found. This is a major constraint on the development of projects. The World Bank support to RMC is funded by PPIAF. There are still funds remaining under the World Bank PPITA (Private Provision of Infrastructure TA) loan, but how much the PMU can achieve much in the period remaining is unclear. ADB has grant funding available, but faces difficulties in timely use. JBIC is also a major source of loan funding for infrastructure[1], and JICA is able to offer grant assistance for the technical support in the development and implementation of these JBIC funded projects.

In view of the number of donors engaged in infrastructure and the potential overlap of AusAID's programs, engagement with GoI agencies needs to be coordinated to minimise the burden of the AusAID engagement on these agencies. This is at an oversight level. There is also a major issue with absorptive capacity in GoI agencies at the national and most likely at the sub-national level. For example there is WB assistance in MoF RMU on estimation of PSOs and assessing the risk of government support for infrastructure, and 15 people engaged under the ADB program loan working in BAPPENAS on PPPs. An under one-roof approach is preferred by GoI when multiple donors are engaged.

Current areas of donor cooperation in infrastructure

AusAID is co-funding the following initiatives in infrastructure through the Infrastructure Thematic Group using IFGI funds:

- World Bank
  - Energy sector Management Facility
  - PPP Infrastructure advisory Facility
  - Global Road Safety Facility

[1] JBIC prefers big ticket projects—power, gas, railways, toll roads—that will provide opportunities for Japanese suppliers and contractors.

  - Global Partnership on Outputs based Aid
  - Also funding WB East Asia and Pacific Division
- ADB
  - Water Financing Partnership Facility
  - Clean Energy Financing Partnership Facility.

The WSP will be funded through the Environment and Rural Development Thematic Group, but needs to be closely linked with the Indonesia Country Program.

Donor engagement in the water sector

The World Bank and ADB have been active in the sector, other than for urban water supply, along with a number of bilateral donors. Chart C.1 and the table C.2 illustrate the range of activity.

The ADB's principal involvement in the sector is through the Community Water Services and Health Project Loan (CWSHP) which became effective in April 2006.

The Project, which follows a similar approach to that used under WSLIC 2, will provide rural water supply and sanitation facilities and services to low-income rural and peri-urban communities, combined with capacity building for these and for district governments. The Project follows a community-driven development approach in which subproject selection at community level combines elements of poverty targeting with a demand-responsive approach to ensure sustainability of the facilities. The Project will (i) improve district government capacity to facilitate and regulate basic water and sanitation services, (ii) empower communities to take responsibility for developing and implementing such services based on a community-driven development approach, (iii) finance the construction of these services based on community action plans, and (iv) increase awareness about appropriate healthy and hygienic behaviour. The Project will cover about 1,000 communities in 20 districts in the four provinces of West Kalimantan, Central Kalimantan, Jambi, and Bengkulu.

Major bilateral projects include USAID's Environmental Services Project, which promotes better health by improving water resources management and increasing access to water supply and sanitation services, and two programs financed by the Dutch Trust Fund and administered through the World Bank—the Indonesia Sanitation Sector Development Program (ISSDP) and the Indonesia Water and Sanitation Program for Water Sector Capacity Building and Sanitation Sector Development (WASAP)

Not surprisingly, given the range of donors involved in WSES, AusAID has been promoting donor harmonisation and co-funded, along with the Support Office for Eastern Indonesia (SOFEI), a comprehensive study on this issue in 2006 (AusAID 2006c).

C.1 Summary of Donor Focus in WSES in Indonesia (AusAID 2006b)

WATER	SANITATION
RURAL • ADB CWSHP • CIDA SWASH • GTZ RWSSP • KDP • NGO's • UNICEF • WASPOLA • WSP • WSSLIC	**COMMUNITY** • ADB CWSHP • CIDA SWASH • GTZ RWSSP • NGO's • UNICEF • WASPOLA • WSP • WSSLIC
URBAN • GERMAN GOVT • JICA • UDP • USAID	**INSTITUTIONAL** • DUCTH TRUST FUND • ISSDP • USAID

C.2 **Summary of donor engagement in infrastructure**

Donor	Sector			
	Energy	***Transport and Communications***	***Water Supply Sanitation and Waste Management***	***Law, Economic Management and Public Policy***
ADB	Focus on energy development, renewable energy, local grids and energy efficiency initiatives, with a view to substantially reducing power transmission and distribution losses.	Support designed to enhance the provision of road infrastructure to promote economic growth.	Focus on improving local delivery of services	Support the Government's decentralisation agenda by remaining focused on policy reforms and capacity development.
Australia	--	Undertaking road improvement in eastern Indonesia.	Improving the planning and administration capacities, and services for water supply and sanitation services.	Expanding assistance for strengthening through support for economic reform, legal and judicial reform, the promotion and protection of human rights and on-going support for counter-terrorism initiatives.
Canada	--	--	--	Supporting reform of the financial management system fiscal framework, and decentralised administration
Germany	--	Focusing on achieving greater mobility for lower-income groups through passenger shipping (with container transport) and local passenger transport (rail) in the Jakarta metropolitan area.	--	Providing advisory services on decentralisation and good governance to create the conditions for stable political, economic and social development aimed at reducing poverty.
Japan	Supporting power generation from conventional and	Building transport infrastructure in Java and Sulawesi.	Improving water supply in urban areas in Solo, Makassar, Bandar	--

	renewable energy sources.		Lampung, South Bali and Sumatra. Developing sewerage systems in Medan and Denpasar. Supporting industrial waste management.	
Netherlands	--	--	Supporting water resources management and irrigation; capacity building for water sector management.	Supporting private sector participation in urban infrastructure; local government capacity building for decentralisation; legal and judicial reform.

(Continued on next page)

(continued)

Donor	***Sector***			
	Energy	***Transport and Communications***	***Water Supply Sanitation and Waste Management***	***Law, Economic Management and Public Policy***
UK	--	--	--	Strengthening development effectiveness through harmonisation. Focusing on decentralisation through programs relating to decentralised governance, civil society mobilisation, and poverty reduction. Supporting the partnership for governance reform.
World Bank	Improving the legal and policy framework to help attract private sector investors. Restructuring electricity and gas entities. Improving the tariff structure for the gas	Building national and local transport and communication infrastructure.	Improving the quality and coverage of water supply and sanitation for low-income communities.	Making development planning more responsive to constituents. Improving public financial management. Strengthening the accountability of local governments under a

	sector.		more coherent decentralisation framework. … Enhancing the public credibility, impartiality and accessibility of the justice sector.

Source: ADB 2006.

D Anticipated Initial IndII Activities

List of Activities:

Background

Annex D and Chapter 5 of the Project Design Document (PDD) provide, respectively, details of initial activities to be undertaken and a brief consideration of the approach to be followed in determining those, and other, initial IndII activities. This revisited annex D provides additional background on the activities that have been identified. The nine activities detailed in this revision are those which AusAID has already scoped and is confident will commence shortly.

Implementation and Budgeting

The implementation schedule below does not, and cannot, include those activities that will be identified once the managing contractor has mobilised. Expenditure in 2007–08 will be directly influenced by the date of mobilisation of the Facility Managing Contractor. Those costs associated with Managing Contractor mobilisation and management are separately detailed in annex I.

Task	FY 2007-08			FY 2008-09			
	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Policy & Regulatory							
1. Radio Spectrum Support	$230,000			$250,000			
2. PSOs and Infrastructure Subsidies	$230,000			$490,000			
3. Fiscal Policy Office Assistance	$230,000			$440,000			
4. Indonesia Infrastructure Fund	$240,000			$280,000			
5. Guarantee Fund		$145,000		$190,000			
Infrastructure Project Management							
6. Road Safety		$250,000		$800,000			
7. Support for Infrastructure Design		$6,000,000		$6,000,000			
8. Papua Infrastructure		$150,000		$500,000			
9. Assistance to DG Highways		$850,000		$3,850,000			
Total Initial Activities	**A$8.325 m**			**A$12.800 m**			
Total IndII Budget	**A$11.820 m**			**A$17.070 m**			

1. Support for Spectrum Management

Background

Management of the radiofrequency spectrum in Indonesia falls below international best practice in many areas and leads to economically and technically inefficient use of the resource. Further, GoI appears to be significantly under-recovering the potential value of the resource. GoI requested technical assistance in 2005 jointly through the MOF and the Direktorat Jeneral Pos dan Telekommunikasi (DGPT) and this was provided through TAMF.

Current Status

This program was transferred from TAMF to the preparatory phase of IndII in August 2007. The currently contracted activities extend to end-September 2008. Activities currently being implemented are:

1. Technical assistance in the implementation of "bandwidth licensing";
2. Technical assistance in improving the technical and economic efficiency of traditional "apparatus-based" licensing;
3. Assistance with administrative reform of DGPT; and
4. Undertaking a review of regulatory monitoring and compliance with DGPT.

GoI Demand for Support

Demand being expressed for support from GoI is high. DGPT is under a political imperative to provide for an allocation of spectrum for broadband wireless access in the near future. DGPT has requested technical assistance to improve its understanding of the bandwidth licensing model that has been recommended and to improve the business systems needed to support the model.

Potential Next Steps

The reforms that have been proposed are significant in scope. They will require substantial business system re-design, the development of new information systems and training staff in the new systems. The implementation of bandwidth licensing and spectrum pricing reform can be expected to take a considerable effort, extend well beyond the current scope, and warrant further close consideration. Developing operating procedures and a training program for field investigation staff are also potential areas for IndII support.

Budget:

Value of current contract to end FY 2007-08: $190,000
Value of current contract to end FY 2008-09: $60,000

Potential additional commitments to end FY 2007-08: $30,000
Potential additional commitments to end FY 2008-09: $250,000

2. Infrastructure Subsidies and Public Service Obligations

Background

The allocation of subsidies and compensation payments to SOEs for Public Service Obligations (PSOs) in the 2007 State Budget amounts to over 105 trillion IDR, representing more than 14 per cent of total expenditures and more than 21 per cent of direct expenditures by Central Government. Until fairly recently, the costs incurred by SOEs in delivering services at sub-commercial tariffs were funded mainly through a combination of internal cross-subsidies and input subsidies. These practices, while administratively simple from Government's perspective, distorted SOE decision-making and seriously blurred accountability and transparency.

Within the infrastructure sectors, the implementation of the PSO policy has so far focused primarily on PLN (the State Electricity Company), which in 2006 received approximately US$3.5 billion in PSO compensation payments (around 30 per cent of its total revenues).

Current Status

During 2006 TAMF assisted the Coordinating Ministry of Economic Affairs to conduct a review of the implementation of the PSO policy, while ADB has recently appointed a short-term advisor to assist BAPPENAS to progress some of the recommendations to emerge from this review. AusAID has also assisted with the development of the outline work plan for improving PSO policy implementation through TAMF, and has contributed to the preparation of the World Bank's Infrastructure Development Policy Loan (IDPL). This has involved assisting with preliminary reviews of the PLN, KAI (railways) and Pelni (inter-island ferry) PSO schemes. Further assistance with these reviews would be of great benefit to MOF.

GoI Demand for Increased Support

The Government attaches great importance to refining the PSO policy. This is reflected in, among others, the commitments made in the 2006 and 2007 policy packages and in the policy agenda for the proposed World Bank Infrastructure Development Policy Loan (IDPL).

Potential Next Steps

While ADB and the World Bank have shown interest in providing support, AusAID is well positioned to assist MOF in many areas in view of its previous and ongoing support to the recently created Fiscal Policy Office (FPO) within MOF. Key activities are likely to include:

1. Preparation of implementation guidelines;
2. Review and refinement of the current PSO policy for PLN;
3. Review of the KAI and Pelni PSO arrangements; and
4. Review of other subsidies in the sea transport sub-sector and development of recommendations for improvement in service provision and in subsidy targeting.

Budget:

Value of current contract to end FY 2007-08: $190,000
Value of current contract to end FY 2008-09: $40,000

Potential additional commitments to end FY 2007-08: $40,000
Potential additional commitments to end FY 2008-09: $450,000

3. Support to the Fiscal Policy Office in MOF

Background

Poor infrastructure threatens to constrain future Indonesia's economic growth. The projected aggregate investment needs of the order of US$30 billion per year are considerably higher than the levels of infrastructure spending that have been realised in recent years and the Government is looking to the private sector to fill the financing gap. Projects in key sectors such as power, pipelines, toll roads, railways, sea ports, airports, water supply and telecommunications have been offered to private investors, and some have reportedly now reached financial close. Key state enterprises, notably PLN, are also being required to invest more aggressively and have been empowered to take on increased debt. While strongly supporting these initiatives, MOF recognises the need for very careful management of the associated fiscal risks from government entities participating in these projects and from government support to these projects.

Current Status

A Fiscal Risk Management Centre (FRMC) has been established within the FPO. The FRMC has a core group of young, well qualified, and highly motivated professional staff, and its manager enjoys good access to the Minister. Until recently, AusAID support was through the TAMF lead infrastructure policy advisor, but he is now contracted directly to AusAID. He has been based in the FPO since its establishment and has provided support on activities ranging from policy development through to risk assessment for individual major projects. AusAID has also provided complementary assistance through TAMF to support capacity-building, including the short-term assistance provided by the Manager of Partnerships Victoria to advise on organisation and skills issues. The World Bank and ADB have also financed shorter-term inputs to the FRMC, but look to AusAID to help guide these. Current activities include assisting with the preparation of the policy agenda and matrix for the 2007 IDPL, assisting with preparations for the establishment of the proposed Infrastructure Guarantee Fund, and providing continuing assistance on infrastructure project-specific issues.

GoI Demand for Increased Support

FPO's demand for continued AusAID support remains very strong. AusAID's infrastructure policy advisor to MOF has closely involved in most of its infrastructure-related activities and this is expected to continue over the coming year and beyond. FPO has also indicated a keen interest to have further capacity-building support, particularly if this can be organised in conjunction with Partnerships Victoria to build on the previous assistance. Other potential IndII activities are expected to be identified by the advisor over the coming months.

Potential Next Steps

The infrastructure policy advisor to MOF will identify other potential IndII activities in consultation with AusAID staff / IndII FMC staff as appropriate.

Budget

Value of current contract to end FY 2007-08: $190,000
Value of current contract to end FY 2008-09: $40,000

Potential additional commitments to end FY 2007-08: $40,000
Potential additional commitments to end FY 2008-09: $400,000

4. Indonesia Infrastructure Facility (IIF)

Background

IIF is a World Bank initiative directed at addressing the continued obstacles to mobilising long-term resources for infrastructure investment in Indonesia through providing financial products for infrastructure investments. IIF will have a strong, commercial orientation and is to be structured as a corporate, non-bank financial institution, along the lines of successful infrastructure funds in India and South Africa. An important associated benefit will be the impetus that IIF should give to the development of financial markets in Indonesia from raising funds through bank loans and bond issues to domestic financial institutions.

Current Status

AusAID has contracted a consultant to work with the World Bank Task Manager and the MOF working group on IIF to progress the establishment of IIF and to provide technical support to the additional legal, management and governance consultants that will be recruited. TORs have been prepared for these additional consultants. The World Bank is seeking financial contributions from other donors to supplement GoI's contribution to capitalising IIF. The target size of the fund is 20 trillion IDR within five years of the establishment of the fund. The fund will be capitalised with 2 trillion IDR of equity and 2 trillion IDR of subordinated debt.

GoI Demand for Increased Support in the Area

IIF has been under discussion since 2006 alongside a number of other GoI and donor infrastructure initiatives, such as the strengthening of KKPPI and the proposal to establish an Infrastructure Guarantee Fund. The Minister of Finance has agreed to the World Bank's proposal and has formally requested World Bank assistance to establish this fund. The Minister would like to see the fund established by the end of

2007, but March/April 2008 seems a more realistic target. GoI has already allocated its contribution to the initial capital of the fund through the 2007 GoI budget. The Minister has appointed a three-person working group in MOF to work with the World Bank and its consultants to establish the fund. The working group comprises directors from the Directorate General of State Asset Management, Bapepam and the FPO. The Chairman of Bapepam also recently wrote to AusAID requesting AusAID technical assistance to provide ongoing advice on the management of IIF after its establishment.

Potential Next Steps

While AusAID has already contracted a consultant to work with the World Bank on the establishment of IIF, it could play an expanded role, if it so wished, by financing the specialist legal and institutional consultants that will be required, and which will otherwise be financed by another bilateral agency/ies. AusAID has not, as yet, discussed with GoI providing additional assistance in the implementation and ongoing management of IIF.

Budget

Value of current contract to end FY 2007-08: $240,000
Value of current contract to end FY 2008-09: $0

Potential additional commitments to end FY 2007-08: $0
Potential additional commitments to end FY 2008-09: $280,000

5. The Indonesian Guarantee Fund

Background

As Indonesia's investment rating is still several notches below investment grade, most private investors require some form of government support, such as guarantees, to consider investing in infrastructure in Indonesia. Such support obviously carries fiscal risk to the government and one way of managing this risk is to establish a fund to ring fence the contingent liabilities associated with the government support. The assets of the fund would provide the guarantee that obligations for government support would be met, but these guarantees would necessarily be limited by the total asset base of the fund.

Current Status

The World Bank has completed the initial concept studies on the role of a Guarantee Fund and its establishment in Indonesia and has decided to support GoI to establish the Fund. The Bank has recently requested funding to this end from the Public-

Private Infrastructure Advisory Facility (PPIAF), a multi-donor trust fund designed to help the implementation of PPP infrastructure in developing countries, and AusAID. The infrastructure advisor now contracted directly to AusAID has been providing advice to the World Bank and the FRMC during discussions on the conceptualisation of the fund.

GoI Demand for Increased Support in the Area

GoI sees the establishment of the fund as critical to attracting quality investors to sound PPP projects. The fund would be overseen by the FRMC.

Potential Next Steps

The World Bank has requested AusAID support in co-financing the consulting services that are needed to assist GoI develop a presidential regulation to establish the fund, obtaining a shadow credit rating from an investment bank or rating agency, and developing standard operating procedures. This type of support is a good fit with the scope of IndII and AusAID could contract a consultant/s to work with the World Bank in a similar way to the way AusAID is supporting the establishment of IIF, but funding of a World Bank Trust Fund is a more likely option at this stage.

Indicative Budget

It is anticipated that the project will commence in late 2007 and be completed by mid 2009. AusAID has been asked to fund US$250,000 of the total US$650,000 costs of consulting services and these services are expected to be spread reasonably evenly through the project.

Budget

Value of current contract to end FY 2007-08: $0
Value of current contract to end FY 2008-09: $0

Potential additional commitments to end FY 2007-08: $145,000*
Potential additional commitments to end FY 2008-09: $190,000*

*It is anticipated that support for this activity will be via direct transfer to a World Bank Trust Fund. The scheduling of these payments has still to be confirmed.

6. Road Safety Assistance

Background

Road safety in Indonesia is a major and growing problem, with an estimated 30,000 plus fatalities and 450,000 seriously injured in 2002, and a total estimated economic cost of accidents of some 40 trillion IDR representing nearly 3 per cent of GDP.[2] The costs of continued inaction are enormous, as are the potential benefits of the badly needed interventions.

There are many reasons why the problem has been allowed to grow with little, if any, effective remedial action, but, for the main part, they derive from institutional failures and rigidities. Attempts by funding agencies to assist have been short-term, partial, and largely unsustained.

Current Status

AusAID has advertised for a Road Safety Specialist to thoroughly review the experience of previous road safety programs, and determine whether there are opportunities for AusAID to provide meaningful support in the area. This specialist will also develop, in conjunction with GoI, a program of future activities.

GoI Demand for Increased Support

There is an emerging central government awareness of the need for urgent actions, and a recent Presidential Decree (InPres 6/2007) identifies priority actions to be completed in 2007, including the establishment of a National Transport Safety Board, and the design of a Road Safety Management Program. The Directorate General of Highways in the Ministry of Public Works has also requested assistance on several occasions for additional support in this area.

Potential Next Steps

Australia has a strong presence in the implementation of effective road safety strategies, and AusAID could potentially access this experience to provide effective support in this area. While IndII can potentially offer support over, at least, the medium-term, support for road safety improvements has to be provided over the long term, and address the many dimensions of the problem, if it is to be effective or sustainable. If AusAID is to participate, a role that can add value and be sustainable must be carefully defined at the outset.

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[2] ADB-ASEAN Regional Road Safety Program: Indonesia

Budget

Value of current contract to end FY 2007-08:	$0
Value of current contract to end FY 2008-09:	$0

Potential additional commitments to end FY 2007-08:	$250,000
Potential additional commitments to end FY 2008-09:	$800,000

7. Support for Infrastructure Design

Background

GoI has, until recently, employed a "simplified design" approach to the design of road projects. This methodology allows for the design to be undertaken at low cost, but carries with it a risk of poor quality project implementation, as the construction task is often ill-specified.

High-quality final engineering design (FED) will enable reliable owner's estimates to be developed and provide clarity to firms on the nature of the task that they are bidding for. This will reduce the opportunities for contract renegotiation and the concomitant risks of corruption. Good designs also provide a basis against which the quality of construction to be objectively assessed. Assessing quality of construction against designs has been problematic in the past and the work done is often well below an acceptable standard, but with little opportunity for redress, given the task has not been well defined in the first instance.

Current Status

During the development of the A$300 million Eastern Indonesia National Road Improvement Project (EINRIP), deliberate steps were taken to improve the quality of implementation and A$28 million in grant funds were set aside of this purpose. Of this, A$18 million are going towards undertaking comprehensive feasibility reviews, economic evaluation and, importantly, high quality FED.

GoI Demand for increased support

GoI has spoken openly of its desire for improved FED. Follow-up monitoring of implementation of EINRIP sub-projects will be undertaken to compare the simplified design with the FED approach and considerable benefits are anticipated.

Potential next steps

Support for enhanced FED could be provided in several ways. The World Bank's National Road Improvement Project (NRIP) — a sister project to EINRIP that is focussing on the West of Indonesia — is well behind schedule due to a paucity of funds being made available for project preparation. Arrangements could be put in place, potentially using the design team being used for EINRIP, to undertake this design work for NRIP. Alternatively, AusAID could transfer funds to a World Bank Trust Fund. Further, there is a huge need for quality FED to be available to the GoI for its own budget expenditures. Just as donor programs suffer from a low standard of preparation, so to do those of the GoI. Assistance to the GoI in this regard could be the subject of a detailed scoping study that could consider a wide range of sectors, not just roads.

Budget

Value of current contract to end FY 2007-08: $0
Value of current contract to end FY 2008-09: $0

Potential additional commitments to end FY 2007-08: $6,000,000
Potential additional commitments to end FY 2008-09: $6,000,000

8. Support for a long-term Infrastructure Advisor in Papua

Background

Papua is the easternmost, largest and most sparsely populated region in Indonesia.

In revenue terms, Papua is one of the wealthiest provinces in Indonesia, with substantial income from mining (55 per cent of regional income). Yet, it also suffers from the highest rates of per capita poverty in Indonesia – with over 80 per cent of households living below the poverty line. Poor and inadequate infrastructure is the major constraint to economic growth in Papua. The province faces unique challenges in infrastructure development. First, Papua's geographic conditions make road building more difficult than in any other region. Second, heavy machinery needed for road building can only be moved by air.

GoI Demand for increased support in the area

A recent Presidential Instruction (5/2007) outlines an action plan for improvements in transport infrastructure in the provinces of Papua and West Papua. In response to these challenges, the first ever elected Governor of Papua is leading the development of a new strategic program for the development of macro-infrastructure focusing on developing an integrated transport system for communities to access markets and for developing economic zones.

Current Status

The international development partners, including the World Bank and AusAID have endorsed the provincial government's proposal to support a high-level unit within the provincial government to guide and oversee the strategic development of the Governor's vision into plans and policies. AusAID will fund an Infrastructure Advisor, based in Jayapura and who will commence in late 2007, to be responsible for providing high-level strategic advice to the Governor and assisting AusAID in developing a growing program of AusAID assistance in Papua.

Potential next steps

It is anticipated that a range of additional avenues for assistance will become apparent as the working relationship between the Infrastructure Advisor and AusAID with the Governor's office strengthens. A road network development study of Papua has already been flagged as being of considerable interest to both provincial and national Governments.

Budget

Value of current contract to end FY 2007-08: $0
Value of current contract to end FY 2008-09: $0

Potential additional commitments to end FY 2007-08: $150,000
Potential additional commitments to end FY 2008-09: $500,000

9. Support to the Directorate General of Highways

Background

As a result of its considerable engagement with the Directorate General of Highways (DGH) in the Ministry of Public Works in the preparation of the EINRIP program, AusAID Jakarta has developed a broad appreciation of DGH's capacity-building needs and where support is needed to improve for infrastructure project planning and preparation in the DGH.

Current Status

AusAID has sent a letter to DGH advising of the forthcoming IndII, and requesting DGH to give careful consideration to priority activities that it might like to propose to AusAID for inclusion in the IndII program. To assist the process of internal DGH review and prioritisation, an example set of activities was provided (see following table).

GoI demand for increased support

Initial indications are that DGH believes that many of these examples are high priority. AusAID Jakarta will meet with DGH, to review their priorities and discuss additional proposals. It is expected that a prioritised program will be identified by end-September.

Potential next steps

A workshop is planned during which DGH will advise its formal views on the array of options that has been provided and also provide additional ideas for engagement. Some activities will require further identification and preparation work. Activities deemed to be priority will be the subject of initial scoping exercises with a view to developing a program of further assistance. Note that AusAID is strongly of the view that DGH should take the lead in identifying and prioritising activities to be proposed for support under IndII. For higher-priority activities, this work will be initiated and managed by AusAID in advance of IndII, by procuring short-term consultancy services for the preparation of TORs so that procurement can be initiated as soon as possible. It is not possible at this stage to identify which activities will go forward for further preparation.

Budget

Value of current contract to end FY 2007-08: $0
Value of current contract to end FY 2008-09: $0

Potential additional commitments to end FY 2007-08: $850,000
Potential additional commitments to end FY 2008-09: $3.85 million*

* This figure is based on the assumption that half of the potential activities envisaged for 2008-09, noted over, proceed.

Example Potential IndII Activities for Consideration/Prioritisation by Directorate General Highways (DGH)

General Area/Examples	Comments	Likely initial preparation tasks and costs FY 2007-08	Potential implementation costs (if activity proceeds) FY 2008-09
Support for implementation of new infrastructure			
New bridges	▪ Design of needed major bridges, in support of subsequent inclusion in future loans (WB, ADB, other), and/or for direct Grant funds through IndII.	Prepare TOR for design studies $100,000	$1.2 M
Road realignment studies and designs	▪ Many sections of existing national roads are in need of realignment, and cannot be included in usual loan programs (EINRIP, WINRIP) because of long preparation times. ▪ Support for planning and design would provide a pipeline of projects for funding by others, and add value to such loan projects. An initial review of candidate road links would identify the scope and cost of work required.	Prepare TOR for design studies $100,000	$1 M
Regional studies/plans	▪ Road development in Papua is hampered by the absence of studies needed to determine feasible locations and development priorities for highway network. ▪ A proper study, taking account of regional and social development priorities, would provide for the first time, a blueprint for future road network development for the region.	Prepare TOR for planning and design studies $150,000	$1.5 M
Toll roads	▪ Toll road development planning and project preparation in Indonesia is not being properly undertaken, and this is restricting the initiation of a sustainable program, and the mobilisation of capital needed to support a toll road development program. ▪ There may be an opportunity to work with other funding agencies (World Bank, ADB, JBIC) to fund feasibility and design studies needed as a prerequisite for project tendering. This would also help limit issues of governance and lack of transparency that also inhibit program development.	Initial scoping study to determine engagement with MPW and funding agencies. $100,000	$800,000
Maintenance and Maintenance Practices			
Pilot projects for Performance Based Contracting	▪ A Pilot Project is to be initiated under the World Bank's Strategic Road Infrastructure Project (SRIP), but additional work is needed to properly trial the approach in Indonesia. ▪ Support would include project design, contract roadworks, and performance monitoring over the duration of the contract. Ideally, this should be at least 7 years, and this activity would be suitable for IndII which may be expected to continue beyond the initial period of 4 years.	Probably not immediate priority. Scoping work to be done following commencement of SRIP pilot project.	$100,000

Review of maintenance management procedures for National Roads	▪ Provision of routine maintenance of all roads continues to be variably performed, and there is a significant need to strengthen control over this activity. ▪ With the introduction of the new Balai system, there is an opportunity to review the relative roles of force account or contracting for routine maintenance. ▪ An initial review could lead onto a Pilot Project to implement agreed recommendations.	Develop scope of pilot project in consultation with GoI $100,000	$250,000
Rejuvenation of Bridge Management System, and integration with IIRMS	▪ The BMS developed in the early 1990's (with AusAID support) is a potentially extremely useful asset management system, but for many years has suffered from lack of maintenance, and it is now in major need of updating. In particular, its central database, an inventory of all bridges and structures on the National road system and their condition, is badly out-of-date. ▪ For proper effectiveness of both the BMS and the IIRMS, the two need to operate in tandem, and system modifications to each are required to achieve this. ▪ An initial scoping study is needed to identify an appropriate platform for a new BMS; the scope and extent of work required for its development, including the establishment of a proper interface with IIRMS; and identification of how best to strengthen the institutionalization of the BMS and IIRMS so that they become properly used in the planning, budgeting and programming of asset management and maintenance in DGH.	Scoping study and TOR needed. $150,000	$2 M
Updated Planning, programming and Budgeting Procedures for Kabupaten Roads, Provincial Roads	▪ Manual procedures for road maintenance planning, programming and budgeting were prepared in the early 1990s, and while they were very effective in providing support for maintenance management of Kabupaten roads at that time, there have been many significant changes since that render the procedures developed obsolete. ▪ There continues to be needs at sub national levels for support with maintenance planning, programming and implementation. Investigation and scoping of this possibility could be undertaken as an initial activity for IndII.	Probably not an immediate priority, and scoping work should be undertaken by MC	$250,000
Capacity Building and Institutional Strengthening			
Support for regional management in new Balais	▪ Project management capabilities of DGH in the newly created Balais are limited, and will be severely stretched by a doubling of road funding starting in 2008. Project management support consultants (PMSC) are needed to assist the effective management and disbursement of these funds. ▪ A demonstration project would usefully identify the emerging needs for all aspects of regional RAM in the Balais, and identify institutional strengthening strategies required.	Initial scoping study $150,000	$1.5 M
Support for the Institute of Road Engineering (IRE)	▪ The IRE has potential in the areas of research and technical and professional leadership, that may not be fully utilised. ▪ An initial review is suggested as a way of identifying further development and strengthening opportunities, with a view to providing support for agreed programs.	Probably not an immediate priority.	
Training activities	▪ There are many needs for training throughout the industry – government, consultants and contractors – and sector performance could be greatly enhanced by carefully selected and targeted training activities.		Scoping study $50,000
	Maximum from example Initiatives:	**$850,000**	**$7.7 million**

E Logical framework

Activity Description	***Indicators***	***Means of Verification***	***Assumptions***
Development Goal			
To promote economic growth in Indonesia by enhancing relevance, quality and quantum of infrastructure investment	Higher ratio of infrastructure spending to GDP Increased private sector investment in infrastructure Increased GoI budget allocations to infrastructure spending Increased infrastructure spending by sub-national governments Change in the quantum of infrastructure assets and rehabilitated assets Population and geographic coverage of infrastructure	Government statistics KKPPI records on PPPs and national accounting data GoI Budget documents Sub-national government budget records National and sub-national reports and statistics on infrastructure sectors Published reports and studies	Political stability Security situation stable Absence of severe economic shocks Continued GoI interest and engagement in IndII with any change in Government in Indonesia
Facility Goal			
To reduce policy and regulatory, capacity and financing constraints on infrastructure investment at national and sub-national levels	*Policy and regulatory* Major investors reporting in sectors where IndII is active: ▪ Reduced uncertainty in tariffs or fees paid ▪ Reduced uncertainty in the regulatory environment ▪ Improved competition in the sector *Capacity:* ▪ Quality of feasibility studies and proposals ▪ Quality of design/construction ▪ Uptake of loan funds and own resources for infrastructure increased ▪ Maintenance built into construction contracts or other arrangements in place *Financing* Features added improve the economic and social impact of infrastructure projects Increased loan, debt and equity financing of infrastructure projects	Survey of major investors and World Bank/ADB reports IRT PAR impact assessment, BAPPENAS feedback, surveys relative to base-line data, examination of proposals and contracts Monitoring by TDs and other donors of implementation Commercial bank reports and statistics from Bank Indonesia, Jakarta Stock Exchange and Surabaya Stock Exchange on infrastructure financing	GoI commitment to regulatory reform continues GoI anti-corruption policies effective National level funding (DAK) for construction of infrastructure at sub-national level continues

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Activity Description	*Indicators*	*Means of Verification*	*Assumptions*
Objectives: To support the national and sub-national governments of Indonesia to:			
Implement efficient, effective and accountable project management for government infrastructure projects at national and sub-national levels	Management systems developed across the elements of the project management cycle Participatory process adopted for determining priority infrastructure and design features Maintenance costing explicit in infrastructure costings Competitive contracting of engineering design, testing, construction etc. Publication of appropriate details of winning tenders Monitoring standards for construction set, monitored and met	Project management guidelines and manuals Agency documentation of process, ACRs Agency costing documentation, ACRs Tender documents, ACRs SERs – consultation with agency	Suitable organisational entry points identified in national and sub-national agencies for SPS activities Mandatory compliance with guidelines and manuals in governments' infrastructure projects Commitment to proceed with infrastructure project, funding flows being available Sufficient contractors available which can provide high quality services
Build a regulatory and policy environment that encourages investment in infrastructure	Amendments and additions to regulatory framework (laws, regulations and decrees) Progress on commitments in GoI policy packages on infrastructure and the investment climate Investor perceptions towards Indonesia	DPR records of laws, regulations and decrees Published GoI policy statements, press releases Investor surveys	Suitable organisational entry points exist in national and sub-national agencies for SPS engagements GoI willingness to implement recommended policy and regulatory changes IEI activities and one-off activities are good fit with IndII goal and objectives
Enhanced economic and social impact features in sub-national infrastructure projects	Economic and social impact assessments undertaken for infrastructure projects Safety and maintenance components in sub-national infrastructure planning procedures Sub-national budget allocations for features such as safety and maintenance increased Grants disbursed	"Whole-of-life' infrastructure plans and direct observation Investment proposals Sub-national budget records	Sub-national governments willing to engage with IndII Agencies within the sub-national agencies cooperate with IndII advisers Increased awareness of importance of 'whole-of-life' planning and economic contribution from maintaining infrastructure Minimal administrative burdens in disbursing grants under procedures agreed with GoI No lengthy delays within government agencies in disbursing grants Adequate financial controls in national and sub-national government systems

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Activity Description	***Indicators***	***Means of Verification***	***Assumptions***
Strategic partner Engagements (possible examples)			
P&R SPS – Develop GoI capabilities to assess and support PPPs	Institutional development of MoF's Risk Management Centre	MoF annual report and reviews of donor capacity-building assistance	GoI continues commitment to PPP and to funding appropriate PSOs
P&R SPS - Develop a financing institution to promote flow of funds to infrastructure investment	Establishment of specialist Indonesian infrastructure financing institution (IIF) Increased loan, debt and equity financing of infrastructure projects	Government reports, news releases and reports on operations	Indonesia country risk perceptions continue to improve

F Duty statements for key positions

Facility Director

Background to the Indonesia Infrastructure Initiative

Please see PDD summary.

The Facility Director has overall responsibility for the governance of IndII and the management of the day-to-day activities of the management team.

Tasks of the Facility Director

- Develop and maintain relationships with the IndII partner agencies and AusAID Jakarta to ensure that the IndII engagement strategies are well-aligned with AusAID and GoI needs and that the sub-contracted services meet these needs.
- Establish an office co-located with the AusAID Infrastructure Group in Jakarta.
- Establish a financial management system, including procedures for operating bank accounts, contractor payments, small grant allocations and other funds disbursements, that supports sound financial management in the facility, regular reporting to the IndII Board and AusAID auditors, and benchmark costings for activity designs.
- Procurement of an IT system and network that meets the needs of the IndII management team and sub-contractors.
- Ensure that activity designs are of a suitable standard to be tendered.
- Establish a register of firms and individual consultants who have the required background and competencies for IndII activities.
- Establish a preferred tenderer list for delivering activities under the sub-national component.
- Develop systems for sub-contracting the services of firms and individual consultants, consistent with Commonwealth procurement guidelines, including liaising with partner agencies on consultant selection.
- Establish an agreed process with GoI for disbursal of grants in the small grants component and develop systems for contracting delivery of infrastructure add-ons for successful small grants applications.
- Oversee the development of the M&E Plan and its implementation. Ensure that the M&E summary for Board Report is prepared on time and to specification.
- Oversee the compilation and distribution of the Board Report to the IndII Board.

- Oversee submission of strategies, workplans and indicative budgets to the IndII Board, and submit activity designs and costings to AusAID for approval.
- Develop management systems for supporting IndII Board meetings, including the preparation and circulation of papers for IndII Board meetings.
- Develop security procedures for all IndII staff and sub-contractors.
- Other tasks as directed by the IndII Board.

Competencies and experience

- Substantive experience working in developing countries.
- Proven ability to manage a suite of development activities in a developing country, preferably including experience in the start-up of development projects or facilities.
- Demonstrated experience in the design and implementation of financial management, contracting, reporting and monitoring and evaluation systems.
- Proven ability to work at senior levels in government.
- Proven ability to build and maintain relationships with key personnel in government and donor agencies.
- A very good understanding of public policy and regulatory frameworks.
- An understanding of the social, cultural, political and institutional factors affecting development in Indonesia.
- Strong interpersonal, oral and written communication skills in English.
- Experience in the infrastructure sector in Indonesia, at both the national and sub-national levels, is desirable.
- Experience with AusAID processes and procedures are desirable.
- Good oral Bahasa Indonesia skills are desirable.

Reporting arrangements

The Facility Director reports to AusAID.

Timeframe

Based in Jakarta, the Facility Director will be employed initially on a one year contract from 1 February 2008 to 31 January 2009. Contract renewal will be based on satisfactory performance and the ongoing facility management arrangements adopted by AusAID.

Deputy Director

Background to the Indonesia Infrastructure Initiative

Please see PDD summary.

The Deputy Director's role is to assist the Facility Director with the day-to-day administration of IndII, supervise the facility's administrative and financial team, and coordinate all regular reporting.

Tasks of the Deputy Director

- Assist the Facility Director in establishing a facility office co-located with the AusAID Infrastructure Group in Jakarta.
- Liaise with partner agencies and other agencies where activities are to be located on provision of adequate office space, furniture and IT connections.
- Assist the Facility Director in establishing a financial management system, including procedures for operating bank accounts, contractor payments, small grant allocations and other funds' disbursements, that supports sound financial management in the facility, regular reporting to the IndII Board and AusAID auditors, and benchmark costings for activity designs.
- Assist Facility Director establish a register of firms and individual consultants who have the required background and competencies for IndII activities and maintain this register.
- Assist Facility Director establish a preferred tenderer list for delivering activities under the sub-national component and maintain this list.
- Assist Facility Director develop systems for sub-contracting the services of firms and individual consultants, consistent with Commonwealth procurement guidelines, including liaising with partner agencies on consultant selection, and maintain these systems.
- At the direction of Facility Director design standard templates for proposals for strategic engagement, partnership workplans, activity TORS, and progress and completion reports.
- Check that all proposals, workplans, TORs and regular reports conform to standard templates.
- Coordinate distribution of activity completion reports, progress reports and strategy evaluations to Technical Directors to support monitoring and evaluation assessments, and coordinate collection of the six-monthly M&E information, and prepare the M&E summary for the Board Report.
- Maintain the M&E database and generate reports from it as required.

- Coordinate submission of strategies, workplans and indicative budgets to the IndII Board, and submission of activity designs and costings to AusAID for approval.
- At the direction of the Facility Director coordinate preparation and circulation of papers for IndII Board meetings.
- Take minutes of Board meetings and draft minutes of meeting for Board approval.
- Coordinate collection of material required by Independent Review Board.
- Distribute changes in security procedures to all IndII staff and sub-contractors.
- Other tasks as directed by the Facility Director.

Competencies and experience

- Experience working in developing countries, preferably in Indonesia.
- Demonstrated experience in the implementation of financial management, contracting, reporting and monitoring and evaluation systems.
- Proven experience in supervising financial and administrative support staff,
- Proven experience in supervising locally-engaged staff in a developing country context.
- Demonstrated ability in working with counterpart staff in government or counterpart agencies.
- Experience in providing support services, including taking minutes, for a supervisory or advisory board, or similar committee.
- An understanding of the social, cultural, political and institutional factors affecting development in Indonesia.
- Strong interpersonal, oral and written communication skills in English.
- Experience with AusAID processes and procedures is desirable.
- Good oral Bahasa Indonesia skills are desirable.

Reporting arrangements

The Deputy Director reports to the Facility Director.

Timeframe

Based in Jakarta, the Deputy Director will be employed initially on a one year contract from 1 February 2008 to 31 January 2009. Contract renewal will be based on satisfactory performance and the ongoing facility management arrangements adopted by AusAID.

Technical Director: P&R component

Background to the Indonesia Infrastructure Initiative

Please see PDD summary.

The Technical Director (P&R) is responsible for the development of strategies, the IEI activities within the P&R component, and the monitoring and evaluation of the P&R component.

Tasks of the P&R Technical Director

- Advise the Facility Director, Lead Advisors and consultants on the technical, policy and regulatory issues impacting strategy and activity design.
- Advise the Facility Director on the financial feasibility of proposed strategies and activities.
- Prepare proposals for strategic engagements with potential partner agencies for IndII Board approval, or for substantive change to an existing, approved strategy, in conjunction with staff from the partner agencies.
- Once Board approval has been obtained for strategic engagements, work with Lead Advisors and partner agency staff to prepare strategies, activity workplans and activity TORs.
- Provide an assessment of the feasibility of any IEI activity, the appropriateness of the budget and the alignment with IndII objectives.
- In conjunction with Lead Advisors design performance indicators for strategic engagements, activity workplans and Lead Advisor and consultant TORs that are consistent with AusAID's Country Performance Framework and the Infrastructure Group's state of the sector report.
- Ensure that performance indicators and measures are clearly specified in the strategies, workplans and TORs.
- Monitor these measures through ongoing liaison with Lead Advisors and partner agencies and review of activity progress reports and activity completion reports.
- Assess the impact to date (progress) of strategies and prepare a consolidated Strategic Engagement Report (SER) every six months for the IndII Board.
- Participate in reviews conducted by the Impact Assessment Team.
- Participate in meetings of the Coordinating Group.
- Other technical tasks as directed by the Facility Director.

Competencies and experience

- Proven experience in a senior advisory or management role advising on infrastructure or other relevant policy and regulatory issues.

- Proven developing country experience, in an advisory or technical assistance role.
- Proven ability to work at senior levels of government.
- Proven ability to build and maintain relationships with key personnel in government and donor agencies.
- Proven ability to design strategic programs in policy and regulatory reform.
- Experience in designing performance indicators and measures for policy and regulatory reform activities and in the implementation of monitoring and evaluation frameworks.
- A good understanding of the social, cultural, political and institutional factors affecting development in Indonesia.
- Higher degree in Economics, or equivalent work experience is desirable.
- Strong, interpersonal, oral and written communication skills in English.
- Experience in the infrastructure sector in Indonesia is desirable.
- Experience with AusAID processes and procedures is desirable.
- Good oral Bahasa Indonesia skills are desirable.

Reporting arrangements

The Technical Director (P&R) reports to the Facility Director.

Timeframe

Based in Jakarta, the Technical Director (P&R) will be employed initially on a one year contract from 1 March 2008 to 28 February 2009. Contract renewal will be based on satisfactory performance and the ongoing facility management arrangements adopted by AusAID.

Technical Director: Infrastructure Project Management component

Background to the Indonesia Infrastructure Initiative

Please see PDD summary.

The Technical Director (IPM) is responsible for the development of strategies and selected activities in the sub-national component, the screening of small grant applications, and the monitoring and evaluation of the IPM and IEG components.

Tasks of the IPM Technical Director

- Advise the Facility Director, Lead Advisors and consultants on the technical issues impacting IPM strategy and activity design.
- Advise the Facility Director on the financial feasibility of proposed strategies and activities.
- Prepare proposals for strategic engagements with potential partner agencies for IndII Board approval, or for substantive change to an existing, approved strategy, in conjunction with staff from the partner agencies.
- Once Board approval has been obtained for strategic engagements, work with Lead Advisors and partner agency staff to prepare strategies, activity workplans and activity TORs.
- Provide an assessment of the feasibility of any proposed IEI activity in the IPM, the appropriateness of the budget and the alignment with IndII objectives;
- Assess IEG applications to ensure that they comply with the selection criteria;
- Confirm the delivery of the infrastructure add-ons funded through the IEG component with Lead Advisors and the partner agency.
- In conjunction with Lead Advisors design performance indicators for strategic engagements, activity workplans and Lead Advisor and consultant TORs that are consistent with AusAID's Country Performance Framework and the Infrastructure Thematic Group's state of the sector report.
- Ensure that performance indicators and measures are clearly specified in the strategies, workplans and TORs.
- Monitor these measures through ongoing liaison with Lead Advisors and partner agencies and review of activity progress reports and activity completion reports.
- Prepare a consolidated Strategic Engagement Report (SER) every six months for the IndII Board.
- Participate in reviews conducted by the Impact Assessment Team.
- Participate in meetings of the Coordinating Group.
- Other technical tasks as directed by the Facility Director.

Competencies and experience

- Substantive, proven experience in a senior advisory or management role advising on infrastructure needs, infrastructure design, and infrastructure project management, preferably in a developing country context.
- Proven experience in the infrastructure sector in Indonesia.
- Good knowledge of infrastructure policy and regulatory issues.
- Proven ability to work at senior levels of government.
- Proven ability to build and maintain relationships with key personnel in government and donor agencies.
- Proven ability to design strategic programs in infrastructure.
- Experience in designing performance indicators and measures for infrastructure activities and in the implementation of monitoring and evaluation frameworks.
- A good understanding of the social, cultural, political and institutional factors affecting development in Indonesia.
- Formal qualifications in construction engineering or equivalent experience.
- Strong, interpersonal, oral and written communication skills in English, as well as strong oral Bahasa Indonesia skills and, preferably, strong written Bahasa Indonesia skills.
- Experience with AusAID processes and procedures is desirable.

Reporting arrangements

The Technical Director (IPM) reports to the Facility Director.

Timeframe

Based in Jakarta, the Technical Director (Sub-national) will be employed initially on a one year contract from 1 March 2008 to 28 February 2009. Contract renewal will be based on satisfactory performance and the ongoing facility management arrangements adopted by AusAID.

M&E Specialist

Background to the Indonesia Infrastructure Initiative

Please see PDD summary.

The M&E Specialist is responsible for the development of the M&E Plan.

Tasks of the M&E Specialist

Develop the M&E plan during the mobilisation phase of the IndII. This will include the following tasks:

- Develop development effectiveness measures for the IndII that map to the CPPF and IFGI indicators in consultation with AusAID.
- Work with the Technical Directors in the development of the output, progress and outcome indicators for the SPS and IEI activities. Where possible develop generic indicators that can be used for a number of engagements.
- Develop the templates for M&E reporting – the Activity progress/completion reports, the Strategic Engagement Report and the M&E summary for the Board report.
- Define the summary information that is required to be generated from the M&E database, and what level of detail should be kept in the database.
- Work with the MC in the development of the M&E database and test the database.
- Develop baseline surveys for use during the development of strategies to guide appropriate information being collected. Work with the MC to develop TORs for any baseline survey work to e undertaken as an activity.
- Engage with the Leader of the Impact Assessment team in the review of the M&E Plan.
- Provide other advice on M&E as directed by the Technical Director.

Competencies and experience

- Substantive, proven experience in design and implementation of monitoring and evaluation frameworks in a developing country context.
- Good knowledge of infrastructure issues in Indonesia including policy and regulatory issues.
- Proven ability to design strategic programs in infrastructure and/or policy and regulatory reform.
- Good understanding of AusAID reporting requirements for State of Sector reporting and the Country Program Strategy Reporting.

- A good understanding of the social, cultural, political and institutional factors affecting development in Indonesia.
- Strong, interpersonal, oral and written communication skills in English.
- Bahasa Indonesia skills are desirable.

Reporting arrangements

The M&E Specialist reports to the Facility Director.

Timeframe

The M&E Specialist will be employed for up to 80 days, with a minimum of 30 days spent in Jakarta. The majority of the work will be from 1 March to September 2008.

G Risk matrix

Source of Risk	Risk Event	Impact	Risk Prevention & Mitigation	Responsibility	Timing
Design and Content Risks					
Program is not closely aligned with central and sub-national governments' priorities	Lack of commitment from GoI counterpart to IndII	Difficulty in scaling up the facility and prevent achieving overall facility objectives	Regular liaison with counterpart agency and substantive activities undertaken in first 12 months of IndII Review after 12 months to assess GoI commitment to IndII and whether foundations laid in first 12 months are strong enough to achieve IndII goal, purpose and objectives	AusAID Infrastructure Group Jakarta and Facility Director Board	First 12 months in particular then ongoing Initial review after 12 months and then periodically
Funding tied to AusAID budget year rather than to date contractor commences	Delay in engaging managing contractor	IndII funds will be unused diminishing overall impact of facility	AusAID identify several interventions within scope of IndII to commence prior to engagement of managing contractor AusAID strengthen partnerships with	AusAID Infrastructure Group Jakarta	During period prior to managing contractor commencing in Jakarta

Source of Risk	Risk Event	Impact	Risk Prevention & Mitigation	Responsibility	Timing
			multilateral and bilateral donors in Indonesia		
Technical Directors lack Indonesia-specific infrastructure experience or don't have required activity design experience	Poor activity selection and design	'Low-growth' activities implemented, which will undermine support from Treasury and DOFA for IFGI, generally, and IndII and Indonesia program, in particular	Strengthen technical capability of managing contractor through use of Technical Directors with close, ongoing liaison with AusAID infrastructure group in Jakarta	Technical Directors Board	Ongoing Periodically
Design and Content Risks continued					
Insufficient structure in facility components to give direction to the managing contractor	Lack of coherence in activity selection (a 'grab-bag' of activities)	Inability to build scale and strong institutional relationships reducing effectiveness of facility	Build in flexibility through IEI component and regularly assess coherence of the facility's portfolio of activities	Board	Periodically

Source of Risk	Risk Event	Impact	Risk Prevention & Mitigation	Responsibility	Timing
Lack of AusAID and contractor experience in infrastructure at sub-national level in Indonesia	Poor choice of provinces to work with at sub-national level	Lengthy implementation lag for activities, delayed disbursements and loss of available funding	Leverage off AusAID sub-national programs wherever possible Consult widely with relevant GoI agencies such as Ministry of Home Affairs, BAPPENAS and DG Fiscal Balance in Ministry of Finance	Facility Director and Technical Directors Board	From time to time when IPM component of facility expands to work with new provinces
Design does not allow for enough flexibility on type of activities to be undertaken within facility	Inability to respond to central government or sub-national government requests for assistance under IndII	Diminished relevance of facility and impaired relationship with counterpart	Incorporate an 'immediate and emerging issues' (IEI) component into the design and graduate IEI activities to main components of facility	Facility Director to liaise closely with GoI agencies on their needs	At engagement of Facility Director and ongoing from then on
AusAID programs become too closely aligned with multilateral programs	GoI becomes concerned at 'independence' of AusAID from multilateral donors	Reduced support from GoI and counterpart agencies for IndII which will impact	Find balance in activity design between developing partnerships with multilateral donors and strengthening AusAID's relationship with GoI	AusAID Infrastructure Group Jakarta and Facility Director	Ongoing

Source of Risk	Risk Event	Impact	Risk Prevention & Mitigation	Responsibility	Timing
		IndII implementation			
Management and Implementation Risks					
Managing contractor and Facility Director lack experience/ skills in working with agencies that will engaged under IndII	Inability to build strong relationships with GoI counterpart agencies	Delayed activity implementation, difficulty in achieving overall facility objectives and poor growth outcomes	Strong emphasis importance of building and maintaining key relationships in duty statements	Managing Contractor and Facility Director	At recruitment of Facility Director and Lead Advisors

Source of Risk	Risk Event	Impact	Risk Prevention & Mitigation	Responsibility	Timing
Management and Implementation Risks continued					
Lack of AusAID and contractor experience in infrastructure sector in Indonesia	Lengthy delay in identifying organisational and sectoral entry points for engagement at both the	Lengthy implementation lag for activities, delayed disbursements and loss of available funding	Make this a priority task for Facility Director and technical directors, who will also liaise closely with AusAID Infrastructure Group in Jakarta and main GoI counterpart agencies on entry points	Facility Director and Technical Directors	From start of managing contractor's engagement

Source of Risk	Risk Event	Impact	Risk Prevention & Mitigation	Responsibility	Timing
	national and sub-national levels				
Inadequate financial controls in government systems	'Leakages' in funds disbursement	Inefficient activity implementation , poor growth outcomes, and undermining anti-corruption elements of facility through tolerance of unacceptable financial management practices	Ongoing assessment of financial management practices in counterpart agencies Build anti-corruption components into activity design and link to incentives components Avoid engaging with agencies with poor record in financial management	Facility director and Lead Advisors Facility director and Lead Advisors	Ongoing Activity design stage
Lack of staff capability or interest in the facility in government agencies	Lack of support for implementing activities in national and sub-national government agencies	Delayed activity implementation and poor growth outcomes	Emphasise importance of building relationships and capacity in counterpart organisations in recruitment of technical directors and Lead Advisors	Facility Director Technical Directors	Ongoing At activity design stage

Source of Risk	***Risk Event***	***Impact***	***Risk Prevention & Mitigation***	***Responsibility***	***Timing***
			Factor time needed for relationship and capacity building into design of activities		

Source of Risk	***Risk Event***	***Impact***	***Risk Prevention & Mitigation***	***Responsibility***	***Timing***
Management and Implementation Risks continued					
Protracted procedures for disbursing funds through GoI systems	Delayed disbursement of facility funds to sub-national governments	Facility objectives not fully achieved	Get agreement of GoI agencies on most effective way of moving funds from national to sub-national level	AusAID Infrastructure Group Jakarta and Facility Director	At start of life of facility
Managing contractor not have experience in programs of this complexity and technical directors don't have required monitoring and evaluation	Inadequate ongoing monitoring and evaluation of activities	Reduced effectiveness of facility and poor growth outcomes	Strengthen M&E framework through giving Technical Directors a major role in the design of the framework Get 'buy-in' and participation of main GoI counterpart agency in the M&E framework	Facility Director , Technical Directors and Lead Advisors AusAID Infrastructure Group Jakarta and Facility Director	Ongoing Periodically At start of facility and at start of engagement of managing contractor
Political and Security Risks					

… Continued security concerns in Indonesia	… Worsening security in areas where IndII staff engaged	… Delayed implementation and potential difficulty in retaining/ recruiting staff to work on IndII	… Develop and implement a security plan for IndII and monitor security situation closely through AusAID and DFAT in Jakarta	… Facility Director	… Ongoing
… Tension in Australia-Indonesia bilateral relationship	… Decreased Indonesian political support for IndII	… Lack of support in counterpart agencies for IndII implementation	… Develop and maintain strong relationships with counterpart organisations and staff	… AusAID Infrastructure Group in Jakarta, Facility Director and Lead Advisors	… Ongoing

Key:

L = Likelihood (5 = Almost certain, 4 = Likely, 3 = Possible, 2 = Unlikely, 1 = Rare)

C = Consequence (5 = Severe, 4 = Major, 3 = Moderate, 2 = Minor, 1 = Negligible)

R = Risk Level (4 = Extreme, 3 = High, 2 = Medium, 1 = Low)

H Implementation schedule

	Level of input			2008				2009				2010				2011	
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Preparation Phase																	
AusAID Jakarta Infrastructure Advisor	1/4 Time																
Facility Managing Contractor																	
Facility Director	Full-Time																
Deputy Director	Full-Time																
Technical Director (IPM)	Full-Time																
Technical Director (P&R)	Full-Time																
Finance & Administration Team	Full-Time																
M&E Expert	Full-Time																
IPM Component																	
Lead Advisor 1	Full-Time																
Lead Advisor 2	Full-Time																
Lead Advisor 3	Full-Time																
Lead Advisor 4	Full-Time																
IEI Advisors	1 or 2 per month																
P&R Component																	
Lead Advisor 1	Full-Time																
Lead Advisor 2	Full-Time																
Lead Advisor 3	Full-Time																
Lead Advisor 4	Full-Time																
IEI Advisors	1 or 2 per month																

See also attached detailed schedule for the initial engagements proposed to commence under AusAID leadership.

I Indicative resource schedule and costings

	Unit	Total Units Per Year	Unit Cost	Year 1 (Full year) $	Months (3) $	Year 2 $	Year 3 $	Year 4 $	Total $
Facility Managing Contractor									
Personnel Costs									
Facility Director	Year	1							
Deputy Director	Year	1							
Technical Director (IPM)	Year	1							
Technical Director (P&R)	Year	1							
Finance & Administration team	Year	1							
M&E specialist (short term)									
Reimbursable Costs									
Establishment Costs (Year 1)									
IT and communications systems	Lump Sum								
Office fit-out & furniture	Lump Sum								
Car	Lump Sum								
Operating Costs (Annual)									
Office rental	Per year	1							
Photocopier lease	Per year	2							
Auditing of SPA	Per year	1							
Travel within Indonesia	Person Trips	30							
Telephone, fax, internet	Per month	12							
Translation and interpretation	Per year	1							
Office supplies	Per month	12							
Advertising	Per year	1							
Event hosting, sitting fees, entertainment	Per year	1							
Insurance (local)	Per year								
Vehicle running costs	Per year								
Other (please specify)	Per vehicle/year								
Management Performance Fee									
(based on 170% personnel costs excluding establishment costs)									

NOT PROVIDED AT STEP 1

J Suggested performance and impact assessment measures

Measures of impact

Table J.1 sets out some suggestions for measures of impact, where they are set out and reported and some suggested indicators.

J.1 **Overview of performance measures: monitoring for evaluation**

Measures	***Measures set out***	***Reporting***	***Types of indicators:***
IndII outcomes/impacts - aggregate	M&E Plan – draw on IFGI and CPS performance frameworks	MC – Board Report IAT – yrs 3&4 Impact Assessment	Contributions to changes in: Quantity of physical infrastructure (eg. km of roads) Quantity/scope of service (eg. power MW, households connect to water) Speed of development (months to completion) Quality of development (improvement relative to baseline) Useful lifetime (years adjusted for maintenance cost) Private investment (sectoral investment growth, share of GDP)
Outcomes/impacts per engagement, contribution to IndII objectives, other impacts	SPS Strategy - SERs	MC – Board Report IAT confirmation	
Intermediate outcomes, contribution to outcomes/impacts	Workplans	MC – Board Report IAT confirmation	Steps to achieving the next level. Eg. Legislation passed/implemented Design completed/tested/accepted Competitive contracting strategy developed/successfully undertaken System/process developed/used Capacity utilised
Outputs, quality of output, contribution to intermediate outcomes	TORs	APCRs – consultant Partner agency confirmation MC _ Board report – summary only	Legislation advice/drafted Design contracted/completed Competitive contracting advice/ strategy developed Capacity built
Performance assessment: efficiency effectiveness value for money	Agreed performance measures – milestone setting years 3 & 4	AusAID and MC	Efficiency – timeliness, costs of transacting, record keeping, accuracy Effectiveness – relationships, content management, contractor selection, financial management Value for money assessment
Achievement of the guiding principles	Activity TORs, SPS strategy, SERs	MC – Board Report IAT confirmation	Process indicators: FMC models good governance Gender etc. considered in identifying and developing strategies Gender etc. considerations reflected in strategies Outcome indicators: to draw on AusAID measures where possible
Financial management	Financial report template	Financial audit – External Audit	

Baseline surveys

The IndII aims to build capacity in government agencies to improve the planning and management of infrastructure project and to promote regulatory and policy reform. With the development of a strategy for engagement the current situation and where the agency wants to get to, need to be recorded. A baseline survey will assist in providing this information and also in recording the baseline against which changes can be assessed in an impact assessment.

Table J.2 sets out some suggestions on areas that might be covered by the survey. The actual content will depend on the strategy being undertaken. This list is meant to be indicative only. For some measures actual data will be available, others will be the assessment of agency staff.

J.2 **Suggested contents of baseline surveys**

Capacity measures (general)	***Indicators of change***
Level of skills - competencies	Overall staff qualifications, related skills development
Organisational structure	Revised organisational structure – fit for purpose
Outputs per unit input	Units processed per person day, other measures as appropriate
Clarity in responsibilities	Duty statements – fit for purpose
Extent of participation/input into decision making	Number of topics for which analysis provided/quality of analysis
Confidence of staff in capacity to undertake assigned tasks	Staff survey – changes in tasks assigned, confidence in capacity to complete tasks
Infrastructure project management	
Elapsed time to each phase in a project development	Changes in elapsed time per phase
FTE days work required for each phase	Changes in FTE work required for each phase
Extent of to which processing system follows clear rules (number of points where decision maker has discretion)	Changes in number of points for discretion
Number and comprehensiveness of quality assurance checks	Changes in number and quality/comprehensiveness of QA checks
Mechanisms for accountability of decisions and utilisation	Changes and their implications
Extent of competitive contracting out of design and construction	Changes in share of expenditure contracted out on a fair competitive basis
Extent to which costings are overrun on average	Costing overrun on IndII supported project, subsequent projects
Share of long term maintenance costs included in on-going budget allocation	Share of maintenance costs budgeted for IndII supported projects, subsequent projects
Construction related measures	
Unit cost per kilometre of road and variability in this	Unit cost in IndII supported project
Points of engineering oversight during construction	Changes in number of points and nature of points

K Flow of grant funds

The purpose of the grant

The IndII grants under the Infrastructure Enhancement Grant component are competitive grants to national and sub-national government agencies to enhance the safety and/or maintenance features of a specific infrastructure project. This could be to improve drainage or widen shoulders on roads, build pedestrian overpasses over rail way lines, improve station amenities, or build five years of maintenance into the construction contract. Any agency undertaking and infrastructure projects (including upgrades and restoration as well as new infrastructure) that is supported in some way by donors, where the donor agency can assist in the grant application, can apply for the grant.

The grant applications will be assessed against the criteria by the IPM Technical Director and complying grants forward to the IndII Board for ranking. The IndII Board is made up of AusAID, BAPPENAS and other GoI agencies. The grants will be funded in order of rank up to the level of funding available in that year.

Options for making the IndII grants

The MC is tasked with developing with BAPPENAS an acceptable approach to the flow of grant funds. Some possible options are provided below as a starting point for discussion.

- Utilize current government processes for disbursement of grants. Under this option the IndII would transfer funds to the Ministry of Finance through the Directorate General of Treasury of the Directorate General of Fiscal Balance, with agreement for on-granting to the relevant agency. Negotiations will need to focus on how quickly the on-grant can be made, and the guarantees that can be provided for the level of grant available to fund the enhancement project.
- Establish a Trust Fund with BAPPENAS to hold monies until enhancement activities are ready to be contracted, and have BAPPENAS contract the activities. The IndII will need to provide support to BAPPENAS to undertake such contract negotiation and management. This has the advantage of allowing funds to be dispensed from AusAID, and it also gives BAPPENAS oversight responsibility for ensuring the monies are well spent by the contractor. The disadvantages are that it by-passes current government systems as the funds remain off-budget, and sub-

national governments may resent the level of national involvement in their area of responsibility.

- Establish a Trust Fund with the agency involved with the monies to be used to pay the contractor undertaking the enhancement. This has several disadvantages. It is not consistent with the current national guidelines, and so is unlikely to be acceptable to the national government. It may also involve considerable extra effort in establishing and ensuring multiple Trust Funds are managed according to Australian Government requirements. The advantages are that it allows rapid disbursement for IndII, and the agency has control of the funds and can structure contract payments to get the best performance from their contractor.
- IndII to directly contract the providers of the enhancement projects. Under this option the IndII would channel grant funds directly to finance sub-national activities by undertaking procurement and managing the enhancement projects rather than placing the grant funds directly in the institution. An advantage is that it guarantees that all of the grant funding goes to the enhancement project. The disadvantage (other than not complying with current legislation), is that organizing such contracts takes time and this will slow the disbursement rate. This may be a particular problem where the grant is to projects supported by other donors, which may have many other influences affecting the timing of expenditure. Also it will be difficult to structure contracts with progress payments over several years as might be appropriate for enhanced maintenance contracts.
- Establish a Trust Fund with the donor agency supporting the project (where it is not the IndII) with the understanding that the funds are to be used for the enhancement project as set out in the grant application. This has several advantages where the donor agency systems are acceptable to AusAID as meeting required compliance standards. In such cases it is a relatively low cost option. It also aligns with the principle of donor cooperation. And it allows rapid disbursement of funds from IndII. The disadvantages arise where the donor systems are not considered sufficient and additional IndII oversight is required, where the donor lacks the capacity to contract the enhancement project, and where the agency involved is marginalized by this donor to donor process. These are all risks that can be managed.

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