
**Indonesia Infrastructure Initiative
Phase II Implementation Document
July 2011 - June 2015**

WORKPLAN & ANNEXES

CONTENTS

Acronyms and abbreviations.....	3
Proposed Forward Workplan	4
1.1 Introduction.....	4
1.2 Delivery modalities	4
1.3 Water and Sanitation (Watsan)	6
1.4 Transport	11
1.5 Infrastructure Policy and Investment.....	14
ANNEXES	17
Annexe 1: QAE Assessment Criteria.....	17
Annexe 2: Monitoring and Evaluation	27
Annexe 3: IndII Risk Matrix.....	29

LIST OF FIGURES

Figure 1: Proposed Phase II (non-contract) expenditure	5
Figure 2: WSI Water Hibah connections as % of PDAM average annual increase in household connections.....	7
Figure 3: Potential Phase II follow-on Watsan activities.....	11
Figure 4: Potential Phase II follow-on Transport activities	14
Figure 5: Potential Phase II follow-on Policy & Investment activities.....	16

Acronyms and abbreviations

ADB	Asian Development Bank
AIP	Australia Indonesia Partnership
AMDAL	<i>Analisa Mengenai Dampak Lingkungan</i> (Environmental Impact Assessment)
AMPL	<i>Air Minum Penyehatan Lingkungan</i> (Water and Environmental Sanitation)
APBN	<i>Anggaran Pendapatan dan Belanja Negara</i> (Indonesian State (National) Budget)
ARF	Advisor Remuneration Framework
AusAID	Australian Agency for International Development
Bappenas	<i>Badan Perencanaan dan Pembangunan Nasional</i> (National Development Planning Agency)
BLUD	District Services Delivery Body
BPP SPAM	Supporting Agency for Water Supply System Development
CMEA	Coordinating Ministry for Economic Affairs
CSS	City Sanitation Strategy
DED	Detailed engineering design
DGCK/DGHS	Directorate General of Human Services (Ministry of Public Works)
DPU	<i>Departemen Pekerjaan Umum</i> (Department of Public Works)
EAM	Extension Assessment Mission
EII	Economic Infrastructure Initiative
FRPD	Facility Review and Planning Document
G-G	Government to Government
GoA	Government of Australia
Gol	Government of Indonesia
Hibah	Grant (as in “Water Hibah” or “Sanitation Hibah”)
IDPL	Infrastructure Development Program Loan
IEG	Infrastructure Enhancement Grant(s)
IFGI	Infrastructure for Growth Initiative
IndII	Indonesia Infrastructure Initiative
ITSAP	Indonesia Transport Safety Assistance Package
LG	Local Government
MDG	Millennium Development Goal
MOCIT	Ministry of Communication and Information Technology
MoF	Ministry of Finance
MoHA	Ministry of Home Affairs
MPW	Ministry of Public Works
MTEF	Medium Term Expenditure Framework
MTR	Mid-term Review
OBA	Output-based aid
PAMSIMAS	Third Water Supply and Sanitation for Low Income Communities
PBB	Performance Based Budgeting
PDAM	<i>Perusahaan Daerah Air Minum</i> (Local government-owned water company)
PDPAL	Wastewater Services Company
PEMDA	<i>Pemerintah Daerah</i> (Local government)
PPP	Public Private Partnership
PSO	Public Service Obligation(s)
P2ID	Phase II implementation document (P2ID)
RPJM	Medium Term Development Plan of Gol
TA	Technical assistance
TD	Technical director
TT	Technical team
Watsan	Water and sanitation
WB	World Bank
WSI	Water and Sanitation Initiative
WWMP	Wastewater Master Plan

PROPOSED FORWARD WORKPLAN

1.1 Introduction

Continuity is an essential underlying theme of the IndII forward program. Phase II activities build upon and, in some cases, extend foundation work conducted successfully during Phase I. Consistent with IndII Management Board recommendations, there will be no immediate major changes to IndII's sectoral focus or its direction in Phase II. The overall program will continue the bi-sectoral focus provided by the *water and sanitation* theme, and by the *roads and non-roads transport* theme. A third theme will continue to focus on a range of other infrastructure *policy and financing* activities, of which most build on the base established in Phase I.

However, continuation of the current strategic focus and direction does not imply a static approach to program design and implementation. Phase I is providing the foundation for considerable scaling-up of activities, as well as further strengthening and deepening of the current engagement with GOI. In addition, organic growth of the program, coupled with the longer time horizon, will enable IndII to develop a number of important new activities to complement existing programming. An example of this type of organic growth is the planned development of a solid-waste program, to build on preparatory project work to date in this sector, and to complement IndII's work in wastewater and city sanitation master-planning. Likewise, another logical extension of the Facility's wastewater work will be to develop programming in drainage, given the common problem of storm-water infiltration of many Indonesian city sewer systems.

The longer timeframe planned for IndII Phase II provides opportunities for a range of new programming possibilities which have not been pursued due to the Phase I June 2011 program end-date. This is particularly applicable to grants which require time to move from gestation to implementation, to operate efficiently through GOI mechanisms, and to achieve intended outcomes. New programming opportunities in grants that may be considered in Phase II include: investments in road safety demonstration projects, community based water supply systems upgrades, and village-level electrification. This is in addition to an expansion and scaling up of existing grants program in Watsan.

The longer time horizon also allows IndII to develop some crucially important programming in institutional reform, including the development of pilot BLUDs (semi-autonomous service delivery agencies at the local level) to complement and reinforce parallel efforts to plan and implement new sanitation systems in selected cities. Other institutional reform possibilities include the mainstreaming of medium-term expenditure frameworks (MTEF) and performance-based budgeting (PBB) at the Ministry of Public Works (MPW), and the development and empowerment of the recently-formed port authorities. These, and other institutional reform programs, will build on and extend existing programming, thus providing another element of continuity to the IndII forward work program.

The purpose of this document is to map out the approach and key elements of the proposed forward workplan for the second phase of IndII, expected to begin in July 2011. It has been prepared by the IndII managing contractor - SMEC, taking into account GOI partner requests, input from the Management Board, and from Technical Teams and AusAID, as well as the findings and recommendations from the various internal and external reviews and assessments of the program undertaken in 2010.

1.2 Delivery modalities

Whilst the primary focus and direction of the program remains unchanged, there are likely to be important changes in the modalities of delivery in Phase II. In short, there will be much greater emphasis given to grants design and management as well as other project preparation. This will be driven largely by the opportunities for IndII to design and implement grant programs that are funded through direct GoA to GOI (G-G) linkages. An example of this type of G-G funding arrangement is the *Water and Sanitation Hibah* components of the WSI program in Phase I. IndII designed and managed both hibah using long- and short-term technical assistance; however the funds for the infrastructure investment were transferred directly from GoA to GOI.

In Phase II, IndII will continue - and expand on - this role to assist in the design and development of a number of other possible infrastructure grants. Phase II grant programming opportunities are discussed in

greater detail below. Beyond grants, IndII will also give greater emphasis to other project preparation activities including, for example, wastewater and solid waste master plans, detailed engineering designs, etc. Greater emphasis on project preparation will result in a smaller share of resources for policy work. This will mean greater contestability between proposals for policy technical assistance by GoI agencies.

Contestability will also be a crucial element of the forward program for grants. LGs will need to compete for grant assistance through their counterpart commitments. Well-designed and communicated conditionalities for grant funding will help maximise the additionality of the grant investment, and avoid the redundant funding of infrastructure. The use of output-based or performance-based modalities ensures that grant investments will be made only when key milestones have been achieved. Well-designed and implemented grants can have a transformational role, as is now being seen in the Water and Sanitation Initiative (WSI) *Water Hibah*, which has catalysed new local government (LG) investment in household water connections (after many years of flat investment).

As noted in Figure 1 below, IndII expects to limit purely policy/regulatory technical assistance (TA) to around \$A 5 million a year and approximately \$11-12 million in project preparation and infrastructure management TA. The first allocation will cover assistance for various policies, guidelines, and standards as well as institutional strengthening and reform measures. The second will cover a broad range of project preparation activities, including grant preparation, master plans, detailed engineering designs, etc.

The table below also maps out some numbers for possible G-G funded grants programs to be designed and implemented by IndII in Phase II. These numbers are, at best, preliminary and purely indicative, as the successful development of new grant programs would require policy and institutional support from relevant GoI agencies, as well as availability of funding sources from GoA. The figures provided are based on outcomes IndII believes it can realistically achieve, given the requisite approvals and support from both GoI and GoA. The various grant programs are discussed in greater detail below.

Figure 1: Proposed Phase II (non-contract) expenditure

	2011/12	2012/13	2013/14	2014/15	Four year total
IndII Technical Assistance					
Policy, planning and institutional strengthening	4	6	8	2	20
Program and project preparation	6	18	16	6	46
TA subtotal	10	24	24	8	66
Grants (G-G funded)					
Water Hibah*	15	25	30	10	80
Sanitation Hibah*	1	1	1	2	5
Sanitation IEGs*	10	13	15	2	40
Community Water Supply Hibah	5	5	10	5	25
WWMP Sewerage (one city)			15	15	30
Sub national Roads Hibah			18	20	38
Road Safety Demonstration Treatments		4	6	8	18
Others (busway, PDAM governance etc)	1	1	1	1	4
Grants subtotal	32	49	96	63	240
TOTAL (IndII TA plus external grants)	42	73	120	71	306
* denotes expansion of existing program.					

Enhanced cooperation with other donor agencies will also be a feature of Phase II. For example:

- An early collaboration with USAID will see a \$US10M grant for *Water Hibah* managed through IndII Phase II;
- IndII's track record of productive engagement with the Asian Development Bank (ADB) will continue, involving further support for the wastewater master planning (WWMP) process to improve readiness for ADB loans, and possibly co-financing implementation; and
- The World Bank (WB) continues to seek collaboration with IndII on new and continuing Watsan projects as well as a number of transport activities, including the recent "connectivity initiative" with GoI.

IndII's technical directors and consultants have built collaborative and productive linkages across a number of GoI agencies – and with provincial local governments and regencies. Already IndII has international experts, lead advisors and sector ***specialists out-placed in some key agencies***. Depending on demands which emerge throughout the second phase, IndII will consider requests from other agencies to locate lead advisers and consultants within those organisations.

As noted earlier, during Phase I, IndII has necessarily adopted a risk management approach based on ***progressive engagement*** that requires a cautious initial engagement with partner agencies in order to develop sound mutual understanding and trust, and to better understand partner agency needs and how IndII can meet these needs and minimise risks. Engagement typically begins with concept development and scoping, leading to more detailed designs, and then to progressively larger implementation activities. Placement of lead advisers in agencies suggests IndII enjoys a more mature engagement with the counterpart agency - with a relationship based on mutual trust and commitment.

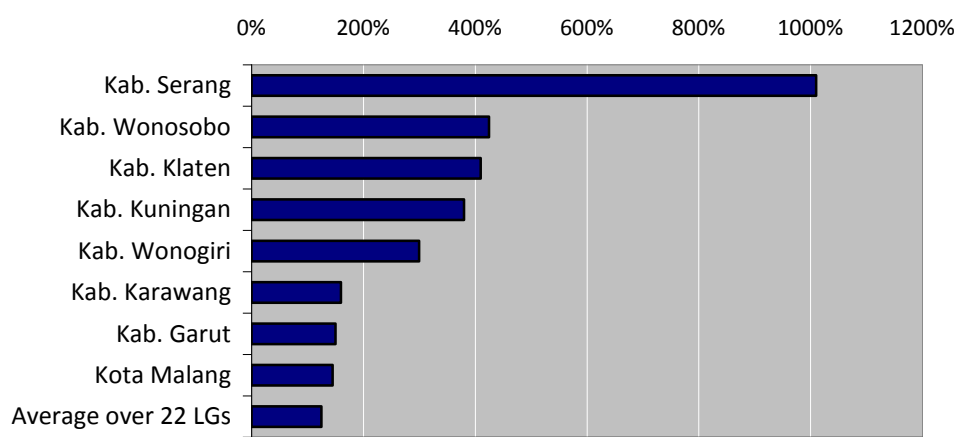
While counterpart engagement in Phase I has necessarily meant working with GoI agencies, in Phase II, IndII will propose to the Board to also allow ***formal engagement with non-government agencies***. This will allow research centres, academic institutions, non-government organisations (NGOs) and other civil society groups to request assistance from, and work with, IndII on selected programs; and will also allow IndII greater potential for addressing cross-cutting issues such as gender, disability and environment. It may also enable the placement of lead advisers and short-term consultants in these non-government institutions. One possibility in this regard is the placement of a lead advisor on urban mobility within a suitable national non-government institution focused on transport issues. This may be necessary, as IndII is likely to work with a number of local governments, and there is a lack of direction and policy on urban mobility issues at the national level.

The current operational arrangements which require IndII to seek funds for design, scoping, procurement and related activity development tasks, *before* an activity has been approved for AusAID funding is time and resource intensive. In Phase II, IndII will be more effective if it has the option for some activities to operate under a "revolving fund" for activity design and development; a fund that can be monitored consistently and replenished once an activity is fully designed and has been approved. This flexibility will encourage IndII to be more responsive to emerging AusAID and GoI priorities during Phase II.

1.3 Water and Sanitation (Watsan)

In Phase I of IndII, the Watsan design objective was to improve households' access to safe water and sanitation services. The design of the program and the mode of delivery were aimed at ensuring the sustainability of these improvements. To achieve this, the Watsan program uses GoI systems and procedures in its implementation. The Phase I program remains on track to meet these objectives. The GoI and a number of development partner agencies are demonstrating an increasing interest in the IndII Watsan program, particularly the grants components and the methodology for their delivery. The *Water Hibah* and *Sanitation Hibah* are key grant components of the Watsan program. The design of the hibah requires local government to invest in the PDAM - and for the PDAM to expand services to poor households. This design addresses the marked decline of LG investment in PDAMs during the past decade. The Hibah program has demonstrated success in the first six months of its implementation, evidenced by the dramatic increase in investments in PDAMs by LGs participating in the Phase I *Water Hibah* (Figure 2). On average, LGs participating in the *Water Hibah* Phase I have more than doubled their average annual investment in new connections.

Figure 2: WSI Water Hibah connections as % of PDAM average annual increase in household connections



Note: Selected PDAM data from BPPSPAM reports for 2006, 2007, and 2008.

Based on the demonstrated success of the current program, IndII proposes to continue most existing water and sanitation activities into IndII Phase II. In particular, IndII plans to scale up its “banner programs”, including the *Water and Sanitation Hibah*, the Wastewater Master Plans, Community Based Organisation (CBO) Water Supplies, and the Sanitation Infrastructure Enhancement Grants (IEGs)¹. To ensure continuing innovative collaboration in the Watsan sector, IndII is also proposing a number of new intervention initiatives and refinements to these programs. These are identified below, and an overview provided of IndII’s plans to build on its existing Watsan support programs.

The underlying theme of all IndII Watsan programming is the ongoing need to improve LG engagement in, and support for, the delivery of water and sanitation services. IndII will pursue this through a variety of modalities, including grants to incentivise new LG investments in services, as well as other measures to improve the external governance of water and sanitation services.

The IndII **Water Hibah** program has received strong support from participating GoI agencies – and from local governments. The Phase I program will result in approximately 65,000 connections to poor households and will benefit almost one-third of a million people (assuming roughly five beneficiaries per household). The GoI has agreed to accept a USAID grant of \$US10 million for *Water Hibah*, modelled on the IndII program. USAID is negotiating with AusAID to implement this program through IndII Phase II. The USAID program will generate 38,000 connections in 22 local governments. The GoI’s Directorate General of Human Services (DGHS) has a target of achieving 7 million new water supply connections in the period 2010 to 2014; the present urban population served by piped water is some 40 million people. This represents approximately 34% of the urban population – with an “un-served” balance of 77 million people, in approximately 15.4 million households. Assuming that approximately 15% of these households meet the poverty criteria of the *Water Hibah*, the potential demand for poor households to connect is approximately 2.3 million. The IndII program in Phase II, together with the USAID grant, aims to address approximately 10% of this demand over the four years of the program.

A key factor will be the number of LGs included in the Phase II program. IndII favours a degree of consolidation, which would result in fewer LGs competing for and receiving, on average, larger grants. While this is a desirable objective, to a large extent it will be driven by the profile of the LGs from which the demand is realised: at the higher end of the scale, 300,000 connections over four years in 90 LGs, would result in a budget of \$24 million per year in *Water Hibah* grants; at the lower end, 200,000 connections in 90 LGs results in \$15 million per year in grants. However, the probable program size is likely to be around 250,000 connections in 90 LGs, requiring an average of \$20 million per year - and therefore a total *Water Hibah* program of \$80 million over the four-year period.

¹ Infrastructure Enhancement Grants (IEGs) were part of the IndII Phase I contract, and hence funded internally through IndII. In Phase II all grants will be funded by direct G-G arrangements, so the terminology “IEG” will no longer be used in the next phase of IndII.

IndII will prepare a transition plan to ensure continuity of the *Water Hibah* program after June 2011. The Transition Plan will include three components:

- (a) review of the LGs/PDAMs in the current program to identify residual capacity to extend the hibah in some LGs;
- (b) fast tracking of some new LGs/PDAMs with proven capacity for FY 2011-12 Hibah uptake; and
- (c) a longer-term, multi-year hibah program for weaker and needier LGs.

The fast track component of the program would require PDAMs to pre-finance the implementation. This is to be avoided in the main program but this compromise may be necessary in the first year to ensure continuity in the *level of activity* of the Hibah program.

Key design improvements and new provisions to be included in the Phase II *Water Hibah* program include:

- *Multi Year Implementation*: The design of the Hibah program in the next IndII phase will retain the essential features of the current program but will be enhanced by including some special features, most significantly - implementation over three and a half years.
- *Pre-Financing by LGs*: The present program has been constrained by time, and required many PDAMs to pre-finance the initial implementation. Although many did so and completed their programs early, many others could not achieve this - or were limited in what they could pre-finance.
- *Linkages and Depth*: Better linkages will be developed between the *Water Hibah* and other IndII programs, notably the “20 PDAM” program that seeks to maximise interest rate subsidies and capital guarantees made available through *Perpres 29/2009*.
- *Differential Grants*: IndII has introduced differential grants under the IEG program, and may examine the option of having differential scale of grants for fiscally strong, average, or weak LGs. This will allow DGHS to nominate larger cities (such as Surabaya, Bandung, and Medan).
- *Capacity Building and Technical Assistance*: The GoI grant mechanism allows GoA to provide grants to central, provincial and local governments.

In Phase II, IndII will significantly revise the ***Sanitation Hibah*** from its present form. The current design of the hibah requires equity investment by the LG into the wastewater operating company. While this requirement works well for water supply, it is very restrictive for wastewater. The problem is the virtual absence of wastewater companies. Although almost every LG has a water company, there are only eight LGs that have wastewater companies. It is these eight LGs only that can qualify for the *Sanitation Hibah* in its present form. A key modification to the *Sanitation Hibah* will make the equity investment an optional requirement. This will make it possible for any (of approximately 550) LGs in Indonesia that have some form of sanitation service provided by LGs to qualify for sanitation grants.

There are two changes proposed for the *Sanitation Hibah* in Phase II. The *first* change is to scale down the purely output-based grant in its present form, recognising that it will be selectively applied to those LGs that have the appropriate operating authorities (PDAL or PDAM). Of the LGs participating in the current program, Banjarmasin, Bandung, and Surakarta have the capacity to absorb additional hibah. The expansion of sewer systems in Jakarta, Tangerang and Medan will add demand for *Sanitation Hibah* but this will be post-2012. The output-based sanitation hibah represents a “premium” grant to LGs, because it has more onerous qualification requirements - and governance outcomes of greater consequence. IndII estimates that approximately 7,000 additional connections can be achieved in the existing systems in Phase II, requiring approximately \$4 million in grants.

The *second* change to the sanitation hibah is to provide for a “performance-based” grant that does not require equity investment, but which does require LG investment in sanitation (sewerage). In this form the *Sanitation Hibah* will be folded into the other grants for sanitation (see below) . The value of grants for sewerage under the “performance-based” grant option will be set lower than the output-based option, to reflect the greater contribution of the LG in the output-based hibah.

Grants for Sanitation The IndII Phase I program for Sanitation infrastructure enhancement grants involves 22 LGs with a total grant value of \$6 million. The grants are applied to infrastructure for communal sanitation and solid waste facilities. The sanitation grants in Phase II will have greater scope while still being limited to construction of fixed infrastructure. Phase II grants will include drainage works and small-scale

sewerage schemes. As in Phase I, the grants will be awarded to those LGs that: are complying with the GoI policy of sanitation development as contained in the PPSP program; have completed and endorsed City Sanitation Strategies (CSS); or have Medium Term Investment Programs (RPIJM) endorsed by DGHS.

The Sanitation grant program will be implemented over multiple budget cycles. This will allow the grant to be awarded for three years but to be disbursed in tranches; each tranche contingent on adequate performance in the previous year. This arrangement will provide greater leverage and ultimately greater benefits from the program. The Phase I IEG program, because of its “performance-based” design, is very attractive to local governments, and demand has exceeded supply. In anticipation of significant demand in Phase II, the selection and pre-qualification process for LGs will be enhanced. The DGHS will undertake widespread dissemination of the program to those local governments that meet the primary entry requirements, before proceeding with selection.

The Phase I IEG program provides an average of \$250,000 per LG for essentially a one-year implementation period. In Phase II, the inclusion of drainage and small-scale sewerage will increase the grant size to approximately \$400,000 per LG. The application of the program over multiple years could result in grants in the range of \$1.0 to \$1.5 million per LG over three Indonesian fiscal years. Approximately 100 LGs would qualify for the Sanitation grants. These are the 44 existing LGs with CSS, and the 63 additional LGs with CSS in preparation during 2011. This number of cities will increase to 330 by 2014.

Based on these figures, a total *sanitation grant allocation of \$25 - \$40 million over four years* would represent about 20% to 25% of the likely demand from the 100 potential LGs. There are significant design issues on how to respond to the demand. The LG selection and grant allocation criteria will aim to arrive at about 40% of qualifying LGs entering the program and an average grant value in the range \$0.5 to \$0.75 million. In practice the grants for each LG may range from \$0.25 million to \$1.5 million, over three fiscal years.

Wastewater Master Plans The IndII program in Phase I for preparation of *Wastewater Master Plans (WWMP)* for eight cities responds to the GoI policy objective to develop sewer systems in at least five new cities during the current five-year planning period (2010 – 2014). During the preparation activity, IndII is coordinating with the ADB who have allocated \$400 million in a multi-tranche loan facility to implement those master plans that are successfully appraised by GoI/ADB.

In Phase II IndII will continue with this activity through three separate work streams:

1. IndII will continue support to WWMP preparation process to include other preparation activities necessary for project implementation. In particular this will include environmental impact assessment (EIA), land acquisition and resettlement requirements, and social safeguards. Once the LGs (and their WWMPs to be implemented) have been identified, IndII will prepare detailed engineering designs (DED) and tender documents for the main sewerage and wastewater treatment plant components. It is expected that a maximum of five cities will be implemented. Note that the EIA and social safeguards activity for five cities will be approximately \$700,000 per city - a total of \$3.5 million, and the DED and tender documents for sewerage and wastewater treatment plants will be approximately \$1.2 million per city - a total of \$6 million.
2. IndII will support another GoI-stated policy objective to increase sewerage coverage from existing systems to reach 20% of the service population. This will require feasibility studies and investment proposals to expand some of the existing 11 systems to achieve the GoI target coverage. There is considerable interest from multilateral development banks notably World Bank and ADB to participate in this activity,. These MDBs have difficulty in committing and mobilising funds for project preparation and have approached GoI to solicit AusAID support, through IndII, to prepare the system upgrading investment proposals for funding through MDB loans. Realistically only Bandung, Banjarmasin and Tangerang are likely to be included. The preparation of system expansion feasibility studies, including DED, could be in the order of \$2 million per city for a total of \$6 million.
3. IndII in Phase II will have the option of implementing some components of the WWMPs which are appraised by GoI/ADB, or alternatively implementing the full investment of one or two cities with the funding coming through GoI as grants or loans. This component has the potential of achieving the greatest impact on decentralisation in the delivery of wastewater infrastructure, institutional

development of the sector, and governance objectives at the LG. The option of financing the full investment will allow AusAID to guide the financing arrangements in accordance with GoI fiscal policy. The implementation of the sewerage infrastructure for one city would be in the range \$20 - \$30 million over three to four years. For two cities it would be in the range \$40 - \$55 million. A similar level of investment overall would be required if IndII were to co-finance the communal and on-site infrastructure with ADB for five cities. These investment figures will be confirmed as the Phase I WWMP activity progresses.

Community Based Water Supplies (CBOs) Assistance to CBOs to improve water delivery in peri-urban and low income areas complements the bulk of IndII's other water programming that focuses primarily on PDAMs. During Phase I IndII is implementing a pilot activity in 25 CBOs to assess the possibility of: (i) providing CBOs access to credit to expand their systems; and (ii) combining a number of existing CBOs to attract private providers of operations and maintenance services at cost effective rates. The Phase I activity indicates that there is significant potential to scale up the program and mainstream it through judicial use of the GoI grant mechanism. Two levels of grant are envisaged: the first would be an output-based grant to LGs that prepared CBO expansion proposals or multi CBO operations proposals; the second-level grant would be to the CBO to assist them to leverage borrowing or to support other sources of funding (including LG) to construct the expansion schemes.

The Phase I activity is input intensive. By involving local governments more directly in supporting multi-village CBO activity, IndII believes it can scale up the program during Phase II, and provide a more cost-effective and efficient approach to providing water to Indonesian villages and peri-urban areas. With 15,000 CBOs currently operating water supply systems (and estimated to expand to 50,000 in the mid-long term) IndII proposes to support up to 625 CBOs in 25 districts. The average level of support to each CBO would be about \$20,000, in addition to support for each LG of approximately \$500,000. The total allocation to a Phase II program for 625 CBOs in 25 districts would be approximately \$25 million.

Solid Waste Management IndII is conducting a solid waste sector scoping study during Phase I to identify potential areas of intervention in Phase II. The scoping study team met with GoI counterparts, LGs, and other development partners. Initial indications are that support will focus on assisting GoI agencies and LGs to comply with the recently enacted Solid Waste Management Law by blending technical assistance with grants, to meet the demands of increasing urbanisation on solid waste disposal. When the scoping study is complete by end-March it will provide a clearer and more strategic approach to solid waste management under IndII Phase II. The scope for intervention identified so far includes two major areas of inputs:

- *First*, preparation of master plans and project proposals for two or three regional solid waste disposal facilities that comply with the solid waste law, similar to the Mamminasata installation supported by IndII in Phase I. The potential regional centres include Bandung, Surabaya, Medan, and Semarang. The preparation would include an environmental assessment and detailed engineering design. The average cost for each regional facility would comprise approximately \$1.5 million (master plan/project preparation, and feasibility studies); \$400,000 (EIA); and \$1.4 million (DED) for a total investment of approximately \$3.3 million per site. The physical investment requirements would be in the order of \$40 million.
- *Second*, IndII Phase II will offer the Directorate General of Human Services (DGHS) and LGs support across three areas: technical advice and solutions; institutional management; and potential PPP arrangements. The TA component is likely to require approximately \$3 million over four years.

NTT/NTB Water Governance IndII's support for water governance in NTT/NTB, currently a pilot activity in five LGs in NTT and NTB, may readily be extended to other locations. The benefits of the NTT/NTB pilot project can be significantly enhanced by linking future extensions of the program to the *Water Hibah* and providing access to the grants program as an additional incentive to LG. The implementation of a "social contract" has proved to be very effective to date, and extension of the pilot program to poorly performing PDAMs in other different and diverse locations is a logical extension of the activity into IndII's next Phase. At present, it is proposed to extend the water governance project to 16 LGs in the provinces of Maluku, Sulawesi, and Papua as well as NTT and NTB: the value of the assistance would total approximately \$5 million over four years.

IndII is preparing the framework for a **Water Supply and Sanitation Index (WSSI)** an easily-understood, governance-oriented index that informs consumers if their water and sanitation services are (comparatively) good or bad; it will be rolled out from June 2011. The index will be designed to leverage the power of the consumers for better governance of water and sanitation service providers, ultimately leading to better services. WSSI scores would identify areas needing improvement; and a parallel governance assistance program would be available to help them take any difficult steps to fulfil their responsibility for water and sanitation services.

Figure 3: Potential Phase II follow-on Watsan activities

Phase I WATSAN Activity	Possible Phase II follow-on activities
<ul style="list-style-type: none"> WSI water hibah 35 LGs (\$20 million - 76,000 household connections) 	<ul style="list-style-type: none"> Water hibah, 90 LGs (250,000 connections, \$80 million , \$20 annually)
<ul style="list-style-type: none"> WSI sanitation hibah \$5 million - 10,000 connections 	<ul style="list-style-type: none"> Sanitation Hibah - \$4 million - 7,000 connections (\$1 million annually)
<ul style="list-style-type: none"> Sanitation IEGs; 22 LGs in one year (\$6 million) 	<ul style="list-style-type: none"> Sanitation grants to include drainage and small scale sewerage - 100 LGs over 4 years; \$40 mil
<ul style="list-style-type: none"> Watsan service index concept and design 	<ul style="list-style-type: none"> Index implementation and follow up regional diagnostics and associated capacity building - 200 LGs \$2.5 mil
<ul style="list-style-type: none"> CBO water - 25 CBOs component 1; 20 CBOs component 2; \$960,000 	<ul style="list-style-type: none"> Development of LG grants for investment in CBOs; Scale up to 500 CBOs in 20 LGs; \$25 mil over 3.5 years.
<ul style="list-style-type: none"> NTB/NTT water governance 5 LGs; \$0.75 mil 	<ul style="list-style-type: none"> 16 LGs in NTT, NTB, Maluku, Sulawesi, Papua \$5 mil over 3.5 years.
<ul style="list-style-type: none"> WWMP (preparation) 	<ul style="list-style-type: none"> WWMP investment in one city \$25-40 mil. Over 3 years - or equivalent investment in co-financing with ADB over 4 cities.

1.4 Transport

The IndII Transport program has grown substantially during 2009 and 2010, doubling in size from 16 to 34 activities, with a concomitant tripling of the approved budget, from some \$5 to \$15 million. Government initiatives in this sector have been identified across three transport sub-sectors: (a) roads and road safety; (b) urban transport and mobility; and (c) air, sea and rail transport modes. Early work focussed on building institutional relationships and on developing scoping activities. Thereafter, there has been a progressive engagement across the three main transport sub-sectors. Whereas assistance in some sub-sectors is now considered as maturing (in Road Safety, and in the broad program of Roads support at DGH), other assistance is considered as embryonic (e.g. in Urban Transport).

The sections below map out transport programming possibilities for Phase II. Note that given the relatively high market rates for specialised skills in this sector (such as aviation lawyers, port operations experts, and transport sector institutional reform specialists), the recently announced AusAID *Advisor Remuneration Framework* (ARF) will likely impact upon IndII's ability to program certain activities in Phase II.

National Roads Governance IndII support to DGH on the Medium Term Expenditure Framework (MTEF) identified that, although there has been a significant increase in funding for the preservation of the National Road Network, the length of the treatments carried out has remained constant. In addition, a combination of short design life, severe vehicle overloading and inadequate attention to construction quality has resulted in the premature failure of many roads. The latest increases in budget for national roads should provide a sustainable and improving road network. The condition of sub-national roads has deteriorated since decentralisation: less than half are reported to be in stable condition. Funding for the road sector is inadequate, and the funds which are available are mainly concentrated on rehabilitation and reconstruction works, with little spent on preservation works.

Current national roads' activities which are intended for continuation into Phase II include:

(a) piloting performance based contracts with a focus on assisting the selection of suitable pilot maintenance contracts (this comprises mentoring of the cycle of activities: including preparation, procurement, and monitoring and performance evaluation); (b) improvements to pavement and geometric

design to address premature pavement failures; (c) developing and mainstreaming multi-period and performance-based budgets; (d) supporting the second phase of the national roads master plan activity; and (e) supporting institutional changes associated with the proposed expressway development authority and road management. The expanded program is also intended to support other areas which are currently resulting in premature failure of roads, and which could include: (f) improved strategies for controlling vehicle weights, and (g) a planned initiative to enhance the capabilities of contractors and supervision consultants through training and mentoring - which can lead to significant improvements in the quality of road and bridge construction.

Sub-national Roads While IndII's main focus to date has been on capacity development and improvements at the national level, the Facility's support to the roads sector from July 2011 will provide a much greater focus at the local and provincial levels – where urgent needs exist to develop and pilot new models for delivering roads' management and to improve methods of government funding and performance monitoring. The potential for blending technical assistance with grants for local roads, to create incentives for improvements in sub-national agencies (for example, a Preservation Fund Unit), is to be investigated. Highway engineers in Indonesia will be given opportunities to broaden their experience through observation of techniques elsewhere: short-term secondments to the road construction industry in Australia could provide this option during Phase II. Similarly, career development processes in DGH need urgent attention – across skill areas such as highway design, project management, maintenance, planning and data management.

National Road Safety Support Indonesia faces a serious road safety problem with an estimated 40,000 fatalities per year; this situation is likely to deteriorate further if no concerted actions are taken, as a result of the rapid growth in the vehicle fleet, in particular motorcycles. In the past there has been only limited coordination between agencies directly involved in road safety. However, there are clear signs that this situation is improving and government agencies are currently working together to develop a national road safety plan which will form the basis for Indonesia's road safety actions in the *UN Decade of Action on Road Safety* to commence in May this year.

A strong demand exists for IndII to continue with its support for road safety training and to increase the number of topics covered by the current road safety manuals and DVDs. With increased awareness of the negative social and economic impacts of road accidents, IndII will expand its road safety program to include a wider range of GoI stakeholders: during Phase II, IndII will develop and implement road safety pilot projects to demonstrate best practice, with collaborative input from all relevant government agencies. The road safety audit and crash reduction program will be continued for all national roads, and technical assistance will be provided to the DGH Standards Section to assist in overhauling the outdated and unsafe standards used by the agency's engineers. IndII will assist in ensuring that the Road Safety Engineering Unit (RSEU) structure is effective and represents value for money - and will support the Unit to develop a realistic and practical business plan.

The extent of coordinated action occurring across agencies in Indonesia in relation to road safety has been limited and IndII has been actively supporting and promoting greater integration in road safety. As part of this support, in Phase II it is proposed to carry out multi-agency road safety demonstration projects which will enable better cross-agency coordination as well as provide examples of road safety best practice. Scoping has also been carried out for much broader support in Phase II for the traffic police and DGLT, which will include improved focus on road safety training for both agencies and improvements in accident investigation by the police. The quality of crash reporting in Indonesia has been an impediment to focused road safety treatments and IndII is proposing to pilot *International Road Assessment Program (iRAP)* which targets high-risk roads in developing countries, where crash data is unreliable, and inspects them to identify where affordable road treatments can save lives.

Urban Transport and Mobility Although extensive opportunities are available during Phase II to support this sector, transportation creates significant challenges for urban areas in Indonesia, including severe traffic congestion and increasing air pollution and greenhouse gas emissions. New policies, programs, and approaches are essential if Indonesian cities are to be assisted to improve mobility.

Proposed IndII Phase II urban mobility assistance will allow the national government and cities to develop policies and programs to improve mobility, and will lead to more sustainable growth in the transportation sector, and thus improved quality of life in Indonesian cities. At present IndII works with a number of local governments or provinces on urban mobility, but to have a major impact during Phase II, there is a need to build a strong relationship with a key national agency, such as the Directorate General of Home Affairs (DGHA) or Bappenas. Some of the Phase II initiatives that a close, productive relationship will support could include: (a) creation and operation of a *National Urban Mobility* entity to review existing policies, conditions and international best practice and make recommendations; (b) work with the national government to develop a national urban transport policy and associated laws and regulations that encourages cities to invest in sustainable mobility strategies and action plans; (c) provide technical assistance to local governments to develop comprehensive mobility plans; (d) help cities improve institutional and staff capacity; (e) develop a model / template BRT program; (f) provide assistance to cities to develop pilot projects for BRT systems; and (g) invest in small-scale infrastructure improvements, such as improved pedestrian crossings and signals, improved sidewalks, and dedicated lanes for non-motorised vehicles.

IndII has also received request from the *President's Delivery Unit for Development Monitoring and Oversight (UKP4)* to assist in monitoring a series of action plans that the Unit has set to overcome congestions problem in Greater Jakarta area. The Unit intends to start with two showcase corridors that, if successful, can be replicated across the area. This will be a potential area for IndII to be involved further with urban mobility issues in the Greater Jakarta area.

National Rail, Port and Aviation Support Within the last five years, national railways provide only a small contribution to Indonesia's Gross Domestic Product (GDP), and rail plays an insignificant role in national freight, logistics, and distribution transportation. (The road sector dominates with 91% of freight transport and 84% of passenger transport.) The disparity in the use of different modes of transportation is causing inefficiencies in the national transportation system. Therefore rail, sea, land, and air transport modes must be improved significantly to increase their important roles in economy development.

For Phase II, IndII proposes that the focus of air, sea and rail transport support will be to continue to assist the GoI, in particular the Ministry of Transport (MoT), to develop necessary regulatory and institutional frameworks to implement recent key legislative reforms. The focus will be on deepening rather than broadening the present pattern of support.

The priority for IndII Phase II support to *Air Transport* will be on improving national navigation systems to acceptable international standards, and facilitating the development of other infrastructure to accommodate the expected rapid (and continued) rise in air travel. As well as providing assistance at the strategic level, IndII second-phase support will involve measures to improve the efficiency of existing airports, as well as high-level training to meet new air transport investments, updated technologies and recruitment and procurement support- thus building individual and institutional capacity. In Phase II all IndII air transport programming will continue to be designed and implemented in close coordination and partnership with the GoA's Indonesia Transport Safety Assistance Package (ITSAP) program.

Proposed Phase II initiatives in *Sea Transport* include assisting DGST (DG Sea Transport) with key institutional reforms, notably the development of the port authorities. Other work may include developing management systems and procedures for port operating units; streamlining port licensing and regulations governing investment; and possibly, facilitating new port investments, once the necessary regulatory and institutional settings are in place. One of the key priorities identified by MoT (supported by UKP4 team) going forward is for improvements in the maritime - and the railway safety fields (ITSAP is already involved in maritime safety).

To encourage much-needed progress in the *Rail Transport* sector following the completion of the rail master plan (RMP), opportunities for IndII Phase II support to Indonesian railways are extensive. At a broad level, potential IndII assistance includes: developing the regulatory framework governing special railways; reforms to the Jakarta metropolitan commuter railways system; and supporting other urgent reforms, including the separation of railway infrastructure and the restructuring of PT KAI (State Railways Company). However, the most compelling short-term rail sector need is the coordinated preparation and

implementation of a sound Jabodetabek transport investment plan. Within this process are a number of related activities which IndII has the capacity to support, including financial, legal and administrative advice and reform. In continuing IndII involvement in this sector, the *National Railways Revitalisation Integrated Team (NRRIT)* will remain closely involved as a key partner.

Figure 4: Potential Phase II follow-on Transport activities

Phase I Transport Activity	Possible Phase II follow-on activities
Roads and Road safety	
Road Safety Program Refinement	Program of Demonstration Projects (IEG's) and supporting TA
Support for road safety audits and crash reduction program DGH Road Safety Manuals and DVD's, Traffic Control during construction	To improve road safety conditions on the road network in Indonesia through the Balai level. Manuals and audio-visual aids will promote road safety in Indonesia, works will improve traffic conditions during construction on the national road network
Support to improved road standards and design and Procurement /Contracting including Potential Use of PBC at Regional or Sub-regional Level	Continuation of Geometric Design support. Piloting Performance Based Maintenance Contracts
Provincial and Kabupaten road maintenance management planning	Continuation phase to include granting through possible Local Roads Hibah
Institutional Reform and MTEF /IRMS/ IBMS support	To be reviewed during IndII Phase II, possibly discontinued
Urban transport	
Continuation of Bus Improvement Project	Conduct the infrastructure development previously planned for Phase I in Palembang and Surakarta and replication in other selected cities. IEG's \$5 million over 4 years
Assistance to UKP4 on Greater Jakarta urban mobility	Continuous assistance to UKP4 monitoring program; deepening assistance up to A\$ 1 million over 4 years
Surabaya urban mobility project	Implement Phase I Strategies through assistance in urban transport, road safety, and non-motorised transport including providing IEG assistance. \$5 million over 4 years
Other transport	
National Ports Masterplan	Development of the port authorities and port operating units (incl. development of management systems and procedures) A\$400,000
National Rail Masterplan; Special Railways (SR) Development / Further small scale Studies on PSO-IMO-TAC Framework	Further development of the regulatory framework governing special railways. Development of technical, financial/economic, and legal frameworks
Specific Airport development Studies	Continuation of airport efficiency studies at other major airports, strategy for slot pricing, green approaches, etc. A\$500,000 over four years
Air traffic management master plan - implementation phase	Procurement management for JAATS and MAATS replacement, provision of training for air controllers, support to establishment of ANSP including its human resources training. Over four years, budget to be defined.

1.5 Infrastructure Policy and Investment

This IndII Infrastructure Policy and Investment (P&I) program component has a strong focus on facilitating policy, regulatory, and infrastructure investment initiatives. The acknowledged strength of IndII's Policy and Investment (P&I) component is its flexibility and responsiveness to GoI requests – these continuing requests are likely to shape IndII Phase II engagements with its partner agencies. This in-built flexibility means that the P&I component by definition will not be as pre-determined as the sectoral components, and will evolve with the overall program overtime. For example, it may be the case that GoI would seek

assistance from IndII on matters relating to energy policy, such as geothermal energy pricing. Another example could be that new funding sources from GoA enable opportunities for grant funding of village electrification. In each case, the P&I component would be resourced to respond to these new opportunities.

Public Private Partnerships (PPP) Although the GoI will remain dependent on private sector debt and equity investment if it is to meet its five-year infrastructure plan, its departments and agencies have little PPP knowledge, and provincial and local governments even less so. To date assistance has been limited to preparation of select projects, notably Umbulan Springs and Jatiluhur (planned bulk water supply projects for Surabaya and Jakarta, respectively). IndII will continue to be highly selective when it comes to PPP project preparation, ensuring success in these current projects before expanding the assistance to others. In the next phase of IndII, this project support will be complemented however, by measures to promote institutional capacity to implement PPP infrastructure projects at the national, and possibly the local level. Given the high market rates for professionals in this sector, an important precondition for continuing and further developing PPP work in Phase II will be to ensure that consultants will be able to be engaged under the recently announced AusAID *Advisor Remuneration Framework* (ARF).

The two current PPP activities – Umbulan Spring and Jatiluhur - may extend into the proposed second phase of IndII, and will also inform further training and development of tailored PPP guidelines. IndII will endeavour to address the urgent need to increase the knowledge and skill levels of national and sub-national personnel with responsibility for PPPs, including the *Investment Coordinating Board (BPKM)* – which has recently assumed responsibility from Bappenas for PPP delivery in Indonesia (although Bappenas will retain PPP planning responsibility). Similarly, the newly established *Indonesia Infrastructure Guarantee Fund (IIGF)*, which will provide guarantees for PPP projects, has requested IndII Phase II assistance to assist develop its operations – particularly in project credit assessment and risk allocation.

There are, however, many more PPP modalities that GoI can explore with IndII Phase II support, including *Outsourcing and Alliancing* – of particular interest to the Ministry of Public Works. Australia's Project Alliancing Guidelines have been endorsed in late 2010; opportunities to develop an appropriate guideline package for Indonesia represent a key area where Australian expertise will be sought. However, introducing alliancing will also necessitate a review of the procurement regulations; a sector in which Australian expertise and standards will be optimised during Phase II.

Improved Water Utility (PDAM) Finances To date, IndII has supported up to 20 PDAMS to improve their financial viability and develop good corporate governance regimes; develop full cost recovery tariff structures; and access new commercial borrowings to accelerate infrastructure provision. With IndII support, three of those 20 PDAMS have already completed the process and, with new commercial borrowings, will now be able to deliver a reliable supply of good quality water to 440,000 people. The next stage, to be completed in the final months of IndII Phase I, involves a further five PDAMS and will result in quality water provision to another 740,000 people. In the first 4-6 months of IndII Phase II, a further six PDAMS servicing more than one million Indonesians will be supported. Beyond this, there will be considerable opportunity to extend the program to other PDAMS that qualify for IndII assistance in Phase II.

Institutional Reform As noted earlier, the four-year time horizon for Phase II will allow IndII greater flexibility to consider longer term priorities such as in institutional reform. Better delivery of public services from infrastructure not only requires provision of the appropriate physical infrastructure, but also appropriate institutional arrangements for identifying, developing, operating and maintaining the physical infrastructure. However, as the central government has found, establishing these arrangements in regional governments is a difficult and slow task. Further, donor support often fails to go beyond assistance in provision of the physical infrastructure, particularly because both central government and donors lack understanding of the local institutions. Establishment often requires a complementary set of strategic changes, which can be resisted by a range of local actors for a range of reasons.

With these challenges in mind, IndII will also develop programming in institutional reform and strengthening. Initially this will focus on the development of pilot BLUDs² for the delivery of select infrastructure services at the local level. The key flexibility is the ability to retain funds generated from the sale of services, thus linking more closely the quality of service to rewards. The formation of BLUDs is regulated under *Permendagri 61/2007*, however the reform has not been widely adopted. The resistance to the reform may be because the regulation lacks clarity in defining roles, responsibilities and the authorities needed to provide improved services - or more likely, city-specific governance and political economy factors.

In Phase II IndII will begin its programming in institutional reforms by piloting BLUDs for wastewater services in three of the WWMP cities. Depending on the success of this initial activity, the BLUD engagement will progress to other cities and sectors, most likely in solid waste and other sanitation services. Drawing upon these experiences in the regions, IndII can also later work with the Ministry of Home Affairs (MoHA) in developing and reforming the national regulatory and institutional framework governing BLUDs.

Figure 5: Potential Phase II follow-on Policy & Investment activities

Phase I Policy and Investment Activity	Possible Phase II follow-on activities
Umbulan Springs - development of a Business Case and Expression of Interest.	Prepare tender documentation and tender works.
Jatiluhur - development of a Business Case	Prepare tender documentation and tender works.
Risk based auditing - developed standard operating procedures, training manuals, pilots audits conducted and 400 staff trained	No follow on activity planned as yet
20 PDAMs improved bankability - 3 PDAMs completed (should result in 88000 new connections) 5 more PDAMs completed by June 2011	Six more PDAMs identified for processing - potentially resulting in approx 160,000 new connections, (providing access for more than one million people)
PSO - general policy developed	Sea transportation pilot project to be implemented
Hibah regional grants design	No follow on activity planned as yet other than to assist with design of new grant programs
Radio Spectrum - new pricing policy introduced through Perpres	Further activities still under discussion
Various PPP Support programs	Focus on institutional support at BKPM to establish a PPP Directorate.
Land acquisition - new PPP section prepared for new land law	No follow on activity planned as yet
BLUD (semi-autonomous service agencies) concept and initial design	Pilot program for BLUD institutional support in wastewater and possibly solid waste. Leading to broader institutional reform measures at both the national and local level

² A BLUD is a recently legislated organizational reform for regional government-owned service delivery organizations, giving them more administrative and financial flexibility than a normal dinas.

ANNEXES

ANNEXE 1: QAE ASSESSMENT CRITERIA

1. Description of the Initiative	Refer Main Document
2. Objectives summary	Refer Main Document
3. Relevance	<ul style="list-style-type: none"> ▪ RPJM #2 (2010-2014), which will set the parameters for Indonesia's strategic directions during IndII's second phase, seeks to consolidate the reforms achieved during <i>RPJM #1</i>, by optimising the quality of human resources, including strengthening capacity building in science and technology and in economic competitiveness. Agenda 1 (of five) of the current <i>RPJM</i> emphasises: "Economic development and increased welfare of the people". The IndII Phase II strategic focus on both the <i>Infrastructure for Growth (IFG)</i> and <i>Economic Infrastructure (EI)</i> initiatives will support the achievement of the GoI Agenda 1, through prioritising infrastructure development activities and programs that seek genuine growth in the economy. ▪ The RPJM further defines the Agenda 1 goal as "stimulating the real sector and... encouraging growth of small, medium enterprises and cooperatives, and by maintaining macroeconomic stability". Through government intervention in key macroeconomic sectors the GoI expects to achieve a (measureable) sustainable and healthy economy.³ In Phase II, IndII will play a lead partnership role in ensuring that Australia's infrastructure planning supports GoI intervention in those macroeconomic sectors identified in the current <i>RPJM</i>. ▪ The Australia Indonesia Partnership (AIP) reflects Australia's national interest in Indonesia's stability and prosperity by helping Indonesia improve governance, reduce poverty and achieve sustainable development. ▪ IndII's objectives align with the Australia Indonesia Partnership (AIP) focus on the increased use of Indonesian government systems and promoting harmonised approaches to making overall donor aid more effective. ▪ Australia's role in providing on-the-ground support through grants is becoming more significant. IndII's planned Phase II objectives reflect this changing emphasis. ▪ IndII's Phase II strategic growth will be based on the priorities identified in the four pillars listed in the AIP Country Strategy: <ol style="list-style-type: none"> 1. Sustainable growth and economic management, 2. Investing in people, 3. Democracy, justice and good governance, and 4. Safety and peace. <p>Pillar 1: Sustainable growth and economic management, is identified as the "foundation of the AIP"; and confirms that placing major emphasis on helping Indonesia achieve sustainable growth through effective strategies – such as efficiently functioning infrastructure - is the key to Australia's continuing support</p> ▪ IndII also acknowledges the Facility's responsibility for addressing the requirements of the other three pillars by: building capacity in many GoI agencies; modelling and supporting good governance strategies and practices at the national and sub-national levels; and assisting to create and sustain elements of a safe and peaceful, cooperative environment in Indonesia. ▪ Over the course of Phase I, IndII has become the central vehicle for AusAID's longer-term support for infrastructure development in Indonesia, by investing almost \$60M in achieving AusAID's bilateral priorities for the country. The capacity that has been built through positive interactions with GoI national agencies, and with local governments across many locations

³ RPJM 2010-2014 (p. I-37)

	<p>and in multiple sub-sectors, has created an effective and sustainable framework for continuing to implement Australia's infrastructure program in Indonesia.</p> <ul style="list-style-type: none"> By the conclusion of Phase II in mid-2015, IndII's seven-year commitment to Indonesian infrastructure development will represent a consistent, respected and strategically efficient approach to supporting Indonesian development, based on sound policy and project implementation support and targeted grants.
4. Analysis and learning	<ul style="list-style-type: none"> During its first phase, IndII has developed productive relationships and built a high level of trust with GoI counterparts. And, although Phase II may involve only limited expansion into new sectors, IndII believes that there are greater returns to be achieved by building on its existing relationships and strengthening – both in breadth and depth - engagements in current target themes (transport, Watsan, policy & investment). The networks IndII has established at the national and sub-national levels provide open and direct feedback from IndII's key clients and stakeholders. Data from these sources, when combined with IndII's Technical Team processes and its M&E strategies ensure IndII is building on previously validated knowledge and experience, including those outlined below. IndII has an important focus on effectively delivering outputs-based aid – providing much-needed infrastructure services to the poor who would otherwise not be able to afford or access those basic human needs. IndII's Phase I, and proposed Phase II activities, clearly demonstrate the benefits of results-based financing. All IndII grant programs are demonstrably transparent, fair and well managed. Given Phase I experience showing that grants' opportunities tend to attract GoI attention more than technical assistance, IndII has concluded that in Phase II IndII will implement more activity opportunities which blend TA with grants - and with payments conditional on compliance with recommendations arising from the related technical assistance. Nevertheless, the level of associated technical assistance cannot be underestimated. At the design, implementation and verification stages, grants' programs require appropriate TA inputs to ensure disbursement of grants funds are optimally achieved, and to confirm continuing value for money. In future grants programs, IndII will ensure that an appropriate level of TA resourcing is included in all initial contractual arrangements. To be implemented effectively and to reach the intended beneficiaries, grants' programs require sufficient lead time. Working with any government system to disperse grant funding transparently and cost-effectively requires close attention to detail, particularly in light of the GoI (<i>RAN-PK</i> - 2004) and GoA (<i>Tackling corruption for growth and development</i> – 2007) joint commitment. The challenges resulting from providing insufficient implementation time will be resolved prior to Phase II. Experience from Phase I has shown that where a grant program is scheduled to operate for no more than one year, allowing sufficient planning and assessment stages at either end of the program significantly reduces the available implementation period. Multi-year programs will increase the potential for improved grant design, and have greater likelihood of achieving appropriate policy reforms and strengthened institutions. Phase I has shown that IndII's main grant programs (WSI and IEG) could readily have met the needs of a far wider group of potential beneficiaries. Both programs could have been much larger in the 2010/2011 period, but were constrained from doing so by both budget and time limitations. Similarly, IndII's collaboration in Phase II with multi-agency programs (provided "ownership" of/by particular agencies is negotiated and confirmed) will result in more effective and sustainable outputs, and benefit-reach, of available funds, More recently, IndII has been recruiting as program officers national sector specialists with expertise in IndII's key areas; this structural change has greatly improved IndII's engagement with GoI, resulting in better designed and implemented programs - which optimise the knowledge and experience of local experts. IndII's investment in targeted and broad activity and program socialisation, communication and public diplomacy during Phase I has been particularly productive. The IndII website, email

	<p>blasts, activity updates, <i>Prakarsa</i>, workshops and other events and communications activities have been very well received. Equally importantly, all IndII communications tools and activities are “value-added” by counterparts, partners and AusAID. However, in Phase II the design of, and funding requests for, communications activities need to be built <i>ex-ante</i> into the initial program or activity design.</p> <ul style="list-style-type: none"> ▪ The standard Phase I IndII process (of seeking funds for design, scoping, procurement and related activity development tasks, <i>before</i> an activity has been approved for AusAID funding) has been especially time and resource intensive. It has become increasingly clear that IndII requires a more <i>flexible, “revolving fund” for activity design</i> and development that can be replenished once an activity is fully designed and has been approved by the TT and AusAID. Such a strategy will strengthen IndII’s responsiveness to emerging AusAID and GoI priorities throughout the next four years.
5. Effectiveness	<ul style="list-style-type: none"> ▪ IndII focus on outputs and performance-based aid: Use of these types of modalities ensures IndII can achieve the desired and mutually agreed outcomes before funds are transferred. An example is the WSI <i>Water Hibah</i>, which was designed primarily to (re)stimulate LG investment in their respective water utilities (following a decade of flat, if not declining investment, and hence substantially reduced service levels). The <i>Water Hibah</i> has provided the incentives for new investment, evidenced by the dramatic increase of new household connections over the 2010/11 fiscal year, when compared with earlier years. In Phase II, IndII will seek to build upon and replicate this success, by incentivising LGs to improve governance, increase investment in other sectors, including possibly community water, road safety, sanitation and village-electrification. ▪ Technical Capacity: IndII now has substantial technical capacity in its focus infrastructure sectors; both in terms of the Facility’s technical staff (international and national) as well as its growing register of long- and short-term advisers. In many respects, IndII is now drawing upon the <i>leading international expertise</i> in its focus sectors. In Phase II, IndII will continue to seek to engage the most competent and most qualified consultants, procured in a transparent and competitive manner to ensure best value for money within the framework of the <i>Adviser Remuneration Framework</i> (ARF). ▪ Progressive engagement: As described earlier, this strategy has been an important tool to ensure effective use of IndII resources. Starting in a measured manner with scoping, design and smaller implementation activities, this strategy allows IndII to cautiously “test the water”, and to exit - if there is insufficient counterpart commitment or likely limited program impact. Alternatively, activities can be scaled up if there are promising signs of program ownership by GoI and indicators of likely success. In Phase II, IndII will continue this cautious and measured approach to program development - starting from the high base already reached during Phase I. ▪ GOI commitment and ownership: Within the boundaries of the Management Board set directions and strategic focus, IndII will continue to ensure strong GoI ownership of, and demand for, all activities. A key element of IndII’s effectiveness in Phase I has been its ability to design programs that are consistent with, and support, GoI programs and priorities. ▪ Donor coordination and leveraging: IndII’s increasing success in using its funding to “leverage” support from other donors and MDBs will be extended in Phase II. Current IndII programs such as the Wastewater Master Plan and Mamminasata Solid Waste project have both been catalysts for targeted funding from other funders including GoI and the Asian Development Bank. There is similar interest from USAID in investing funds to be managed by IndII for the water Hibah program in Phase II. IndII’s ground-breaking work in testing out new initiatives and proving their success, prior to other donors committing funds has established effective and productive relationships which continue to benefit Indonesia infrastructure expansion. ▪ Grant programs: IndII’s role in providing on-the-ground support through grants to regional and local government is becoming more significant – and increasingly welcomed by participating agencies at all levels. Phase I has demonstrated that the use of targeted grants programs – when supported by an appropriate level of expert technical assistance – is a particularly effective tool in supporting the AIP goal of effective decentralisation and

	<p>enhanced local management. Phase II activities across all sectors will also reflect this trend towards maximising support for effective and practical grants programs, directed at local needs (although this support will be directed through the relevant GoI technical agency, as required by GoI procedures).</p> <ul style="list-style-type: none"> IndII's Phase II objectives are clearly defined, measureable, and – given the continuing level of GoI national and sub-national support, assured of successful implementation. The objectives for Phase II remain fundamentally the same as those for Phase I. However, Phase II outcomes will have the added benefit of being built on IndII's extensive Phase I experiences, challenges and successes. The lessons learned during the first Phase continue to be reviewed and refined, and will result in a second Phase with the added advantage of being based on extensive prior experience.
6. Efficiency	<ul style="list-style-type: none"> During Phase I, IndII's structure has evolved in response to changing demands – both from GoI agencies and AusAID. Some of the facility structures and internal processes that have been shown to be inefficient will be adapted to better meet both GoI and GoA needs and priorities – and to do so with greater flexibility, responsiveness and accountability. <i>(Further details will be the subject of a separate and detailed proposal)</i> As a result of IndII's achievements during Phase I, IndII has been perceived by other donor and multilateral agencies as being highly innovative and responsive in meeting Indonesia's infrastructure needs. Already in Phase I, a number of donor collaborations have occurred – particularly in the water and sanitation sector. In Phase II, IndII will be actively seeking to partner with other development agencies to further enhance the efficiency, effectiveness and impact of IndII support, both at the activity level and the broader sectoral levels. As IndII has built stronger and more productive relationships across a number of GoI agencies – and with provinces, and local/district governments, increasing requests are being made for placement of technical advisers in some of IndII's key partner agencies. Extending the number and scope of agency-located IndII specialists will ensure that technical assistance is increasingly targeted to meet the Facility's focus on grants' support. Work planning for Phase II will continue to be shaped by the directions and guidance provided by the Facility Management Board. And although IndII management will balance demand responsiveness with strategic focus; assist both strong and weak agencies; and implement an appropriate mix of national and sub-national activities – it is anticipated that the Board will assume a more strategic role in terms of identifying potential broad directions for IndII involvement (as opposed to projects); and in supporting the wider promotion of IndII's goals and successes. IndII's technical directors will be expected to become involved in cross-sectoral activities and to develop government and industry relationships outside their usual area of responsibility. In doing this IndII will be confident that all potential opportunities to promote cross-sectoral collaboration particularly in relation to substantial infrastructure initiatives, will be optimised. IndII's technical directors will expand their roles to assume greater responsibility for determining, negotiating and implementing strategies which will build on the productive linkages established in Phase I – linkages that are optimised to use IndII core / development funding to leverage increased financial support from other sources. As identified earlier in this section (6) and in Section 4 above, IndII will be recommending a streamlined project design, approval and implementation process. By building in more flexibility at the initial activity approval stages, IndII will be more responsive to urgent and emerging needs – and, because of the highly competitive nature of "going to the market first", will be assured of getting the best value for money.
7. M&E	<ul style="list-style-type: none"> The key issue for successful monitoring and evaluation of IndII activities at the facility, program and activity levels will be to articulate clearly the strategic direction of IndII. With a commitment from AusAID for IndII to continue to focus on its agreed sector (thematic) areas, specific key objectives and measurable outcomes can be assigned, including, for example, assigning relevant outcomes to specific thematic areas as opposed to the generalised key result area (KRA) approach - which has operated during Phase I.

- During Phase I, IndII's monitoring and evaluation framework has been adjusted progressively to meet the changing demands of the program – and the increased budgets for which IndII has been made responsible. Throughout Phase II, M&E facility-, program- and activity-level strategies will be constantly reviewed - both internally and externally - to ensure decision making is based on valid and robust data collection and analysis.
- Phase II will demonstrate a shift towards a more logical flow of information, through the use of a Performance Assessment Framework (PAF). A PAF will be developed for each thematic area and aligned where possible to AusAID's existing PAF structures.
- To support the achievement of the development goal and facility goal - and key objectives, IndII's Monitoring and Evaluation Framework (MEF) will continue to capture performance information and data at two levels: (a) through individual activities; and (b) through defined program outcome areas.
 - For individual activities, technical directors will be responsible for monitoring activity implementation and will focus on management information such as timeframes, budgets, quality of technical outputs, while M&E sector staff will focus on evaluating broader development issues within each sector.
 - At the program level M&E will focus on evaluating achievements and finding *most significant changes* as a result of IndII's intervention. Every evaluation will link back to IndII goal & objectives, to better reflect the extent to which IndII has achieved its overall goal and objectives.
- In Phase II the IndII Monitoring and Evaluation Framework (MEF) will also be adjusted to enhance the type and quality of data collected and to address key challenges such as the diversity of IndII's involvement, the range of implementation timespans and budgets, changing GoI priorities, and the relatively short Phase II facility operational life of four years for embedding infrastructure development reforms.
- Also during Phase II, IndII will strengthen its operational practices and processes to support and monitor improved outcomes, through stronger resourcing of operational and cross-cutting areas including gender, monitoring and evaluation, environmental management, activity design and procurement support. These cross-cutting areas will be integrated at the activity, program and facility level through the reorganisation of national and international staff and consultants into the planned *activity design and preparation unit*.
- The discrete responsibilities of specific participants in ensuring effective monitoring and evaluation will continue from Phase I, as below:
 - individual technical directors (TDs) – collaboratively with facility and individual activity M&E staff - are responsible for ensuring that activity-level objectives and goals are assessed and reported on;
 - the managing contractor (SMEC) will remain responsible for activity- level and process reporting to AusAID, and for reporting against program result areas;
 - the Independent Assessment Team (IAT) will be responsible for higher-level impact reporting at the facility and goal levels, and for analysing and integrating M&E data from the IndII Management Board and Technical Team (TT);
- In Phase II IndII will also consider the potential benefits to be gained by completing case studies based on "result area clusters": clustering capacity building activities, policy activities, etc, rather than selecting one single activity and then reviewing all KRAs within that single activity, as at present. It has become clearer that one activity cannot really reflect IndII achievement across a broad area, e.g. capacity building - because each activity has its specific level of achievement which cannot necessarily be generalised as a "whole-of-IndII" achievement.
- With the planned increased focus on grants during Phase II, the scope of IndII monitoring and evaluation will shift from its current strong focus on measuring the outputs and outcomes achieved (largely) through technical assistance activities – to one where the capacity levels of GoI organisations and individuals, and the accompanying sustainability / success factors resulting from IndII capacity building, reflects the nature, size, effectiveness and delivery of grants programs. This is particularly applicable in those IndII grants activities where

	<p>responsibility for planning, implementing and monitoring grants transfers to a partner agency/agencies.</p> <ul style="list-style-type: none"> ▪ IndII remains aware also of AusAID’s responsibility to report on value for money considerations and to measure the effectiveness of harmonisation with other donors working in the sector. ▪ In summary, Phase II improvements to monitoring and evaluation will demonstrate: <ul style="list-style-type: none"> ○ a reduced focus on individual activity outcomes – and an increased focus on intermediate level M&E; ○ introducing long-term outcomes related to specific thematic areas; ○ more closely coordinated activity design and M&E approaches; ○ clearly stated M&E approaches as an assessable component of expressions of interest and tenders; ○ an appropriate mix of qualitative and quantitative measures, (acknowledging that meaningful quantitative measures are not always available); ○ promoting the importance of baseline studies; ○ continuing with case studies as one preferred evaluation; and ○ maintaining current levels of M&E training for advisers.
8. Sustainability	<ul style="list-style-type: none"> ▪ During Phase I, because of uncertainty concerning a potential second Phase, IndII staff and consultants were particularly conscious of the need to achieve sustainable outcomes with all activity implementations. In addressing sustainability issues during Phase II, IndII will remain committed to the accepted broad determinants in sustaining infrastructure development: <ul style="list-style-type: none"> ○ promoting local ownership and commitment to <i>both</i> results and methods; ○ ensuring that any follow-on action activities are by GoI or donor resourcing commitments; ○ building in training and or skilling to achieve institutional capacity adequacy; and ○ remain conscious of the institutional, national, and international environments and how they may impact upon future sustainability. ▪ In Phase II, IndII TDs and consultants will continue to operate within those broad “sustainability determinants”, but will also introduce a more <i>specific and targeted sustainability theme / approach</i> – from concept and design stage to completion evaluation and assessments. In implementing this, IndII will focus on the key factors that are essential to the sustainability of any infrastructure sector development in Indonesia. ▪ These factors include: <ul style="list-style-type: none"> ○ The strong and productive relationships IndII has built with GoI agencies at the national and sub-national levels have led to a strong “buy-in” by counterpart agencies, and in Phase II – as in Phase I - will continue to be a major contributor to sustaining almost all IndII activities and programs. ○ All IndII activities have a strong alignment with both GoI and GoA policies and current sector initiatives and are directed at having a measurable impact upon poverty levels – and disadvantaged persons, across a number of Indonesian regions. ○ IndII deliberately engages GoI agency personnel at a meaningful level in all of its activities. ○ This level of collaborative development and implementation gives counterpart staff a greater stake in maintaining positive changes. ○ Stakeholders (GoI agencies and communities) and clients have been involved in all key consultations; and – where possible - are involved meaningfully in all assessments and in monitoring activity progress. ○ IndII is continuing to increase its role in leveraging other funds, and preparing projects for external funding; this offers much wider opportunities for enhancing sustainability – either of a specific activity or of larger, allied projects or programs. ○ The GoI has contributed significant funds and resources to many supported activities and have provided/matched funding for some grants programs of its own; this financial commitment and “buy-in” will lead to the increased likelihood of sustainable outcomes. ○ Much of IndII’s work has involved creating a more conducive legislative and policy framework for lasting infrastructure change and improvements. This, in itself, will help to promote continued sustainability.

	<ul style="list-style-type: none"> ▪ Capacity building of counterpart staff will be achieved through a range of strategies, including: action-learning programs, adviser-counterpart relationships, data analysis & needs analysis, overseas attachments, coaching, guided reading, in-house short training courses/ workshop, management development, job rotation, performance management, secondments, networking and sharing learning approaches, stakeholder assessments and surveys, /survey, participating in special projects, strategic planning workshops, and regular career planning meetings. ▪ With AusAID's increase in the number of <i>Australia Awards</i> in Indonesia from 300 to 500 scholarships during the next three years, IndII will investigate options to support in-country capacity building through the use of targeted scholarships for potential and committed high-achievers across its key thematic areas. ▪ Finally, as a key measure of achieving sustainability, IndII will continue to pursue the provision of grants in support of outputs-based initiatives. This modality intrinsically ensures a high level of sustainability is achieved through the prior completion of approved physical infrastructure works or other financial and governance improvements.
9. Gender equality	<ul style="list-style-type: none"> ▪ IndII has continued to emphasise the integral responsibilities consultants and the facility have for ensuring gender equality in activity implementation. The IndII Gender Strategy and Plan categorises proposed activities according to how participating consultants and counterparts must integrate gender considerations – and subsequently assess the impact of the activity on women. Clearly, not all IndII activities will have potential or specific gender impacts, and the IndII Gender Plan provides consultant with guidance in determining the relevance of their activity for gender equality. It offers consultants and TDs a practical way of identifying those activities where gender can be meaningfully integrated - and those activities where there is limited gender relevance. ▪ IndII has dedicated resources to assist with activity gender integration: one local consultant and one international consultant. Collaboratively, these consultants work with design teams to integrate gender equality – from the project design stage, rather than as an add-on; and to monitor and evaluate gender outcomes through meetings, focus groups and case studies. ▪ Based on this assumption, the primary objective of the current IndII gender strategy will be to continue to increase the gender responsiveness of IndII activities to achieve improved gender equality across all thematic areas. ▪ In doing this, IndII will not necessarily assume that women and girls are always or the only groups most disadvantaged by social, economic and political constraints, customs and structures. IndII's prior assessment of broader social issues associated with its activities, and the development of strategies to address any potential discriminatory actions, will continue to take a whole-of-community approach: in designing activities, IndII will recognise that – in some environments, the elderly, the young (of both genders), religious or ethnic minorities, or males are also likely to be disadvantaged. ▪ In Phase II, IndII will continue to apply both facility-level and activity-level gender equality objectives to all activities; ensure consultants are aware of their responsibilities; and that monitoring of consultant inputs involves assessing the commitment to / success of individual gender strategies. The matrix used by IndII during Phase I to screen and categorise specific, planned activities to identify the gender responsive actions will be extended (based on Phase I experience) and continued during Phase II. ▪ More significantly, however, during Phase II IndII will extend its current gender and social equality strategies to better reflect the increasing influence women (particularly female-headed households⁴, and poor women) are demanding and gaining in local and provincial infrastructure planning and monitoring – both as decision-makers (admittedly low-level) and equally importantly, as clients of local services. The following additional strategies will be introduced to build on the current IndII Gender Policy expectations and requirements: <ul style="list-style-type: none"> ○ Gender Action Plans will be prepared in detail to provide IndII TDs and consultants with

⁴ Refer also to the Cate Summer's Report for specific issues affecting women-headed households: [http://www.indo.aid.gov.au/docs/PEKKA-Access to Justice](http://www.indo.aid.gov.au/docs/PEKKA-Access%20to%20Justice)

	<p>very clear directions for implementation; they will include specific targets for each activity and will prescribe gender capacity building expectations of any infrastructure consultation, policy development or socialisation tasks involved in IndII activities;</p> <ul style="list-style-type: none"> ○ Dedicated gender advisers will be specified for all major activities with significant gender implications (<i>all Category D and some Category C</i>), and each TD will assume full responsibility for ensuring that the gender advisers' inputs are <i>used</i> strategically and practically; ○ Sex-disaggregated baseline and progress data will continue to be collected on gender-related targets included in project activity designs and in gender action plans; and data from similar activities and sectors/themes will be compared, analysed and reported on by the IndII gender adviser; ○ Such reporting on the action plans and on gender equality results will be more completely integrated into core IndII facility and program level document reporting (e.g. FRPD, annual, mid-term review, impact assessment, and project completion reports); ○ IndII will broaden its frequency and level of discussions with other donor organisations and executing agencies – to better align with the increased donor harmonisation of activities (esp. Watsan) planned for Phase II; ○ Gender-responsive results from individual IndII activities will be more effectively promulgated across the relevant partner agencies to encourage increased capacity building by mentoring in those organisations; ○ IndII will produce annually a user-friendly document on gender equality in infrastructure, which presents to a wider audience – particularly provincial and community representatives - practical examples and case studies of effective gender equality strategies implemented in facility activities and projects. ○ Should IndII support / involve NGOs and academic and research institutions in selected activities in Phase II, greater opportunities will be available for more specific gender and infrastructure research to be undertaken. Similarly, research related to disability and infrastructure – particularly the impact of road accidents and how focused research can inform the programs IndII has introduced to improve road safety awareness and management in Indonesia – will be optimised. <ul style="list-style-type: none"> ▪ During Phase II IndII also intends to commence a broader gender mainstreaming activity within the Ministry of Transportation (MoT). Scoping work is under preparation now and design work will be completed in time for the commencement of Phase II. This will be a new approach for IndII in implementing its gender role, and is an attempt by IndII to address the broader systemic/institutional issues associated with gender.
<p>10. Environment</p>	<ul style="list-style-type: none"> ▪ Throughout Phase I, IndII's Environmental Compliance Strategy and Environmental Management Process (EcoMap) has ensured that potential negative environmental impacts are assessed and addressed in all activity designs and initial planning, inception and review stages - and that GoA, GoI and IndII environmental management policies are adhered to. IndII will continue to require activity designers and participating consultants to consider and address, wherever appropriate, the implications of AusAID's five environmental management "Marker Questions". ▪ With the increased focus in Phase II on grant programs, and – accordingly, greater IndII and partner agency involvement in physical works, including construction, repair and reconditioning of infrastructure in many diverse locations, IndII technical directors will have increased responsibility for ensuring that contractors/consultants are fully compliant with their responsibilities under EcoMap. Accordingly, IndII sees a significant increase in environmental assessment and monitoring through the increased use of specialist services as all stages of the activity cycle, specifically in the following instances: <ul style="list-style-type: none"> ○ Ensuring that all consultant team members use IndII environmental management checklists (refer IndII EcoMap, Appendices B1, B2, D3, D4). ○ Team members must be aware of counterpart agency environmental management policies and guidelines – and the implications of any relevant AMDALs. ○ Confirm also that partner agency personnel are fully aware of IndII's environmental management obligations and guidelines – under both GoA and GoI legislation.

	<ul style="list-style-type: none"> ○ Proposed activity designs must include alternative (even if higher budget) options that minimise potential negative environmental impacts of potential on-site activities. ○ Timelines (and budgets) for activity implementation must allocate sufficient time (and resourcing) for on-site environmental impact assessments. ○ Maximise capacity building opportunities by ensuring local staff and counterparts participate in planning, implementing, monitoring and reviewing environmental practices. ○ Proactive positive local, national and international public diplomacy outcomes demonstrating good environmental practices throughout any activity should be promoted to complement interim and final reporting tasks. ○ Ensure that any value-added or follow-on activities initiated by other donors or MDBs are aware of IndII's environmental strategies implemented in the initial (core) activity. ○ The potential synergies in optimising positive environmental outcomes - between similar (or related) grant programs - need to be considered both intra- and inter-theme. ○ Local community members are well informed about potential adverse environmental impacts – often more so than GoI officials or national/international consultants: they should be consulted and informed throughout any on-site activities, and in planning for those activities. <ul style="list-style-type: none"> ▪ In Phase II, IndII also has the potential to expand its influence in <i>non-compliance</i> areas of environmental management: the shift in environmental focus from a local to a more global and strategic focus offers IndII opportunities to be proactive in its activity programming and selection, and to increase its involvement in positive aspects of global environmental awareness and information-dissemination. A <i>sample of topics</i> relevant to its thematic areas, and which could be actively advanced, include: <ul style="list-style-type: none"> ○ carbon footprint reduction, ○ land utilisation in terms of green cities concepts, ○ combating sea water infiltration, coastal protection and source protection, ○ landfills and sewerage in low-lying coastal areas, ○ water loss reduction and stormwater harvesting, ○ wastewater, biofiltration and biopores systems, ○ recyclable drainage systems and wastewater management, ○ integrated urban planning, design and construction standards and guidelines, ○ landfills gas utilisation, composting and sewerage treatment/cogeneration, and ○ energy efficiency and potential hydro sources.
11. Child Protection	<ul style="list-style-type: none"> ▪ Given the nature and clients / stakeholders for most of its programs, IndII activities are unlikely to often present issues related to Child Protection. However, should any issues develop during IndII-sponsored activities in Phase II, the Facility's Technical Directors are aware of their legal obligations and are personally and professionally committed to advising AusAID and relevant GoI agencies immediately. ▪ Nevertheless, while noting the limited potential for any form of child abuse in IndII's activities, IndII is fully committed to protecting children from abuse of all kinds in the delivery of Australia's overseas aid program; and as such, adheres to AusAID's four guiding principles of: <ul style="list-style-type: none"> ○ zero tolerance of child abuse ○ recognition of children's interests ○ sharing responsibility for child protection ○ use of a risk management approach. ▪ Accordingly, SMEC (Managing Contractor) also maintains a zero tolerance policy in relation to child abuse, including unacceptable behaviour directly involving children or observed by children, and any form of child pornography. The policy is not limited to international projects or AusAID funded activities; it applies to the whole of SMEC's operations. ▪ The SMEC policy applies to:- <ul style="list-style-type: none"> ○ All management and staff (employees) engaged by SMEC whether permanent, casual, or on a fixed term contract basis, whether operating from a SMEC wholly or partly owned office or project site, whether in their own residence or a residence provided by SMEC, and whether travelling on behalf of the company or on any form of leave from the company.

	<ul style="list-style-type: none"> ○ The staff of any subsidiary on the above basis. ○ The staff of an associate, sub contractor, or consultant in a joint venture or association to provide services to a client. ○ Staff of support services used on a regular basis (e.g. hire car drivers). ○ Dependents or partners or those living with employees of SMEC. ○ Volunteers associated with any SMEC office or project <ul style="list-style-type: none"> ▪ The SMEC policy applies equally to an individual associated with SMEC (as outlined above), to their own children, or to children in the country of occupation. ▪ Specifically, this means that IndII will identify any activity that has the potential for interaction with children (for example, community water supply, community sanitation, city transport infrastructure) and require participating consultants to complete a GoA “Working with Children” check, prior to appointment. ▪ Furthermore, through its technical directors and senior personnel, SMEC consistently monitors compliance with AusAID’s and SMEC’s child protection standards, through strategies including sub-contractor and consultant performance assessments and reviews; consultant/contractor accreditation processes for inclusion in the <i>IndII Consultants Register</i>; and through spot audits of IndII resources, materials and information technologies.
--	--

ANNEXE 2: MONITORING AND EVALUATION

In Phase II, the IndII Monitoring and Evaluation Framework (MEF) will be adjusted to **enhance the nature and quality of data** collected, and to address key, emerging challenges such as: the diversity of IndII's interactions with GoI; the range of implementation time-spans and budgets; changing GoI priorities; and the relatively short Phase II facility operational life of four years in which to successfully embed infrastructure development reforms. Facility, program and activity-level M&E **strategies will be continuously reviewed** - both internally and externally - to ensure decision making continues to be based on valid and robust data collection and analysis.

IndII's *Monitoring and Evaluation Framework (MEF)* will continue to capture performance information and data at two levels: (a) through individual activities; and (b) through defined program outcome areas.

- (a) For **individual activities**, technical directors will be responsible for monitoring activity implementation and will focus on management information such as time frames, budgets, quality of technical outputs; IndII M&E personnel will focus on evaluating broader development issues within each sector.
- (b) At the **program level**, M&E will focus on evaluating achievements, and determining the *most significant changes* as a result of IndII's intervention. Every evaluation will link back to IndII's goal & objectives to better reflect the extent to which IndII has achieved its aims.

At present, IndII-collected data often relates to operational matters such as budget disbursements, AusAID approvals, consultant pools, contract expiring dates, etc. While realising that an IndII objective is to increase infrastructure development and investment, it is surprising therefore, that limited **baseline data** (e.g., road conditions, existing BT systems, PDAM performance, water and sanitation services, investment values, etc) has to date been collected and analysed. (And with IndII's increasing focus on outputs-based grants, the need for valid and accurate baseline data becomes correspondingly more important.)

In the absence of these infrastructure data, it is difficult to measure whether IndII has met, or is progressing towards achieving, its objectives. It is also essential to have solid baseline data around policy, regulatory, **capacity and financing constraints** to enable IndII to measure whether it is impacting those constraints. This challenge is made more difficult because of the nature of IndII's "services": activities funded under the (any) facility are usually not pre-determined but decided through collaborative decision making and emerging priorities.

With the planned increased **focus on grants during Phase II**, the scope of IndII monitoring and evaluation will also shift from its current strong focus on measuring the outputs and outcomes achieved (largely) through technical assistance activities – to one where the capacity levels of GoI organisations and individuals, and the accompanying sustainability / success factors resulting from IndII capacity building, reflect the nature, size, effectiveness and delivery of grants programs. This is particularly applicable in those IndII grant activities where responsibility for planning, implementing and monitoring grants will transfer/ is transferring to a partner agency/agencies.

Given the opportunity to revisit M&E strategies at this pre-Phase II stage, and the knowledge gained from the mid-term review and continuation mission, it is proposed that IndII's **key result areas can be better defined**: the current KRAs - *capacity building, access, policy setting and implementation, partnership (and facility management)* – are not necessarily the most appropriate tools for sector experts / consultants to use to report against, as these consultants are usually technical persons whose focus is understandably on that aspect – and on the immediate technical results of their work. In general, they are not always development professionals and will not necessarily prioritise outcomes and outputs which are more significant to the development context (such as policy ownership, sustainability, etc).

In Phase II, the discrete **responsibilities of specific participants** in ensuring effective monitoring and evaluation will continue from Phase I, as below:

- individual technical directors (TDs) – collaboratively with facility and individual activity M&E staff – will continue to be responsible for ensuring that activity-level objectives and goals are assessed and reported on;

- the managing contractor (SMEC) will remain responsible for activity-level and process reporting to AusAID, and for reporting against program result areas;
- the Independent Assessment Team (IAT) will be responsible for higher-level impact reporting at the facility and goal levels, and for analysing and integrating M&E data from the IndII Management Board and Technical Team.

(IndII management remains aware also of AusAID's responsibility to report on value for money considerations and to measure the effectiveness of harmonisation with other donors working in the sector.)

Increased scope of activities and increased budgets in Phase II will result in **more responsibility** being placed on IndII's M&E personnel; IndII will need to better resource and strengthen its operational M&E practices and processes to support and monitor improved outcomes at the program and broader thematic area levels, and in operational and cross-cutting areas including gender, monitoring and evaluation, environmental management, activity design and procurement.

IndII will develop a **Performance Assessment Framework (PAF)** or similar logical framework tool, to allow it to demonstrate clear and unambiguous linkages between *activity* goals and objectives to *IndII* goals and objectives. Ideally, there could be a single goal statement for each sub-sector (e.g., one goal statement for Road Safety, one for Bus Rapid Transit, one for the Water Hibah, etc.: it is probably not necessary to assign a specific goal to every individual activity - a PAF will be developed for each thematic area and linked where possible to AusAID's existing PAF structures. Broader impact studies as well as the case studies will support this approach. These studies will continue to be used as a qualitative tool to collect additional information against the thematic areas and also to verify the results and information collected through the monitoring process.

It is clear from Phase I that improvements need to be made to the **Activity Tracking System (ATS)**. Each month, results from these individual activity reports have been entered into the ATS, and annually up to five of these activities are selected to participate in a detailed activity review/case study process. However, in Phase II, IndII will also consider the potential benefits to be gained by completing case studies based on "area clusters" - such as grouping capacity building activities, policy activities, etc, rather than by selecting one single activity and then reviewing all KRAs within that single activity. One activity cannot really reflect IndII achievement across a broad area, e.g. capacity building - because each activity has its specific level of achievement which cannot necessarily be generalised as a "whole-of-IndII" achievement.

In summary, Phase II IndII monitoring and evaluation trends will involve:

- a reduced focus on assessing individual activity outcomes – and an **increased focus on intermediate level** M&E;
- evaluating long-term **outcomes related to specific thematic areas** (not individual activities);
- **closer coordination** between activity designs and preparing targeted M&E approaches unique to each specific activity;
- clearly stated M&E approaches as an **assessable component of bidders' Eols and tenders**;
- determining and implementing an appropriate **mix of qualitative and quantitative M&E measures**, (acknowledging that meaningful quantitative measures are not always available);
- increasing significantly the importance of **baseline studies**, and regular cross-referencing throughout activity / theme timespans;
- more thoroughly **assessing the "value-addedness"** of IndII activities; for example, has an IndII TA activity, resulted in the completion of a major infrastructure facility?
- using the inherent knowledge and **perspectives of the Board** and **Technical Team** to provide another source of program and facility level M&E data;
- **updating current IndII reporting formats** to make them more activity-and program-specific, and to improve the M&E focus on results, evidence, etc.
- continuing with a **diversity of case studies** as a preferred evaluation tool; and
- maintaining current levels of **M&E training for advisers**, and considering extending training to IndII counterpart agencies.

ANNEXE 3: INDII RISK MATRIX

Likelihood and Consequence Rating

LIKELIHOOD			CONSEQUENCE		
5	Almost Certain	Expected to occur in most circumstances	5	Severe	Would stop achievement of IndII's goals and objectives
4	Likely	Will probably occur in most circumstances	4	Major	Would threaten goals and objectives; requires close management
3	Possible	Could occur at some time	3	Moderate	Would necessitate significant adjustment to IndII
2	Unlikely	Not expected to occur	2	Minor	Would threaten an element of IndII
1	Rare	May occur only in exceptional circumstances	1	Negligible	Routine procedures sufficient to deal with the consequences

Risk Level

LIKELIHOOD		CONSEQUENCE/IMPACT				
		Negligible	Minor	Moderate	Major	Severe
		1	2	3	4	5
Almost Certain	5	M	M	H	VH	VH
Likely	4	M	M	H	VH	VH
Possible	3	L	M	M	H	H
Unlikely	2	L	L	M	M	H
Rare	1	L	L	M	M	H

L	M	H	E
LOW Risk	MODERATE Risk	HIGH Risk	VERY HIGH Risk

Tolerances

- Preferred
- Acceptable
- Undesirable
- Unacceptable

Very High Risk	VH	Most likely to occur and prevent achievement of objectives; causing unacceptable cost overruns or schedule slippages
High Risk	H	Could substantially delay IndII's schedule or significantly affect technical performance or costs and requires a plan to handle
Medium Risk	M	Requires identification and control of all contributing factors by monitoring conditions and reassessment of IndII milestones
Low Risk	L	Normal control and monitoring measures sufficient

RISKS

Country Setting

ID	Risk Event	Impact(s) on Facility	L	C	R	Risk Treatment(s)	Responsibility ⁵
CS1.	Staff capability, skills or commitment in IndII, in partner agencies and regions is low	Lack of support for implementing activities in national and sub-national government agencies Delayed activity and implementation and poor growth outcomes Difficult to implement and achieve results in those regions Unpredictable and frequent changes in personnel in Gol's partner agencies	3	4	H	<ul style="list-style-type: none"> Emphasise importance of building relationships and capacity in counterpart organisations in recruitment of technical directors and lead advisers Factor time needed for relationship and capacity building into design of activities Initial focus on selected agencies and regions Appointment of advisors in selected agencies Move to other agencies and regions as supported by capacity building programs at regional level Address capacity constraints 	Technical Directors (IndII Director)
CS2.	Working with Partner Government Systems	Delays Objectives/outcomes not met Grants not taken up	4	3	H	<ul style="list-style-type: none"> Monitoring MoF Regs 168 & 169 Initial Watsan use of process successful Monitoring and review for lessons learnt 	AusAID IndII Director
CS3.	Ability to get agencies to work as a coherent sector Lack of formal committees	Impacts on long term goals Board becomes battleground for control of resources	3	4	H	<ul style="list-style-type: none"> Board operates at a strategic and whole of sector level Criteria for use of IndII resources to be clearly articulated Ensure IndII supports decision making with sound policy rationale Establish working groups/committees 	AusAID (IndII Director)
CS4.	Lack of political will and engagement at the top	Activity proposals not received Activities slow in being approved	3	3	M	<ul style="list-style-type: none"> Communication Strategy promotes role of IndII Status reporting to Board for distribution to Senior Gol officials Senior level participation, where possible, in external processes covering areas of work that are relevant to the Board 	IndII Director
CS5.	Logistical challenges in working with Local Government	Low demand from sub-national government agencies for IndII services and advice IndII inefficient at achieving objectives at	3	3	M	<ul style="list-style-type: none"> Build close liaison with local government and work to facilitate relationships between national and sub-national levels Demand increasing through awareness Activities in place to be monitored 	IndII Director (Technical Directors) (Board)

⁵ Responsibility for a risk is assigned to single owner, even if several people work to mitigate it

ID	Risk Event	Impact(s) on Facility	L	C	R	Risk Treatment(s)	Responsibility ⁵
		this level				<ul style="list-style-type: none"> Advisors co-located with key agencies Promoting exemplars through published case studies 	
CS6.	Commitment of senior management within agencies	Changed model may exacerbate poor practices	3	2	M	<ul style="list-style-type: none"> Provide clear instructions re responsibilities Appointment of advisors to selected agencies Maintain strong communications links and continue training 	Technical Directors
CS7.	Sub-national agencies do not commit strongly to IndII and/or are unable to provide appropriate counterpart support	Low levels of local ownership, commitment and support; reduced project impacts	2	3	M	<ul style="list-style-type: none"> Management and communication structures and strategies support active involvement of counterpart agencies Regular management meetings Regular monitoring of performance and progress 	Technical Directors
CS8.	Government makes arbitrary decisions that are detrimental to agreed objectives	IndII inefficient in achieving objectives	3	3	M	<ul style="list-style-type: none"> Build in partnership approach with the government and counterpart agencies Appointment of Advisors to selected agencies IndII communication Plan 	IndII Director (Technical Directors)

Facility Level

ID	Risk Event	Impact(s) on Facility	L	C	R	Risk Treatment(s)	Responsibility
FL1.	Governance arrangements fail	Forward work plans not approved Ineffective coordination with Central Agencies	5	5	V H	<ul style="list-style-type: none"> Board Co-Chairs approve work plans Governance arrangements modified IndII collaborates directly with Technical partners 	AusAID
FL2.	Delays in the decision re extension of MC will impact the strategic value of IndII	Emphasis on short term activities Ability to enter into long term activity commitments No long term or strategic work commenced	4	4	V H	<ul style="list-style-type: none"> IAT and MTR raised with AusAID Specific approval from AusAID on activities requiring commitment beyond July 2011 	IndII Director
FL3.	Inability to recruit/retain high quality consultants due to new Adviser Remuneration Framework	Poor/lower calibre consultants and/or inability to recruit and retain higher cost consultants. Inability to undertake all activities for which IndII support is requested Performance/Quality Issues	4	4	V H	<ul style="list-style-type: none"> Decline request where higher cost consultants are required (e.g. legal specialists) Reduce scope of activities where tendered costs do not meet AusAID-approved fee limits Increase inputs and/or extend implementation timeframes 	IndII Director Technical Directors

ID	Risk Event	Impact(s) on Facility	L	C	R	Risk Treatment(s)	Responsibility
FL4.	Difficult relationship with Board, Technical Team and/or AusAID constrains facility	Retards IndII implementation, efficiency and effectiveness	3	4	H	<ul style="list-style-type: none"> IndII to be proactive and flexible and provide timely and incisive advice to Technical Team and Board Clear statements of responsibilities for IndII Director and IndII agreed and documented Agreed management/ decision processes implemented Hold regular meetings with AusAID Communications Plan in place 	IndII Director
FL5.	Protracted procedures for disbursement of funds through GoI systems	Delayed disbursement of funds to sub-national governments Inability to work through government systems IndII objectives not fully achieved	3	4	H	<ul style="list-style-type: none"> Get agreement of GoI agencies on most effective way of moving funds from national to sub-national level Find alternatives that support sub-national level Watsan use of FM 168/169 	AusAID
FL6.	Adherence to GoI systems and financial management procedures poor	Probability of fraudulent and corrupt activities increased Probability of such activities being detected reduced Non-accountable use of funds Financial losses Reduced program outcomes	3	4	H	<ul style="list-style-type: none"> Focus placed on capacity building with emphasis on systems and procedures Strict application of sanctions when fraudulent and corrupt activities are detected Training of local personnel Documented guidelines for use and access of funds 	IndII Director (Financial Manager)
FL7.	Perceived lack of ownership by GoI partners	Limited interest in and support for IndII activities Perception that IndII is not attuned to GoI priorities	3	4	H	<ul style="list-style-type: none"> Improve the role and effectiveness of the Technical Team's management functions Continue with the progressive engagement approach adopted by IndII during Phase I Involve Technical Team members in joint monitoring and evaluation of the program 	IndII Management and Technical Directors
FL8.	Difficulties in fostering effective engagement and commitment with partner agencies	Poor commitment to partnership Investment not matched by outcomes Inefficient use of funding resources	2	4		<ul style="list-style-type: none"> Limited or progressive engagement approach followed Close monitoring and assessment Stop/Go points in engagement approach 	IndII Management and Technical Directors
FL9.	IndII's success in Phase I will foster expectations that is cannot meet	IndII loses credibility with GoI IndII is held accountable by GOA IndII is perceived as under performing	3	4	H	<ul style="list-style-type: none"> GOA carefully explain to GoI partners proposed funding/operational constraints for Phase II and the effects of the ARF 	AusAID