

INDONESIA INFRASTRUCTURE INITIATIVE PHASE 2 IMPACT ASSESSMENT TEAM MISSION 3 - MANAGEMENT RESPONSE

Summary of management response

The Department of Foreign Affairs and Trade (DFAT) thanks the Indonesia Infrastructure Initiative (IndII) Impact Assessment Team (IAT) for their work across the life of the IndII program and welcomes the findings of this third and final IAT report. DFAT agrees with the IAT's overall finding that *IndII's approach has been well aligned with the change in Australian aid focus in Indonesia. Several internal and independent reviews have found that IndII has been a relevant and responsive program delivering high-quality technical assistance. Concerns have been raised at times about progress and expenditure delays and contributions to gender equality and social inclusion. There has been general agreement that the work supported by IndII has achieved notable impacts, though the sustainability of reforms and innovations introduced is not yet clear in all cases.*

This final IAT report was conducted in parallel to the design of Australia's new \$300 million infrastructure technical assistance facility the Indonesia Australia Infrastructure Partnership - Kemitraan Indonesia Australia Untuk Infrastruktur known as KIAT. Where possible recommendations from the IAT have been incorporated in the design of KIAT and implemented immediately. Some of the recommendations relate to longer term approaches to the governance and delivery of the program and KIAT has been tasked with implementing the agreed recommendations over the life of the new program. In some cases the design team identified alternative approaches as part of the design process, which acknowledge the IAT finding, but propose revised implementation approaches based on the KIAT design consultation process. Overall, the majority of the IAT reports recommendations have been accepted and are on track to be implemented as part of the new KIAT program.

Individual management response to the recommendations

Recommendation	Response	Explanation	Action Plan	Timeframe
<p>Recommendation 1</p> <p><i>DFAT should maintain sufficient grant funding in the next phase of infrastructure investment to incentivise improved provision of sub-national infrastructure.</i></p>	Agree	<p>DFAT recognises the value that grant funding brings in creating opportunities to trial innovative approaches that may not otherwise be able to receive immediate GoI funding. In the early years of KIAT we have reserved a funding allocation of approximately \$10-\$15 million to be used for grant funding new approaches. Notwithstanding that, Australia's Aid Investment Plan for Indonesia notes that <i>"our support for infrastructure will leverage Indonesia's own infrastructure spending"</i> and we continue to work to reduce the quantum of grant funding being used to directly support physical infrastructure.</p>	<p>A replacement infrastructure grants program is expected to be in place as current activities complete over the next two years</p>	December 2018
<p>Recommendation 2</p> <p><i>DFAT and the managing contractor for the new phase of infrastructure investment should work together to unambiguously articulate the strategic rationale for Australia investing in infrastructure in Indonesia, since this rationale will dictate the optimal structure and mode of engagement with GoI.</i></p>	Agree	<p>The strategic rationale for Australia's investment in the infrastructure sector has been clearly articulated in the KIAT Facility Design and has resulted in the use of an embedded advisor approach to complement the facility model.</p>	<p>Incorporated in KIAT Facility Design Document</p>	Done
<p>Recommendation 3</p> <p><i>DFAT should coordinate and</i></p>	Agree	<p>The KIAT Facility Director has been tasked with establishing and maintaining close links with</p>	<p>Regular Coordination Meetings established between KIAT and</p>	Done

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<i>utilise the relative strengths of AIPEG and the new infrastructure investment to maximise the tactical advantages of both modes of engaging with GoI.</i>		the AIPEG Facility director. Fortnightly meetings are now held between DFAT staff and both the AIPEG and KIAT Facility Directors.	AIPEG Facility Directors	
Recommendation 4 <i>To the extent possible, advisers should be located within counterpart premises to foster engagement and responsiveness.</i>	Agree	The KIAT Facility Design incorporates embedded lead advisers placed within counterpart premises.	<ul style="list-style-type: none"> • Terms of Reference For Embedded Lead Advisers Developed in Consultation with counterpart agencies • Advisers recruited and mobilised 	December 2017
Recommendation 5 <i>The incoming team for the next phase of infrastructure investment must unambiguously define the boundaries of risk and responsibility between DFAT and the managing contractor; and in particular, set down precise activity approval protocols that accurately reflect the risk profile.</i>	Agree	Specific clauses have been included in the Facility Management Agreement and Facility Design Document that unambiguously set out the roles and responsibilities of DFAT, GOI and the Managing Contractor in the delivery of the KIAT Facility.	Facility Management Agreement to include responsibilities for DFAT and the Managing Contractor	Done
Recommendation 6 <i>The incoming team for the next phase of infrastructure investment should explore ways to foster more</i>	Agree	The KIAT Facility design document documents a new Activity Design process, which includes specific roles for GOI counterparts in the design process. This process is being further refined in consultation with GoI and is expected to be	<ul style="list-style-type: none"> • Revised Activity Design Process drafted • Activity Design Process endorsed by KIAT 	October 2017

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<i>meaningful involvement of Gol counterparts in activity design, while ensuring appropriate measures are in place to mitigate delays.</i>		endorsed at the first KIAT Management Committee meeting in October 2017.	Management Committee	
Recommendation 7 <i>Procurement for large-scale technical assistance projects should favour firms rather than teams of individually hired consultants. Within consultants' teams the comparative advantages of having fewer full-time individual team members versus a larger number of intermittent advisers should be assessed. The preferences of counterpart agencies should be considered.</i>	Agree	The KIAT Facility Design Document specifically recommends the use of firms rather than teams of individually hired consultants. Consideration of the structuring of individual activities will be included in the activity design process.	<ul style="list-style-type: none"> • Activity Design Process Endorsed • Procurement Policy set out in Facility Operations Manual 	October 2017
Recommendation 8 <i>DFAT should consider the merits of establishing an independent (or quasi-independent) M&E contractor to oversee both operational and strategic performance management across the infrastructure portfolio. Such an arrangement should provide</i>	Agree in part	Although we agree with the benefits of a whole of life M&E program with more regular assessment, our preference is for the KIAT to undertake regular M&E using the resources of the facility with these findings to be audited by an independent M&E specialist. Given the current diversity of the infrastructure portfolio, we are not convinced of the merits of trying to integrate M&E arrangements on a portfolio-wide basis, however we will continue to draw on the resources of DFAT's Quality Investment	KIAT Facility to procure independent M&E audit function	December 2017

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<i>greater regularity than was achieved with the IAT and could conduct annual facility assessments.</i>		Support Services arrangement to augment the facility's in-house M&E capability.		
Recommendation 9 <i>The incoming team for the new phase of infrastructure investment should examine ways of making gender equality and social inclusion a more prominent part of the program, including assessing the overall contribution of the facility to improving equality in Indonesia.</i>	Agree	Gender equality and social inclusion have been fully integrated into the program logic of the new KIAT facility. This increased emphasis has also led to the recruitment of a full-time Deputy Director of Gender and Social Inclusion for the facility.	Gender and Social Inclusion Deputy Director position established	Done
Recommendation 10 <i>The incoming team for the new phase of infrastructure investment should detail the basis for engagement and collaboration with the MDBs. The impact of the ADB's Engineering Services projects on demand for Australian support should be assessed.</i>	Agree	Engagement and cooperation with the multilateral banks has been fully integrated into the design of the new KIAT facility. This increased emphasis has led to the recruitment of a full-time Deputy Director for Private Sector and Multilateral Engagement whose responsibilities include ensuring Australian development investments complement those of the multilateral development banks.	Director for Private Sector and Multilateral Engagement position established	Done
Recommendation 11 <i>DFAT should convene regular sector coordination meetings involving the IndII FMC, relevant IndII sub-contractors and the MDBs to</i>	Agree	<i>DFAT has been holding ad-hoc coordination meetings between KIAT and the multilateral banks based on new proposal development. Longer term coordination between the new Facility Management Contractor, Sub-contractors and the multilateral banks has been</i>	Arrange regular coordination meetings with KIAT, sub-contractors and multilateral banks	December 2017

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<i>promote greater alignment and resolve any issues that may arise within the sector.</i>		<i>assigned to the Deputy Director for Private Sector and Multilateral Engagement. The final schedule for these coordination meetings will be established once this position has been mobilised</i>		
Recommendation 12 <i>DFAT should continue to support GoI (Bappenas, MoF and MoPWH) with infrastructure project preparation and designs to acceptable bankable standards.</i>	Agree	KIAT has been established with a core complement of activities focussed on partnering with GOI agencies including Bappenas, MoF and MoPWH to improve the quality of project preparation.	<ul style="list-style-type: none"> Existing activities with GOI counterpart agencies transitioned to KIAT facility New activities designed and approved 	October 2017
Recommendation 13 <i>The incoming team for the new phase of infrastructure investment should consider ways to strengthen the local consulting industry in relation to project preparation and design.</i>	Agree	The KIAT Facility Design Document incorporates a specific focus to <i>review and help improve institutional arrangements for GOI and the private sector to effectively collaborate on infrastructure policy and market reform measures</i> as part of its first outcome - Improved policy and regulatory framework. This outcome is the responsibility of the Deputy Director for Private Sector and Multilateral Engagement and will be expanded upon in the first year workplan.	<ul style="list-style-type: none"> Opportunities to strengthen the local consulting industry to be developed during the first year of KIAT operations 	July 2018
Recommendation 14 <i>Establish a Steering Committee comprising only DFAT (Minister Counsellor) and a Bappenas official (Echelon 1) to meet as required to make critical</i>	Agree	The Management Committee for the new KIAT Infrastructure Facility has been revised to a more streamlined membership consisting of only DFAT (Minister Counsellor) and the Bappenas Deputy for Infrastructure (Echelon 1) supported by an advisory service to evaluate	Incorporated in KIAT Facility Design Document	Done

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<i>decisions about sector priorities, resource allocation and the strategic agenda.</i>		and assess proposals.		
Recommendation 15 <i>Maintain the sectoral Technical Committees but with a focus on concept development and approvals. Membership would comprise DFAT (First/Second Secretary) and Echelon 2 officials from Bappenas and the relevant technical ministry.</i>	Agree in part	Whilst we acknowledge the valuable contribution made by the sectoral Technical Committees, given the breadth of scope of the new KIAT Infrastructure Facility, we believe a more appropriate response is for ad-hoc committee to be convened by KIAT's Embedded Lead Advisers. This approach provides greater flexibility and acknowledges the challenges of expanding the breadth of ministries and counterparts we are working with	<ul style="list-style-type: none"> • Concept development processes will form part of the Revised Activity Design Process • Activity Design Process endorsed by KIAT Management Committee 	October 2017
Recommendation 16 <i>Establish an Implementation Council (or sectoral Councils) comprising relevant technical agency officials, academics and/or private sector representative (as recommended by the Technical Committees) to have oversight of implementation, facilitate inter-agency coordination, and to make routine tactical decisions. The ambit of the Implementation Councils would be to troubleshoot and advise on issues</i>	Agree in part	Whilst we agree with the recommendation to establish bodies responsible for overseeing the implementation of activities, our preference is to utilise existing GOI management structures where they exist and adopt project boards for each activity, rather than sectoral based councils. This will enable us to align activity governance arrangements with existing partner agency structures.	All activity designs are to include specific information on activity governance arrangements including owners, sponsors, delivery and board members	October 2017

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<i>constraining implementation progress.</i>				
Recommendation 17 <i>All governance bodies should be supported with clearly articulated Terms of Reference, and to the extent possible, with performance measures.</i>	Agree	THE KIAT Facility Design Document specifies that <i>KIAT will be governed by a Management Committee comprising representation from DFAT and Bappenas . The Management Committee will meet at least six-monthly, and is the decision making body on KIAT strategy and budget allocations. It will review progress against KIAT outcomes and other measures of performance, review and approve annual strategic plans and budgets, and help coordinate inputs from other GOI and GOA agencies.</i> The KIAT Facility Director will be responsible for monitoring the performance and effectiveness of the Management Committee.	Terms of reference for the Management Committee including performance measures will be drafted by KIAT and submitted for approval at the first Management Committee meeting	October 2017