Australia Indonesia Partnership for Economic Governance (AIPEG) Facility

Design Document

January 2009

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Annexes

Acronyms and abbreviations

AB	Advisory Board
AIP	Australia Indonesia Partnership
AIPEG	Australia Indonesia Partnership for Economic Governance
AIPRD	Australia Indonesia Partnership for Reconstruction and Development
ADB	Asian Development Bank
ADS	Australian Development Scholarships
AML	Anti-money laundering
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investment Commission
Bapepam-LK	Capital Market Supervisory Agency and Financial Institution
Bappenas	Ministry for National Development Planning
CMEA	Coordinating Ministry for Economic Affairs
DFD	Deputy Facility Director
DFAD	Department of Finance and Deregulation (Australia)
DFAT	Department of Foreign Affairs and Trade (Australia)
DG	Directorate General (Indonesia)
DGT	Directorate General Taxation (MOF, Indonesia)
EC	Executive Committee
ECDPM	European Centre for Development Policy Management
FD	Facility Director
FET	Facility Evaluation Team
FRIP	Facility Review and Implementation Plan
GoA	Government of Australia
GoI	Government of Indonesia
GPF	Government Partnership Fund
IPR	Independent Periodic Review (part of AusAID's quality assurance system)
IEI	Immediate and Emerging Issues
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
MC	Managing Contractor

MenPAN	Ministry for State Apparatus Reforms (Indonesia)
MIS	Management Information System
MoF	Ministry of Finance (Indonesia)
MoT	Ministry of Trade (Indonesia)
MST	Management Support Team ie. the Managing Contractor
MTDP	Medium Term Development Plan
PA&E	Performance Appraisal and Evaluation
PDD	Project Design Document
PM&C	Department of Prime Minister and Cabinet (Australia)
PPATK	Pusat Pelaporan dan Analisis Transaksi Keuangan (Operational Financial Intelligence Unit)
PSC	Public Service Commission
QaC	Quality at Completion (part of AusAID’s Quality Reporting System)
QaE	Quality at Entry (part of AusAID’s Quality Reporting System)
QaI	Quality at Implementation (part of AusAID’s Quality Reporting System)
TA	Technical Assistance
TAMF	Technical Assistance Management Facility
TSP	Technical Support Pool

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Executive Summary

This design document builds on the successful experience of the Indonesia-Australia Technical Assistance Management Facility for Economic Governance (TAMF III). It responds to contemporary economic governance priorities of the Government of Indonesia (GoI), a new Australia Indonesia Partnership framework, emerging policy perspectives in international development cooperation as well as lessons learned from prior experience.

The Governments of Australia and Indonesia have worked collaboratively in the area of economic governance since the major financial crisis of the late 1990s. The rationale for this focus is the clear link between sound macro-economic management and stability and poverty reduction. Over a decade of cooperation, a great deal has been learned and achieved and there is now a mutual commitment to continue for the next six years. In 2008, Indonesia is currently weathering the new challenges which have occurred in the global financial system reasonably well. However, it is possible that economic growth may be less (5%) than expected (over 6%) and there may be increased pressure on the national budget (through reduced revenue and increasing social program costs).

The next phase of Indonesia Australia collaboration will be called the ***Australia Indonesia Partnership for Economic Governance (AIPEG) Facility.***

Goal: To improve the quality of the Government of Indonesia's economic management and through this contribute to broad based growth and poverty reduction.

Objective: To strengthen governmental capability for policy formulation, coordination and implementation in areas affecting the national budget and macroeconomic performance.

The facility will operate through a series of sub-facilities providing support in selected areas of economic management. Each sub-facility will have its own goal and objective, and will contribute to the facility wide objective through the provision of high quality analytical and strategic advice that is useful to Government of Indonesia policy makers. Particular attention will be given to harmonize and work strategically with other sources of assistance and advice. The sub-facilities will be expected to engage with key agencies to impact positively on budget and macroeconomic policy settings, and, where appropriate deliver effective support to build domestic capacity for policy formulation, coordination and implementation in areas of strategic importance.

Focus: The AIPEG Facility will undertake collaborative activities in institutional strengthening and policy advice in the following areas:

- Tax administration reform
- Debt management
- Financial system stability
- International trade policy
- Economic policy coordination (e.g. in climate change, food security, energy and agriculture)
- Public financial management (e.g. in budget, decentralisation/fiscal transfers and Public Private Partnerships).

This phase of cooperation, from 2009 to 2015, will extend beyond technical assistance to broader institutional strengthening. This is based on clear direction from GoI agencies that they wish to improve the capacity of their organisations to implement required economic governance policies and programs. Capacity includes technical (economic and financial) aspects of work, and this will continue to be a key element of Australia's cooperation, with a mix of ongoing activities and responses to emerging issues (for example, challenges arising from the 2008 global financial crisis). Indonesia's national economic governance institutions are now in a more stable context (compared with the time following the Asian financial crisis when TAMF was first designed) and are more confident about the selection and development of policies. In recent years, GoI priorities have shifted towards efforts to increase organisational capacity, initially in the form of staff training but increasingly towards broader elements of organisational effectiveness, such as strategic and corporate planning, organisational structure, internal systems (finance, IT, human resource development and management), leadership and performance monitoring.

The Facility will continue to work within four Sub-facilities in selected Directorates General of the Ministry of Finance and in the Ministry of Trade, as has been the case with TAMF III, and will extend to other partnerships for the latter two areas listed in the box above, based on scoping, research and negotiations during Year One of the new Facility.

The next phase of Australian assistance in this sector will contribute up to A$66 million over a six-year period, subject to annual AusAID budget appropriations. It is anticipated this will be delivered as a three year contract with an option to extend for up to a further three years. It will continue to operate as a "facility" form of aid, in which high level objectives are mutually agreed upon with GoI partners and then flexible planning and responsiveness to emerging priorities enables participants to undertake a range of activities. Selection criteria and decision-making systems will be carefully negotiated to ensure lessons learned about quality development activities are applied and to promote GoI leadership and ownership, as well as to contribute to a shift towards greater use of GoI systems, over the life of the AIPEG Facility.

Governance of AIPEG will be similar to the arrangements for TAMF III, whereby an Advisory Board (AB), co-chaired by AusAID and GoI senior officials and comprising highly skilled Indonesian economic governance specialists, provides strategic advice across the range of institutions and programs. Decision-making responsibility for plans, allocations across AIPEG and individual activities will be made by both Indonesian and Australian senior officials, with advice from the Advisory Board and others. Consistent with commitments to increase the use of GoI systems in aid management, approvals for individual programs within partner agencies will progressively be made by partner agencies themselves.

A managing contractor will be sought to support activities across multiple GoI partner agencies and to contribute specialist support in areas of mutual interest such as capacity development approaches, gender analysis and programming, monitoring and evaluation and support for a shift to increasing use of GoI systems for procurement, recruitment and monitoring. The AIPEG office will provide secretariat services to the Advisory Board as well as a range of services to partner agencies and advisers to support appropriate capacity development processes. The AIPEG office will liaise with AusAID on cross-Facility planning, monitoring and finances

Consistent with contemporary learning about capacity development, a menu of activities can be supported under AIPEG. The range may include the placement of short and long term international and Indonesian specialists to work alongside officials in partner agencies on specific tasks, as well as exchanges, tours, a variety of in-house and external professional development programs, joint research, development and piloting of new systems for example. In Year One of AIPEG, the practice of placing Lead Advisers to work within each partner GoI agency will continue, but in future years, will be subject to negotiated agreement.

The approach to monitoring effectiveness and results of the AIPEG Facility will build on the high quality system developed under TAMF III: a team of specialists making periodic detailed assessments of each Sub-facility (selection negotiated annually by AB and AusAID). Monitoring will be based on a set of performance questions covering the quality of Facility processes and the results achieved by combined individual activities. An increased focus on gender analysis and programming in AIPEG will also be carefully monitored throughout the life of the Facility. Coordination of AIPEG with other Australian-funded and other donor-funded activities is critical, given the large and crowded sector. AusAID is committed to donor harmonization and has various mechanisms to promote Indonesian leadership and maximize the benefits of multiple donors in the sector. This will also be closely monitored.

1. Introduction

This design document builds on the successful experience of the Indonesia-Australia Technical Assistance Management Facility for Economic Governance (TAMF III). It responds to contemporary economic governance priorities of the Government of Indonesia, a new Australia Indonesia partnership framework, emerging policy perspectives in international development cooperation as well as lessons learned from prior experience.

The next phase of Indonesia Australia collaboration will be called the **Australia Indonesia Partnership for Economic Governance (AIPEG) Facility**. From 2009 to 2015, the focus of this Facility will extend beyond technical assistance to broader institutional strengthening. This is based on clear direction from GoI agencies that they wish to improve the capacity of their organisations to implement required economic governance policies and programs. The next phase of Australian cooperation will retain the best features of TAMF III and introduce new concepts and practices which are better aligned with the current and future context.

In 2008, a decade after the Asian financial crisis and as a new global financial crisis appears to be looming, Indonesia's economic governance capacity is vastly different. The key national agencies are generally more confident about their policy directions and priorities and the context is more stable and predictable. There is an ongoing commitment to and interest in opportunities to consider different perspectives and experiences in new areas. Agencies now seek assistance in strengthening aspects of their institutions so they are able to apply policies efficiently and effectively, in order to maximize economic benefits, particularly through poverty reduction.

Internationally, many lessons have been learned about development cooperation approaches. Importantly, governments around the world, including the Governments of Indonesia and Australia have agreed to the principles included in the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008) which highlight new ways of operating. In particular these call for increased efforts to promote ownership of development programs within developing countries and increased use of existing Government systems where appropriate. A detailed understanding of the specific context and an analysis of the prospects for success and risks are required for these steps to be beneficial.

The rationale for Australian cooperation in economic governance is the clear link between sound macro-economic management and stability and poverty reduction. Poverty continues to affect the lives of millions of Indonesian men, women and children. Effective national economic management is one of many factors which contribute to poverty reduction over time. In simple terms, sound management provides a basis for increasing national and international investment which leads to increased employment and thus increased household income. Sound macro-economic management also increases the fiscal space for governments to improve delivery of essential services. For example, improvements in tax collection and management in Indonesia have substantially increased revenue and added to the national budget, thereby improving the Government of Indonesia's ability to fund essential services, either through fiscal transfers or directly. At the micro level, increased household income helps families to break the cycles of chronic poverty which are characterized by lack of opportunity, vulnerability to events such as accidents and poor health, and inability to maximize participation in development processes.

1.1 Methodology

At a concept peer review on 19 June 2008, AusAID agreed to proceed with the design of a new program of support for economic governance in Indonesia to succeed TAMF III. A design team established by AusAID consulted with the TAMF III Advisory Board on 3 July 2008 and undertook Australian whole-of-Government consultations during the week starting 7 July 2008. The team then visited Jakarta for two weeks and consulted with a range of stakeholders, including Government of Indonesia counterparts and economic policy leaders including Ministers; Australian officials deployed under the GPF; other donors; TAMF III staff; key academics; and staff from related AusAID programs.

2. Context and analysis

2.1 Economic governance context in Indonesia

Ongoing macroeconomic stability, structural reforms and improvements in the investment climate are essential for addressing poverty in Indonesia. In 2008, approximately 17% of the population lives below the official poverty line and many more (49%) live just above it on less than US $2 a day. The global financial problems arising in the latter half of 2008 will increase the pressure faced by this large proportion of the population. Government service delivery to those on or near the poverty line requires good fiscal management and is therefore affected by global financial issues and their impact in Indonesia. Macroeconomic stability and improvement in the investment climate creates jobs and opportunities for a wide range of workers. The reverse is true of macro instability and poor investment climate, which leads to a loss of jobs, erodes incomes of, among others, those below or near the poverty line and leads to a loss of revenue required for essential service delivery.

Since the Asian financial crisis, Indonesia has significantly improved its management of the economy. Indonesia has stabilized the macro economy and implemented a series of economic reforms that led to 6.3% economic growth in 2007. Economic growth for 2008 was expected to be in the range of 6.0 – 6.5% although in late 2008, the forecast appears to have reduced to around 5%. The forecast for 2009 is for close to 6.0% growth, but the global financial uncertainty may also reduce this estimate. In parallel, development spending has increased to pre-crisis levels. In early 2008 it appeared likely GoI would have an additional US$15 billion to spend on development as a result of reducing fuel price subsidies and prudent fiscal management. However, several global and national economic issues remain that are critical for the long term growth of the economy. At the national level, these include underinvestment in infrastructure, inadequate service delivery in education, health, water and sanitation, on going cost of subsidies, a rigid labour market, escalating food prices and the slow pace of sub-national reforms and efficient service delivery.

Central economic agencies are important contributors for macro-economic stability, improving the investment climate and leading structural reform. Decentralization has increased the responsibility of the regions in delivering services. However, the central economic agencies remain important in providing guidance, delivery of national programs, allocation and transfer of funds to the region and management of centre-region relationships. The issues that connect the centre and regions range very widely and include civil service regulations and reforms, Public

Financial Management, socio-economic development policies, as well as coordination and standards of laws and regulations. Therefore, in assisting the GoI to address poverty alleviation, it is important for AusAID to be working both at the central government level and in the provinces.

Four key Ministries play a central role in economic governance. These are the Ministry of Finance, Ministry of Trade, Coordinating Ministry of Economic Affairs and Bappenas. Through a variety of mechanisms, the GoA has worked closely with these Ministries. Since the Asian financial crisis, TAMF has worked in partnerships with GoI Ministries in assisting reform processes. Significant reforms have been achieved and reform processes are ongoing. The findings of the 2008 OECD Economic Assessment Report and Analysis of GoI economic reforms match the GoI's own economic reform program. However, reforms have not been evenly undertaken or achieved across or within Ministries, and ongoing support is required to contribute towards improved self-management. The following is a brief description of each of the four Ministries and some of the ongoing reform processes and challenges.

Ministry of Finance (MoF) is the largest and perhaps the most significant of the four key agencies and also where the pace of reform has been most noticeable. MoF employs over 66,000 public servants and has strategic financial management responsibility. MoF collects the largest amount of revenue for the state budget. Since at least 2004 MoF has undergone several organizational reform processes which have included the formation of the Large Taxpayers Office. Ongoing reform processes in MoF include: a) organizational restructuring, b) improving businesses processes, c) further developing management of human resources, and d) improving remuneration.

Ministry of Trade (MoT) has overall responsibility in matters related to trade and its mandate overlaps somewhat with that of the MoF. In consultation with GoI's other 34 ministries, MoT formulates and implements national trade policy. This includes internal and external trade, standards and weights and measures. MoT has a staff of approximately 3,000 public servants. MoT's main objectives include: a) coordinating GoI's multilateral, regional and bilateral trade position, b) improving effectiveness in pursuit of Indonesia's international trade interests, and c) working with other ministries to develop and implement policies which improve Indonesia's capacity to export.

Coordinating Ministry of Economic Affairs (CMEA) is responsible for effectively coordinating and synchronizing economic development agencies within the GoI. It places emphasis on the coordination of planning and preparation of economic policies and on synchronizing implementation. It does not have a mandate for policy development. It has a small staff of approximately 220 civil servants. Because the CMEA has no permanent status as a Ministry, it has difficulty attracting and retaining staff. The small size of its staff and limited mandate also provide challenges to its effectiveness. Despite these limitations, as a coordinating Ministry it plays an important role in Indonesia's economic governance. In mid 2008, the Minister for Finance also became the Minister for CMEA, and she has indicated that she will adopt a similar bureaucratic reform process for CMEA as has been undertaken by MoF.

Bappenas is the National Development Planning Agency and has a wide ranging responsibility for development planning. This responsibility ranges from the coordination of five year development plans and coordination of all official development assistance (ODA) to co-ordination of macro-economic development. Bappenas' roles and functions overlap with a number of other government agencies. It currently is an important agency in the provision of infrastructure and public and private partnerships (PPP). Bappenas employs approximately 800 civil servants who have relatively high levels of academic qualifications and good planning skills. Bappenas has begun a bureaucratic reform process which includes performance based management. It also faces challenges in developing IT and management systems.

The following cross cutting issues apply to all Ministries engaged in macro-economic governance (see Annex 1 for more details):

- key economic Ministries are currently focused on improving their capacity to implement and manage economic reform

- much-needed civil service reforms are beginning to take place

- Indonesia's main decentralization challenge is to ensure effective allocation of its resources towards the improved delivery of public services and pro-poor policies

- effective economic policy coordination across more than 34 Ministries remains a key area for improvement.

The GoI and key economic Ministries' are actively pursuing reforms in these areas (see Annex 1 for more detailed analysis).

2.2 Previous cooperation between Australia and Indonesia

The Governments of Australia and Indonesia have worked collaboratively in the area of economic governance since the major financial crisis of the late 1990s. Since 1999, Australia's program in the economic governance area has been primarily delivered through a program entitled Technical Assistance Management Facility for Economic Governance (TAMF). This flexible Facility has reflected many of the lessons learned about contributing to sustainable development results and working with public sector institutions. Three phases of TAMF[1] have involved collaboration between specialized international Advisers and their Indonesian colleagues within selected Ministries and Directorates General. Annex 6 provides a summary of the Sub-facilities under TAMF III, important background for the rest of this design document.

Activities supported by TAMF have addressed specific aspects of economic governance approaches and practices in the areas of tax administration, debt management, financial stability, international trade policy and anti-money laundering. These areas have been carefully selected over time, based on a number of criteria. A significant criterion was the identification of an opportunity to work with "champions" for reform. TAMF has not attempted to be comprehensive and extensive. TAMF has been well regarded because of the flexibility and responsiveness of the management approach and decision-making systems. Work supported by the third phase of TAMF has been regularly evaluated and consistently commended by Indonesian agencies, external assessors and other donors operating in the sector. This high level

[1] TAMF I – 1999 to 2001, TAMF II – 2001 to 2003 and TAMF III 2004 to 2009

evaluation has contributed to improvements over time and identified achievements and "results." Given the careful selection of work areas where there is opportunity and impetus for reform, it is not surprising that Australian supported personnel and activities have contributed to some significant changes overall in most areas, alongside their and with leadership from Indonesian colleagues. Given the success of this approach and the ongoing scope and opportunity for collaboration in economic development, the next phase of assistance will continue with the general approach, while incorporating contemporary policy themes and lessons learned.

The facility form of aid has been well suited to this sector and to this era in Indonesia and Australia cooperation. The changing context over the past decade includes the following:

- increased confidence among Indonesian economic policy decision-makers
- reduced need for "crisis management"
- political transformation in Indonesia after the end of the Suharto Government
- decentralization of GoI administration
- shifts towards a focus on how to enable economic governance institutions to best implement their respective policies
- lessons learned about the value of partnership approaches to development cooperation
- new research findings about different approaches to institutional strengthening and capacity development more broadly
- introduction of Australia's Government Partnerships Fund, which includes substantial personnel and programs in the economic governance sector and beyond
- new global commitments to the principles included in the Paris Declaration on Aid Effectiveness (2005) and Accra Agenda for Action (2008).

2.2.1 Government Partnerships Fund

Australia also works collaboratively with Indonesian public sector agencies, including those involved in economic and financial management, through the Government Partnerships Fund (GPF). This Fund supports direct collaborative arrangements between Australian and Indonesian economic governance agencies. GPF is a $50 million, 5 year program (commencing in 2005) to strengthen Indonesia's economic governance and public sector management capabilities. The GPF provides the opportunity for Australian government Departments and Agencies to exchange skills, knowledge and expertise with key public sector institutions in Indonesia, and to build long-term institutional linkages and partnerships. The extent of collaborative activities is limited by availability of staffing and other resources within Australian Departments, so it is often the case that GoI agency requests cannot be met in a timely manner or at all. A major review of GPF in 2008 recommended a continuation of funding based on successful activities undertaken to date. Given the significance and presence of both TAMF and GPF activities in key economic agencies in Indonesia, coordination at various levels has been an important element of Australian assistance in recent years and should be continued in future.

2.3 Australia Indonesia Program

Through the Australia Indonesia Partnership (AIP) Country Strategy 2008-2013, Australia and Indonesia have committed to work in partnership to achieve a more prosperous, democratic and safe Indonesia, focusing on implementation of Indonesia's National-Medium Term Development

Plan 2004-2009 (MTDP). The MTDP outlines an 'Agenda for Increasing the Welfare of the People', the first target of which is to reduce the total number of Indonesians living in poverty and the creation of employment opportunities, supported by the continued maintenance of macro-economic stability.

The MTDP also establishes a target of "good, clean, credible, professional and responsible governance that is manifested in a bureaucracy that is efficient, effective and can provide satisfactory public services." It highlights the importance of reducing corrupt practices in the bureaucracy and sets policy directions which include "fully resolving the problem of abuse of power in the form of practices of corruption, collusion and nepotism" and "enhancing the quality of public administration."

In support of the MTDP, the four pillars of the AIP Country Strategy are:

1. Sustainable Growth and Economic Management
2. Investing in People
3. Democracy, Justice and Good Governance
4. Safety and Peace

Pillars 1 and 3 of the Country Strategy provide the rationale for a program of Australian support for economic governance in Indonesia.

The Strategy notes that under Pillar 1, Australia will work with Indonesia to deliver:

- Improved natural resource management, environmental governance and response to climate change
- Reduced constraints to growth in infrastructure and productivity
- Improved economic policy and management

This Pillar of the Strategy commits Australia to work in partnership with Indonesia to address national economic management and policy in areas such as tax administration, debt management, financial sector regulation and fiscal policy. There will be an increased focus on ensuring that the national level economic reforms lead to improvements in planning, budgeting and service delivery at the local level, which is where approximately one-third of all government funds are spent.

The AIP's Pillar 3 – Democracy, Justice and Good Governance – states that Australia will work with Indonesia to deliver:

- Strengthened capacity, accountability and responsiveness of legal, democratic and oversight institutions
- Improved local government and public financial management, responding to local demand.

Under Pillar 3 the AIP Country Strategy cites the MTDP, highlighting the need for continued efforts in legal reform, enforcement of human rights, reducing corruption and improving the quality of public administration. The Strategy commits Australia to support Indonesia to strengthen the capacity and responsiveness of its legal, democratic and oversight institutions. Assistance to local level governments to strengthen public administration will be complemented by national level interventions around public procurement, budget and cash management reforms, with possible expansion into public sector audit.

The economic governance element of the Australia Indonesia Partnership (AIP) complements other elements which promote poverty reduction and development more directly.

2.3.1 Commitment to increasing use of GoI systems

The Governments of Australia and Indonesia have both signed up to the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008). These commitments include a number of elements which are directly relevant to AIPEG, particularly the emphasis on increasing the use of Government systems and ensuring local leadership of development activities. The design of AIPEG incorporates approaches and steps, relevant to the particular context of national economic governance institutions in Indonesia, to respond to these commitments. Given the dynamic global economic context at the time of this design, it is recommended that during implementation, careful attention should be paid to the pace of any shifts in approach associated with increasing use of GoI systems. The key principle is to ensure there is agreement between GoI and AIPEG on the pace of changes, and that both should be open to slowing or even reversing changes if the joint experience is unsatisfactory. Approaches to increasing use of GoI systems are found throughout this PDD and summarized in Annex 12.

2.4 Other donors

Other donors, including international financial institutions are currently undertaking significant activities in support of improved economic governance in Indonesia and more are planned. Australia's program, spread across various Ministries and Directorate Generals, is relatively small in size, but to remain effective, effective coordination with other donors is required. Consistent with broader commitments, AIPEG should also identify opportunities to harmonise activities and programs where possible. A prime example could arise in the Ministry of Trade (see below).

The most significant multilateral program in this sector is the World Bank's Government Financial Management and Revenue Administration Project (GFMRAP). This project includes US$80 million in loans and grants to implement a variety of activities covering most aspects of public financial management and revenue administration at the national level.

The Bank is also preparing a Program for Indonesian Tax Administration Reform (PINTAR) as a second phase of Tax Administration Reform in Indonesia. The program is likely to include support for core tax systems, human resource management policy, and project management and management information.

The Bank's Public Financial Management Multi Donor Trust Fund will provide US$19 million in support of the GFMRAP and PINTAR agendas over six years. A core team of five resident advisors is being provided along with ongoing support to facilitate implementation. In addition to the areas covered by GFMRAP and PINTAR, the Trust Fund supports activities in: bureaucratic reform; the Ministry's shared service centre; a reform road map for the Ministry of Finance; and public financial management in line ministries.

Also Multi-Donor Trust Facility in the Ministry of Trade commenced in 2008 with Dutch Government funding, with the potential to incorporate further funding. Australia should consider contributing to this Fund after 2-3 years if it is deemed an appropriate mechanism and if it is successful in its efforts to work through GoI systems. The main impetus for starting will come from the MoT when they want donors to use the Multi-Donor Trust Facility more.

Among the other donors providing significant support for economic governance in Indonesia are:

- the Asian Development Bank, providing advisory support for bond market development, syariah capital market and risk management
- the International Monetary Fund, including support for financial supervision and tax
- the Japanese International Cooperation Agency, supporting financial system stability, and capacity building for investment and export promotion policy, competition policy and administration.

2.5 Lessons learned

Experience of TAMF since 1999 and of GPF since 2004 has generated a rich set of lessons for Australians and Indonesians about the factors which contribute to success in cooperation in the economic governance area. TAMF III's 6-monthly Performance Assessment Evaluation (PAE) reports, the mid-term review of TAMF III in 2007 and a 2008 GPF Review all include lists of such lessons. During the design of this new program, to be called the Australia Indonesia Partnership for Economic Governance (AIPEG) Facility, stakeholders further confirmed many of these lessons as they defined their expectations for the next phase of cooperation. This design document reflects many of the detailed lessons, but the major themes are summarized below:

(i) **Identification of a champion/change agent:** Australian and international experience suggests the presence of a "champion" or change agent in partner institutions is critical to the likelihood of success in terms of achievement of shared objectives. In some cases this was a reform minded Minister and in other instances it was a senior government official.

(ii) **Demonstration of commitment:** A willingness and commitment by organisations to implement reform is fundamental to success and this may be demonstrated through development of specific policies or recruitment of key reform-minded staff.

(iii) **Long term relationships:** All Indonesian agencies commended the long term relationships and trust that had been built up through TAMF, particularly with long-term Advisers. The comparison with short-term consultants, who were unable to develop a deep understanding of the context, was noted.

(iv) **Provision of senior Advisers with excellent technical and country experience:** TAMF III's Lead Advisers are senior people with a range of relevant experience and networks. They have developed high levels of trust with their colleagues and Ministers and senior officials respect their judgment.

(v) **Working within agencies:** TAMF Advisers are located within GoI offices where activities are implemented, enabling them to work closely with their colleagues and keep in touch with developments.

(vi) **Flexibility to respond to new opportunities within a focused area:** TAMF Advisers retain flexibility to respond to changes and emerging opportunities, recognizing the dynamic political, economic and institutional environment in which TAMF operates.

(vii) **Focus on specific outcomes as opposed to more generic capacity building:** Activities funded by TAMF in the form of training, strategy planning or human resource development, took place in the context of specific reforms. For example, training in tax occurred within a focus on capacity to implement new systems and procedures.

(viii) **Joint Indonesia-Australia governance promotes ownership and provides guidance:** The TAMF Advisory Board, co-chaired by the Deputy Minister from the Coordinating Ministry of Economic Affairs and AusAID's most senior officer in Jakarta, comprising leading economic governance specialists, fosters a high degree of Indonesian ownership. The Board provides guidance on the selection of priority issues including analysis of those issues which could find political resistance. Board members have an overall view of the reform process and reinforce support for it through their own agencies. Their status means they are able to support and promote Australia's work in this sector, thereby contributing to overall effectiveness.

(ix) **Demonstration of results from long-term engagement:** It has proven important for TAMF to document and communicate measurable successes and promote understanding of the links between these and TAMF activities, as this further builds commitment to reforms and brings other donors to the reform agenda.

(x) **Advisers should not be overly identified with a particular donor agenda:** A number of GoI agencies stressed the importance of their trust in TAMF Advisers more than other donors' Advisers because they were not promoting loans or other donor products. Other donors also indicated that TAMF Advisers were often seen as more independent than their own. Nevertheless, it was widely acknowledged by GoI that the Facility was funded by Australia within a strong bilateral relationship.

(xi) **Begin with broad engagement and progressively focus:** Sub-facilities in TAMF started by working in broad areas of potential reform (i.e. there was a process of identifying a champion and a demonstrated commitment to reform), before narrowing the scope of work. This process took more than a year in most cases, so cannot be rushed.

(xii) **Work with host government's priorities, strategies and systems:** All organisational reform processes were driven by GoI's priorities and strategies. All activities were tailored to respond to contextual issues and reflected joint planning and decision-making. External 'wholesale' solutions or approaches were not imposed on Indonesian contexts.

(xiii) **Rolling work plans and review processes:** TAMF Advisers identified rolling 6/12-month work programs (detailed 6 monthly and broader 12-monthly plans) and 6-monthly reviews were carried out on Sub-facilities.

Lessons to improve future activities and operations include:

(i) **Avoid aligning the start of the facility with major political change**: TAMF III started about the same time that the new Indonesian Government was elected. For most of the first year, TAMF III personnel were unable to build effective working relationships with their colleagues in GoI agencies.

(ii) **Develop end points and exit strategies:** Many TAMF activities have been ongoing and have not included exit strategies or well defined end points. While capacity development is an ongoing process, individual activities should identify what functions or products are expected to be achieved, include a monitoring system that focuses on confirming achievement, and a plan for concluding each activity.

(iii) **Integrate gender throughout the Facility:** Since the inception of TAMF, GoI and AusAID have made significant commitments to integrate gender into all development initiatives. The new the AIPEG Facility will actively support GoI commitments to improving the economic empowerment of women and integrating gender into government policy.

2.6 Contemporary approaches to capacity development

This section links contemporary thinking about effective approaches to capacity development with the particular context of AIPEG. Sections 3, 5 and 8 below describe how these issues will be applied in practical terms.

Capacity development is now widely regarded as one of the most critical elements in the achievement of sustainable development outcomes or results. There is even some debate about whether organisational capacity development is actually the most significant development result in itself, based on the idea that when organisations have the "right capacity", they are able to manage all development issues and deliver all the results possible in any particular context, including through their networks and collaboration with partners or other organisations.

Recent international research, undertaken by the European Centre for Development Policy Management[2] on capacity development, partly funded by AusAID, has identified many issues relating to development approaches and practice, looking through a capacity development lens. The research has identified a number of implications for development practice, which are summarized below.

An important theme from the ECDPM research was the importance of gaining a detailed understanding of the context in which capacity development take place. This is consistent with the finding that externally introduced or "universal" ideas, solutions, tools, strategies, methods, systems etc. are not likely to be applied successfully in different contexts. For example, a method for increasing tax intake in Australia is not likely to work in the same way or have the same results if it were applied directly in Indonesia. The history of TAMF over the past decade has confirmed that a detailed understanding of the context is critical to the success of all capacity development processes and achievement of any capacity development outcomes.

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[2] synthesised in Heather Baser and Peter Morgan's paper "Capacity, Change and Performance" Discussion Paper 59B, European Centre for Development Policy Management, April 2008.

The new AIPEG Facility will reflect the concept that a linear view of capacity and results, i.e. the idea that capacity development will lead to specific and predictable development outcomes, is somewhat unrealistic. The ECDPM, in its multiple case studies found four patterns: in some cases, improved capacity led to improved results; in others, improved capacity made little or no difference to results; in others improved results led to improved capacity; and in others an imbalanced focus on either results or capacity eventually undermined both. There are trade-offs and tensions involved in balancing capacity development and results, but the hope is that in well managed relationships, the two will reinforce and "feed off" each other in a "rising spiral" pattern[3]. Experience from TAMF suggests that in the AIPEG Facility such a positive pattern can be achieved within the context of well-supported and healthy collaborative relationships and lesson learned number 7 (section 2.4 above) has identified that where specific reforms (which could be seen as development outcomes or ongoing processes) have been identified by the GoI, capacity development activities have supported the achievement of these outcomes.

ECDPM's research identified five core capabilities which can be found to a greater or lesser extent in all organisations or systems:

- the capability to commit and engage
- the capability to carry out technical, service delivery and logistical tasks
- the capability to relate and attract
- the capability to balance diversity and coherence
- the capability to adapt and self-renew

(see Figure 1 in Annex 3 for a graphical presentation).

These capabilities, all five of which are needed to ensure overall capacity, can be used by practitioners to help understand existing strengths as well as areas where organisations could value support to be able to deliver development outcomes. They also can be used as a framework for considering how to undertake collaborative efforts aimed at strengthening institutions. Annex 3 includes an excerpt from the ECDPM study which discusses the five capabilities in detail and identifies skills required for each.

Traditionally, many aid activities focused on only one or two organisational capabilities, such as policy development, technical solutions, service delivery, strategic planning or financial management. However, it is now suggested that for organisations to succeed, an understanding about all elements of capacity and the relationships between them is needed. If the objectives of development programs are to focus on capacity development, there is an implication that the program is based on an understanding of existing capacity, of how capacity within particular organisations changes over time and the factors which influence change in that context, and of the organisation's expectations about its future capacity. In fact, that understanding rarely exists when a program commences and there has not been sufficient open-ness to learning about these issues in program designs and implementation.

In the case of TAMF, the emphasis was initially on technical assistance in specific economic policy development, which in Figure 1 (Annex 3), could be seen as part of *the capability to carry*

[3] Heather Baser and Peter Morgan, page 90

out technical, service delivery or logistical tasks, albeit not the whole capability. Over the past decade, GoI economic governance agencies have sought assistance in broader organisational capabilities, including aspects of human resource development and management and other systems development which could be perceived as part of the capability to commit and engage and to adapt and self-renew. While there are many models for understanding organisational capacity, Figure 1 in Annex 3 provides a simple model which is drawn from developing country examples, some of which are public sector institutions, rather than western countries, so is more relevant to the Indonesian context. It is proposed that this is one of several organisational development frameworks that can be used to explain and guide the AIPEG Facility's work at the broadest level, while recognizing that the AIPEG Facility will not comprehensively cover all aspects of such frameworks in its work with partner organisations, given the relative size of Australia's contribution against the size of the organisations as well as the significance of other donor activities in the sector.

The process of changing capacity is very complex. Most people have their own "tacit mental model of change in the form of capacity development[4]" for example, the idea that training leads to changes in performance (despite the research evidence that suggests it has very little impact in isolation) or that the ability to develop a strategic plan results in a better organisation. These tacit mental models have driven development practice for decades, often poorly based on research evidence.

To some extent, it is possible to argue that individuals and organisations are responsible for their own capacity development, and outsiders can only contribute and support, rather than be responsible for capacity development directly. This is a challenge to donor agencies which seek direct connections between their "inputs" and development results, but reflects the reality of the tenuousness and unpredictable nature of influences on change in diverse contexts.

Current key themes in capacity development include:

- an emphasis on the need to understand the different influences on capacity change in each context – for example in some contexts, "learning by doing" may have the biggest influence on improved practice, while in others, clear instruction from supervisors is more effective and in other contexts, incentives and sanctions may be the key
- a suggestion that building on existing capacity (and therefore understanding/analysing existing capacity and how it has been developed in the past) is preferable to trying to "fill in gaps" or assuming there is a "blank sheet"
- the need to understand the cultural values that affect capacity and changes in capacity over time, particularly in relation to leadership, the avoidance of or taking of risks, the extent of collectivism vs individualism and the differential emphasis on task or relationships as the key to action
    - Issues related to power, allegiances and legitimacy are central to capacity development processes and results in most organisational settings.

[4] Baser and Morgan page 51

- the idea that a range of approaches is needed to contribute to capacity development, not a single approach

- an emphasis on "joint or mutual learning" rather than one group "teaching" another is more likely to bring about change that is appropriate to the local context. In this context, both external and internal stakeholders bring their respective knowledge and skill to tackle new issues and to find out what solutions will work in each new context
  - importantly, learning in the 21st century is about continuous adaptation to change, and implies a constant need to learn new skills, new ideas and new approaches in order to progress

- the ability of an organisation or system to attract resources is a key element in capacity development[5]

- the ability of an organisation to be receptive to and "absorb" capacity development support is important but highly dynamic and subject to many influences[6]

- the need to understand the nature of supply and demand for organisational performance[7].
  - this means that there needs to be external demand for organisations to improve, otherwise they inevitably drift towards stagnation, routine, standardization, bureaucratization and inflexibility, but it is not necessarily external supply that can overcome these negative effects.
  - pressure or demand from outside (e.g. the public, the media, politicians, citizens, watchdog groups) will be the key driver for capacity development in many cases

- external people can often create and protect "operational space" for local actors, which is a key contributor to capacity development. This means that local actors are able to experiment, make decisions and establish an identity with professional, advisory support, rather than have to take too greater risks on their own. This can protect them from negative influences and promote ownership, engagement and motivation.

- there is no simple recipe for effective capacity development, no simple series of sequential steps that are need to guarantee success and no consistent timeframe in which capacity development takes place
  - but research suggests a combination of approaches and an open-ness to learning about what works in different contexts and to deal with emerging issues constructively, thoughtfully and within a longer-term but flexible timeframe will be more helpful than the opposite

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[5] As noted in Section 2.3, the fact that many donors are now working in the economic governance sector suggests there has been significant growth in the capacity of institutions already.

[6] This has implications for AIPEG's selection of partners and activities in the proposed two new Sub-facilities – what may appear to be an organisation resisting change, may in fact be an organisation lacking in confidence or understanding, both of which could benefit from a partnership based on good development principles

[7] See Baser and Morgan, page 68

- the need to ensure that external “interveners” in ongoing capacity development processes do not erode the motivation, initiative and autonomy that are the essence of self-help[8], implying a greater emphasis on “indirect” approaches to capacity development
    - indirect approaches involve TA personnel/Advisers: working indirectly through others rather than achieving their own results; supporting and facilitating rather than action and delivery; promoting self-help and capacity development rather than focusing on their own results or deliverables; promoting ownership by country staff

- men and women may experience capacity development processes and view capacity and capacity development issues differently.

2.7 Implications for the AIPEG Facility

The various changes and lessons noted above suggest that for the next period, cooperation between the Governments of Indonesia and Australia should evolve from that of the last decade. The next phase of cooperation will therefore be based on an approach that:

- more explicitly centralizes the role of GoI leadership in economic governance institutions in decision-making and implementation of Australian-funded activities
- further strengthens the partnership approach, where joint decisions are made about all activities and processes
- further supports Indonesia’s economic governance institutions to maximize the effectiveness of their policies using suitable contemporary organisational development and capacity development frameworks
- supports Indonesia’s commitments to enhancing the economic empowerment of women, and integrating a gender perspective into government policy
- contributes to strengthening and increasingly using Indonesian activity management and procurement systems
- builds on the strengths of previous phases of TAMF, including flexibility in programming and placing a positive value of high quality long-term relationships between Advisers and their colleagues in specialist sectors
- builds synergy between the various Australian activities in the sector, including GPF, scholarships and activities working at sub-national level in economic governance, while recognizing the differences between different programs.

3. Facility Description

The new phase of Australia Indonesia cooperation in this sector will be labeled “Australia Indonesia Partnership for Economic Governance” (AIPEG) to fit clearly under the new Australia Indonesia Partnership.   In summary, the AIPEG Facility will:

- reflect the new Australia Indonesia Partnership (AIP) which is closely aligned with the Government of Indonesia’s priorities, including commitment to gender mainstreaming and gender equality in development cooperation

[8] Heather Baser and Peter Morgan, page 108

- build on lessons learned from the last decade of TAMF cooperation, particularly the need to remain flexible and responsive within a context of long-term commitment and relationships
- continue to work with key economic Ministries at national level
- identify ways to promote and support Government of Indonesia leadership of funded activities
- involve a shift to increasing use of Government of Indonesia systems for decision-making, activity planning, recruitment, procurement and monitoring, as well as support for increasing capacity in these areas as deemed appropriate within AIP overall and AIPEG
- reflect changes in the priorities of economic governance Ministries, particularly a shift towards institutional development issues
- build synergies between different Australian activities in the sector, including GPF, scholarships and other programs
- reflect current and proposed activities of other donors in the sector.

Form of aid

Australia will continue to use a "facility" form of aid in this sector. A facility sets high level objectives and then allows for flexible planning and responsiveness to emerging priorities. In the case of the AIPEG Facility, the focus will be on institutional strengthening and policy priorities determined through joint decision-making, led by senior GoI officials. The determination of specific outputs will be undertaken through the joint development of a series of activities planned each year, within agreed parameters and according to agreed quality criteria and standards. In this case, Sub-facilities within selected Indonesian agencies will continue to be used as a way of jointly planning, implementing and monitoring a series of activities. Each activity will have its own objective, consistent with agency priorities, and a small number of outputs. All activities will be selected on the basis of a judgment they will contribute to Sub-facility objectives.

A critical aspect of this form of aid is the promotion of local ownership of decisions and activities and a commitment to increasing the use of GoI systems for decision-making and implementation over the life of AIPEG. In the AIPEG Facility, overall strategic advice will be provided by the AIPEG Advisory Board (AB). The AB assists the AIPEG to ensure Australian cooperation remains aligned with GoI priorities in economic governance. See Section 5.1 for details of the role of the AB.

In TAMF III, for management purposes, the concept of "Sub-facilities" was developed and applied in each area of work. In most but not all cases, a Sub-facility operated in a single Ministry or Directorate General. In TAMF III, internationally-recruited "Lead Advisers" were the central feature in each Sub-facility. They became responsible for coordination of all TAMF-funded activities in each partner agency. In the AIPEG Facility, this model will continue at least for the first year (see Section 5.4.1 for details).

A Facility form of aid which operates across a number of partners (Government Ministries and Directorates General in this case) creates some difficulties when it comes to using existing Government systems. In Indonesia, while some systems, such as personnel recruitment are generally consistent across Ministries, there is great variation in others. In TAMF, the need for a central coordination point and a coherent approach to the provision of partnership inputs was met by a Management Support Team, which was contracted to provide a number of services at various levels. For AIPEG, a Management Support Team (MST) will continue to be required, under a contract arrangement, for this purpose. Section 5.2 provides details.

3.1.1 Facility form of aid and GPF

The Facility form of aid (delivered through a contractor) is significantly different from the GPF mode of delivery (see section 2.2.1 above). To promote a degree of coherence and collaboration between the two, it is recommended that two levels of interaction take place. At the strategic level, in addition to directly advising the AIPEG Facility, the AIPEG Advisory Board will also ***offer*** strategic advice to the GPF Core Group in Canberra. This continues to recognise the decision-making role of the GPF Core Group while providing access to high level strategic economic governance from Indonesian expert advice as required. Secondly, efforts to share information and promote collaboration and coordination between Advisers working at the Indonesian agency level, both through AIPEG and GPF will be made by AusAID.

Personnel from Australian Government agencies and contracted personnel placed under AIPEG will be expected to work as collaboratively as they can with each other. The AusAID Economic Adviser in Jakarta will be responsible for organizing meetings where ideas can be exchanged about different approaches and issues, as well as promoting policy dialogue between GoI and AIPEG and GoA. However, it is important to promote GoI leadership in this regard.

3.2 Goals, Objectives and Rationale

Goal: To improve the quality of the Government of Indonesia's economic management and through this contribute to broad based growth and poverty reduction.

Objective: To strengthen governmental capability for policy formulation, coordination and implementation in areas affecting the national budget and macroeconomic performance.

The facility will operate through a series of sub-facilities providing support in selected areas of economic management. Each sub-facility will have its own goal and objective, and will contribute to the facility wide objective through the provision of high quality analytical and strategic advice that is useful to Government of Indonesia policy makers. Particular attention will be given to harmonize and work strategically with other sources of assistance and advice. The sub-facilities will be expected to engage with key agencies to impact positively on budget and macroeconomic policy settings, and, where appropriate deliver effective support to build domestic capacity for policy formulation, coordination and implementation in areas of strategic importance.

Focus: The AIPEG Facility will undertake collaborative activities in institutional strengthening and policy advice in the following areas:

- Tax administration reform
- Debt management

- Financial system stability
- International trade policy
- Economic policy coordination (for example in areas such as climate change, food security, energy, and agriculture)
- Public financial management (for example in areas such as budget, decentralisation/fiscal transfers and Public Private Partnerships).

Each of these areas will be called a "Sub-facility" and may involve partnership with one or more Indonesian agencies, at Ministry or other levels. Importantly, particularly given the emerging international economic issues in late 2008, provision will be made for support for "emerging and immediate" issues arising during the life of AIPEG. This will include being responsive to requests from GOI or GoA for technical advice for relatively small and short-term 'one-off' activities. Funds will be allocated on an annual basis and could be used to support activities with existing or new partners as negotiated within the AIPEG Governance and Management structure.

Within each Sub-facility, senior Indonesian agency officials will develop plans for a range of activities suitable for AIPEG Facility assistance on an annual rolling basis. They will be supported by in-house Advisers (funded by the AIPEG Facility) and a Facility-wide Management Support Team. The MST will be responsible for collating the various plans across Sub-facilities.

Sub-Facility Objectives: The following goals and objectives are proposed for each Sub-facility:

Area	Goal	Objective
Tax administration reform	A tax authority that collects significantly more public revenues, facilitates compliance and is more accountable to its stakeholders	To improve governance in tax administration
Debt management	Less risky and burdensome Indonesian Government debt	To assist Indonesia's debt management to make substantial advances towards international standards and best practice
Financial system stability	Improved prudential regulation and supervision of the financial sector and stronger corporate governance requirements	To support priority reforms in Indonesia's financial sector
International trade policy	Lower barriers to and more efficient regulation of Indonesia's international trade in goods and services	To strengthen policy development capabilities and negotiation skills in Indonesian agencies responsible for regulation of international trade in services
Economic policy coordination (for example in areas such as climate change, food security, energy and agriculture	Greater coherence and effectiveness of new economic policies	To improve coordination of formulation and implementation of policy across key government agencies dealing with critical emerging economic management issues
Public financial management (e.g. in budget, audit, decentralisation/fiscal transfers, public private partnerships and procurement)	Increased efficiency in public financial planning, expenditure management and service delivery	To extend the benefits of improved public financial management to the sub-national level
Immediate and emerging issues	Goal not necessary	To enable effective responses to immediate, new or important economic governance priorities that may emerge over the next 6 years

* These areas were selected on the basis of consultations during the design process in July 2008, and goals and objectives were developed by the design team. It is expected, given the dynamic economic context between July 2008 and the commencement of AIPEG, that the actual goal and objectives may change following further consultations with GoI and analysis during Year One of implementation.

These objectives and the work programs to be developed to meet the objectives will be subject to negotiation during inception workshops, ongoing periodic reviews and negotiated agreement between Australian and Indonesian partners. The intention is to find a balance between setting clear shared high level objectives and flexibility in the selection of activities and methods on a rolling basis.

Rationale for the AIPEG Facility: The AIPEG Facility is intended to provide a mechanism for Australia to continue to assist Indonesia's key economic governance institutions to implement policies which will, in the long-term, contribute to poverty reduction nationally. The rationale for the AIPEG Facility is that for the past decade, Australian assistance has worked successfully and there is ongoing scope for and commitment to collaboration which contributes towards improved economic institutions in Indonesia.

Rationale for Facility form of aid: The rationale for the ongoing use of a Facility form of aid is that in a dynamic and highly complex institutional and policy context, Australia's cooperation needs to remain selective, strategic and flexible, and to build on existing relationships and partnerships. It also needs to continue to be based on jointly agreed priorities and promote Indonesian ownership of both activities and results within each Sub-facility. These elements are crucial for the sustainability of benefits. The sector is increasingly crowded with other donor activities, many of which are large-scale and comprehensive. Australia's cooperation has been positively regarded as comparatively responsive and selective, long-term and flexible, and these qualities are likely to continue to contribute to strong results in terms of increasingly successful policies, organisations and services/results. There is also widespread support for Australia's assistance working directly within GoI agencies.

Given the complex context and the request by GoI for assistance in increasing organisational capacity, it is difficult to define results clearly from the outset that can be directly attributed to Australia's assistance overall. This is a common area of concern for donors in relation to the facility form of aid and reflects the current international interest in new ways of monitoring capacity.

Rationale for shifting emphasis: In recent years, GoI priorities have shifted towards efforts to increase organisational capacity, initially in the form of staff training but now increasingly towards broader elements of organisational effectiveness, such as strategic and corporate planning, organisational structure, internal systems (finance, IT, human resource development and management), leadership and performance monitoring. The rationale for extending the AIPEG Facility's methodology of engagement beyond a focus on financial and economic technical assistance to broader institutional strengthening is based on clear direction from GoI agencies that they wish to improve the capacity of their organisations. "Capacity" includes technical aspects of work, so these aspects will continue to be a key element of Australia's cooperation. Indonesia's national economic governance institutions are now in a more stable context and are more confident about the selection and development of policies. Another key emerging issue is the need for coordination across agencies, to minimize contradictory regulations and systems and maximise coherence of policies and practices.

The commitment by the Governments of Australia and Indonesia to the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action confirms an international trend towards increasing use of GoI systems through the life of AIPEG. The shift needs to be deliberate and considered, so as not to lose the benefits of previous collaborative work patterns, while recognizing the benefits to Indonesia's economic governance of increased self-management.

Rationale for extending Australia's cooperation: The decision to extend from five (in TAMF) to six (in the AIPEG Facility) Sub-facilities, including two new Sub-facilities is based on:

- continuing link between economic governance and poverty reduction
- ongoing opportunities to contribute to improved economic governance institutions
- the success of the TAMF approach to date and the positive bilateral partnership
- continuing Indonesian commitment to and interest in collaboration with Australia
- increased Australian aid allocations.

The AIPEG Facility will work in areas where there is a "suitable" combination of demand, ability to respond, opportunity, relationship commitment and demonstrated ongoing effectiveness. The judgment about "suitability" will be made by senior Indonesian and Australian officials on the basis of research, negotiations, shared commitments (e.g. to gender mainstreaming) and open discussions at various levels within a partnership context. Periodic review processes will assess whether the AIPEG Facility should continue, in what form and in which particular areas in each of the four existing Sub-facilities. Joint reviews may result in mutual agreement to cease funding. The commencement of two or more new Sub-facilities will be based on detailed research, negotiations and open discussions during the first year of the AIPEG Facility and later, if appropriate.

3.3 Scope

3.3.1 Areas/Partners

The AIPEG Facility will continue to work within four Sub-facilities in selected Directorates General of the Ministry of Finance (MoF) and in the Ministry of Trade (MoT).

Within the MoF, the AIPEG Facility will concentrate in the following areas:

- Bapepam LK - financial stability
- Directorate General Tax
- Directorate General Debt Management

For the first year of AIPEG, priorities and activities in MoF commenced during TAMF III will continue where appropriate, to avoid the loss of momentum. While there is diversity between activities in the three agencies, it is likely that the focus will continue to be on collaboration in a range of specialist technical areas including economic/financial management and organisational development systems and strategies to support implementation of economic governance reforms.

Activities within the Ministry of Trade for the first year of AIPEG Facility will continue in Ministry-wide institutional development and policy advice related to trade in services. Leadership within MoT is expected to identify future areas of focus for Australian inputs and decisions about cooperation will be negotiated at high levels between the Governments of Indonesia and Australia, including through parallel collaboration with GPF.

Given the changes in context which are likely over the life of the AIPEG Facility, this design includes processes for ongoing review and planning across partners. The AIPEG Facility will include some element of "contestability." Eligibility to continue engagement, to phase out or to substantially realign activities will be based on ongoing reviews by a Facility Evaluation Team (FET – see Section 8), the provision of advice from the Advisory Board, and decisions by the Executive Committee.

It is envisaged for design purposes, that there will be a maximum of six Sub-facilities, with four at the commencement and a gradual increase to six after the new GoI Cabinet priorities become clear in 2010. Once the additional two Sub-facilities have been appropriately researched and negotiated with respective GoI agencies, additional Ministries may be included as the AIPEG Facility partners. This does not mean that there is a guarantee of ongoing funding in six Sub-facilities, but there will be a periodic review to develop exit strategies or recommend realignment where appropriate.

Subject to research, scoping and consideration of priorities set by the next GoI Cabinet (following the 2009 National Elections), the AIPEG Facility will include two additional Sub-facilities commencing in 2010 (as listed under focus in Section 3.1 above). During the AIPEG Facility design process, it appeared that two new areas may be appropriate for partnership: *Policy Coordination* (for example in areas such as climate change, food security, energy, and agriculture); and *Public Financial Management* (budget, decentralisation/fiscal transfers and Public Private Partnerships). The areas and their possible elements need to be reviewed by the Governments of Australia and Indonesia through governance discussions in AIPEG in early 2010, given that this design process is occurring at least 18 months before that time and new or different international and national economic governance issues may have arisen by then.

In relation to *Policy Coordination*, it is possible that the AIPEG Facility could work with Bappenas and the Coordinating Ministry on Economic Affairs, depending on the level of interest and opportunities for engagement in early 2010. Issues identified during the design mission (mid 2008) as being relevant to economic governance included climate change, food security, energy and agricultural markets. These current issues are complex and dynamic, both within Indonesia and globally, but it is not clear what role there could be for donor support in policy coordination across these areas by early 2010. The intention of including this area in the design, at least in broad initial terms, is to identify that a number of global and national issues such as the prices of fuel and food may have a significant impact on Indonesia's economic policies and management, and there may be scope for Australian cooperation. It is easy to see how these issues will have a different impact on men and women, so gender analysis will be a key aspect of broader research.

In relation to *Public Financial Management*, potentially an equally broad and complex area, it is possible that the AIPEG Facility could work in collaboration with several areas in the Ministry of Finance, including DG-Budget, DG-Fiscal Balance and DG-Treasury, as well as the Ministry of Home Affairs which is responsible for decentralization and fiscal transfers to Provinces. While the design process identified these as potential areas for collaboration, more detailed discussions and analysis will be needed before activities and partners could be confirmed. GPF already includes some activities in these DGs in the Ministry of Finance, so this provides a useful starting point if there is demand for additional cooperation with the AIPEG Facility, and careful coordination will be required to ensure complementarity.

3.3.2 Institutional Capacity Development Approach

Section 2.5 provided a capacity development framework for the AIPEG Facility, consistent with the need to take a broader approach to institutional support than the "technical assistance" focus of TAMF III. This means that the AIPEG Facility will focus evenly on the "governance" and economic aspects of "economic governance" by working with Ministries and Directorates General on their institutional development priorities. This does not mean that requests for specific policy and technical assistance in particular areas will not be considered, but these will be seen in the context of contributing to organisational strengthening rather than the primary/sole kind of contribution. Australia's cooperation with GoI agencies will be framed within the GoI's overall development and organisational strategies and plans.

The emphasis will be on joint identification of priorities and workplans within each GoI agency and use of a range of institutional strengthening models and frameworks to suit the agency and its status and priorities. A range of activities could be funded through the Facility selected from a "menu" of approaches including long-term or short-term advisers, mentoring, twinning relationships, support for task-focused or general professional networks within or outside particular agencies, scholarships[9], workplace exchanges, study tours, attendance at conferences, training, etc. Men and women will be expected to benefit equally from participation in these activities.

Emerging international thinking about institutional capacity development approaches should be monitored by AusAID and AIPEG personnel and integrated with lessons learned within the Indonesian context generally and AIPEG Facility specifically. A key approach for all personnel involved in AIPEG-funded activities is to remain open to learning about appropriate ways of working in each specific context and not to assume that a universal or single approach is appropriate.

3.3.5 Budget and timing

The next phase of Australian assistance in this sector will contribute up to A$66 million over a six-year period, subject to annual AusAID budget appropriations.[10] An AIPEG Facility Trust Fund will be established to meet the costs of technical assistance via the Technical Support Pool,

[9] This means systematic allocation of ADS and ALA scholarships in AIPEG partner agencies
[10] AusAID would contract on the basis of three years with a three year extension option subject to a favorable mid-term review.

activities in each Sub-facility in accordance with approved annual plans[11], costs of the Advisory Board, and an unallocated amount for Immediate and Emerging Issues. Management, monitoring and long-term advisory costs delivered via the MST, Facility Evaluation Team (FET) and Sub-facility Advisers will be met through fund transfers to the Managing Contractor's own accounting system and bank account.

Costs have been based on continuation from TAMF III of four Sub-Facilities in Year 1, and addition of two new Sub-facilities in Year 2 bringing the total to six for Years 2 to 5. In Year 6 it is assumed that two Sub-facilities will have transitioned to full GoI management, so funding is assumed for four Sub-facility Advisers in the final year. The two Sub-facilities which no longer have Advisers in Year 6 are assumed in the costings to remain eligible for activity funding via the AIPEG Facility Trust Fund. However, this would need to be confirmed as appropriate nearer the time. While the number of Sub-facilities has been assumed, the longevity of each Sub-facility will be determined by AIPEG's transitioning strategy i.e. the Sub-facilities in Year 6 may or may not be the same as those in Year 2.

The funding for activities in the Trust Fund is assumed to build up over time, achieving a maximum of $1 million on average for each Sub-facility by Year 5 in addition to costs of short-term Advisers and the unallocated funds for Immediate and Emerging Issues.

4. Transition

An anticipated overlap of six weeks between the conclusion of TAMF III and start-up of the AIPEG Facility has been factored in to the design. The rationale for the overlap is so that the gap between support under TAMF and support under AIPEG is minimized and the momentum is not lost. During the transition period there needs to be a tight sequencing of activities by each of the Managing Contractors (MC), as well as a clear communication strategy between them. The aim is to have the best outcome for GoI and as smooth a transition as possible in roles and responsibilities.

Each MC will be working at opposite ends of the contracting cycle and will have very different objectives for the period. It will be important for AusAID to foster and support a collaborative relationship. The MCs will ideally meet early on to develop a communication protocol both for internal communications between their two parties and external communication between each MC and other stakeholders, particularly AusAID, GoI and the Advisory Board. They should focus on points of overlap where working in tandem makes sense, such as handover meetings with GoI, determining transition arrangements (if any) for local staff, systems and assets. The lists below indicate key parallel and joint tasks which should occur during the six-week transition.

Current Managing Contractor[12]

- Liaison with AusAID
- Final Board meeting and later disbanding of the TAMF Advisory Board and EC.
- QA of final reporting from Lead Advisers and TSG

[11] These will continue to be called Facility Review and Implementation Plans, as has been the case in TAMF – see section 5.2.4 and 5.4.4
[12] The Design Team has not spoken to the current MC about the sequencing but assumes these generic tasks will be part of their work plan.

- Preparing Activity Completion Report
- Finalising database
- Demobilisation of Lead Advisers and final contract payouts, or conversion to short-term contracts if appropriate to be novated to the new MC.
- Finalising accounts and closing bank account
- Final audit
- Finalising Assets Register and disposal action as appropriate
- Conclusion of contracts and final pay-out for MST and Sub-facility local staff
- Closing of MST Office
- Completion of TSG services

New Managing Contractor

- Liaison with AusAID
- Contracting of MST team – international staff
- Establishing management systems including financial system
- Preparing AIPEG Operations Manual
- Team briefing on AIPEG and MC
- Selection and contracting of MST team – locally engaged
- Opening bank account in Jakarta and establishing Trust Fund
- Selection and contracting of TSP Advisers
- Appointment of the AIPEG Advisory Board & EC
- Contracting of FET members
- Preparation for Sub-facility Inception Meetings
- Preparation of selection process for Sub-facility Advisers

Joint

- Liaison with AusAID
- Liaison with GoI agencies – handover meetings
- Discussion of preferred strategy for continuity or otherwise of MST locally engaged staff
- Discussion of preferred strategy for continuity or otherwise of the membership of the Advisory Board
- Discussion of handover or cessation of systems, database

The MCs and AusAID should arrive at a mutual agreement regarding staging of the exit of the TAMF III team and arrival of the AIPEG Facility team. A possible scenario is as follows:

- 2 weeks where the new MC operates out of head office
- 3 weeks where both MCs operate in Jakarta, the TAMF MC from the TAMF office and the new MC from a hotel or new AIPEG Facility office
- 1 week where the AIPEG Facility office is in operation and the TAMF MC operates from its head office (or has a skeleton staff closing the Jakarta office)
- a staggered handover of Sub-facility activities/relationships/Adviser contracts.

Joint meetings with AusAID and GoI would be scheduled from Week 3 onwards.

5. Governance and Management of AIPEG Facility

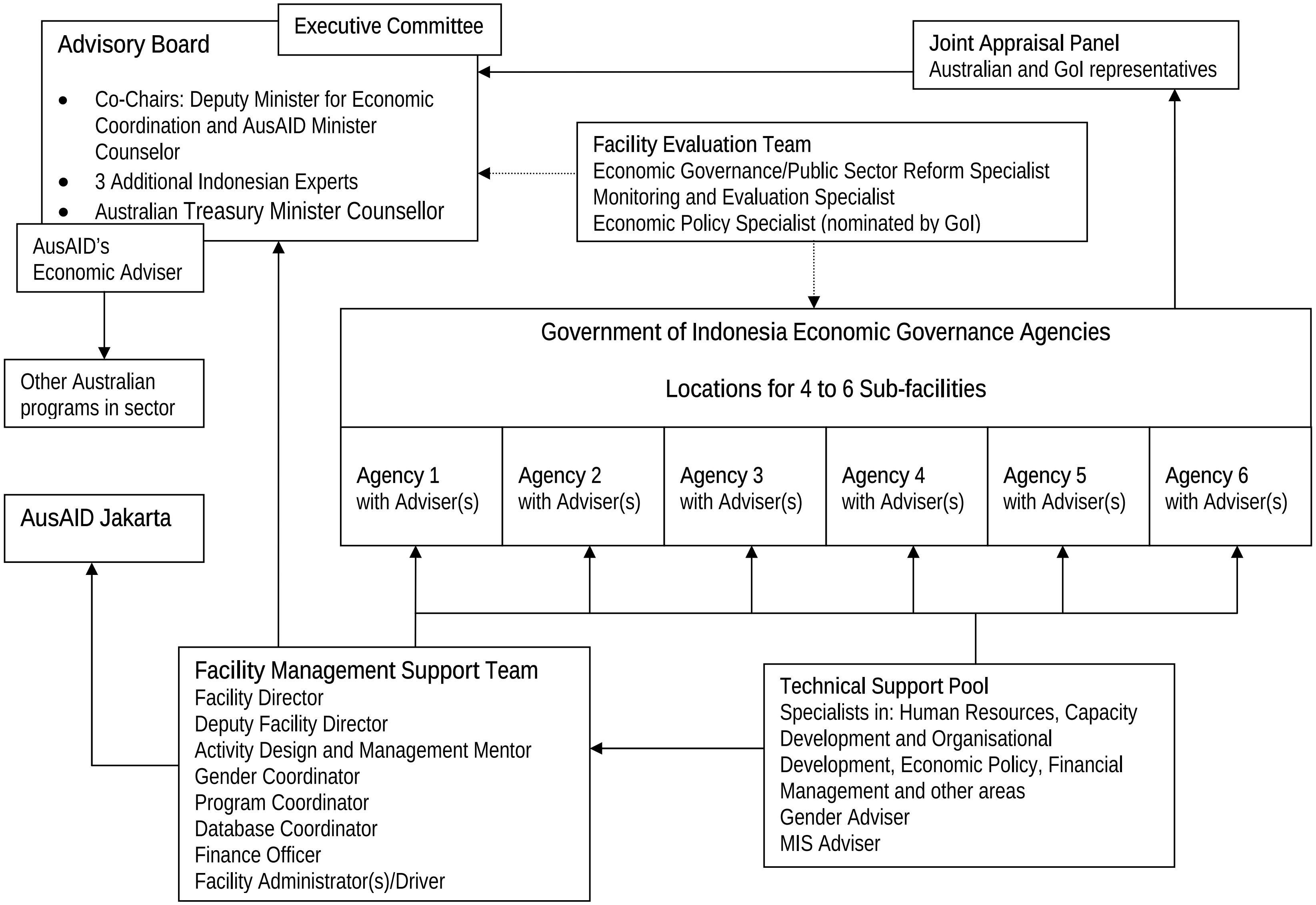
The AIPEG Facility involves a range of stakeholders, and most will be involved to varying degrees in aspects of leadership, management, coordination, monitoring and evaluation. The high profile of TAMF and the complexity and dynamic nature of the context mean that there are some risks associated with governance and management issues in the next phase.

The governance and management structures and systems for the AIPEG Facility reflect the following shared commitments and principles:

- a commitment to increase GoI leadership and ownership of AIPEG supported work
- provision of support for GoI efforts to remove obstacles to smooth policy development and implementation
- a commitment to promote joint decision-making
- a commitment towards transitioning over time from contractor-managed procurement, project management and monitoring systems to use of GoI systems commencing in Year Two of each Sub-facility following discussions and negotiations during Year One
- the need to ensure there is clarity of responsibilities, accountabilities and relationships to avoid confusion or gaps
- a commitment to continue to identify and work with champions for reform, both men and women
- a commitment to support GoI-determined economic governance priorities
- continuing use of a progressive engagement approach, which includes integration between strategic advice, rolling work plans within partner agencies and use of pilot or demonstration activities
- a commitment to long term relationships at the same time as periodic contestability to ensure ongoing relevance and mutual value
- a commitment to continuous learning among all stakeholders to contribute towards ongoing quality improvement
- focused engagement rather than attempts to be comprehensive
- efforts made to complement and support other AIP elements where appropriate
- a commitment to donor coordination
- support GoI commitment to economic empowerment of women
- flexibility and responsiveness
- preference for use, where possible, of Indonesian consultants and service providers
- seek personnel with appropriate mix of technical skills and personal attributes and skills relevant to working collaboratively and cross-culturally
- co-location of AIPEG personnel (advisers) in partner agencies.

Figure 2 provides a summary of the key elements of governance and management of AIPEG Facility and the major relationships between them. Remaining sub-sections in Section 5, and Annex 5 provide more details of the roles and linkages.

Figure 2: AIPEG Facility Governance/Management Structure



5.1 Governance

The AIPEG Advisory Board (AB) will provide *strategic oversight* for the AIPEG Facility. The role of the AIPEG AB will be similar to the role of the AB for TAMF III, but it will not be responsible for decision-making.

In Year One of AIPEG, *decision-making* about plans for focus areas over the AIPEG Facility and approval of individual activities proposed for AIPEG Facility funding, will be the formal responsibility of the two co-chairs of the AB. They will be called the Executive Committee (EC). The EC comprises AusAID's most senior representative in Jakarta and Indonesia's Deputy Minister for International Economic Cooperation from the Coordinating Ministry for Economic Affairs. The Managing Contractor will develop plans and budgets for individual activities based on priorities established by the AIPEG Advisory Board. The Executive Committee will confirm that the plans align with these priorities. A Joint Appraisal Panel (see below) will appraise all activities under the AIPEG Facility. The EC will be accountable for decisions taken about priority areas of work. Formal approval of all AIPEG Facility activities is needed to ensure accountability and transparency.

The AB will continue to be the same size as it was under TAMF and to include a similar mix of representation and expertise. This size and mix has proven appropriate for TAMF governance. The AB will comprise four Indonesian members and two Australian members. The four Indonesian members will be chosen on the basis of their expertise, knowledge and background[13]. They should also have deep understanding about government bureaucracy. They will be drawn from CMEA, Ministry of Finance, Bappenas, academia and the private sector. AusAID will seek guidance from the GoI on appropriate nominees for the AB. The GoA membership will comprise the most senior representatives from AusAID in Jakarta and the Treasury. To assist with cooperation with other Australian activities in this sector, representatives from the Australian Departments of Finance and Deregulation (DFAD) and Prime Minister and Cabinet (PM&C) will be invited to attend meetings as observers. In addition, AusAID's Economic Adviser in Jakarta will attend meetings as an observer.

The principal role of the AB is to provide strategic advice on the economic governance context within which the AIPEG Facility will provide assistance and the priorities for cooperation in this context, including identifying key areas for potential engagement on gender equality and the economic empowerment of women. AB meetings will discuss the findings of Performance Assessment and Evaluation (PAE) Reports with detailed periodic assessment of each Sub-facility's progress and results as well as the forward looking aspects of the Facility Review and Implementation Plans (FRIPs) (see Section 5.2.4)), and Gender Strategy reviews (see Section 6). Based on their knowledge of the context and analysis of progress and results to date, AB members will provide advice on areas to work in and may also suggest shifts of emphasis or adjustment to ongoing programs.

AB meetings will continue to be held semi-annually. Informal "in between" meetings may take place if required in person or by teleconference.

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[13] Continuity of membership of the AB from TAMF III to AIPEG would support a smooth transition. AusAID and GoI will be responsible for appointment of AB members.

5.2 *Management*

5.2.1 Facility Management Support Team

The MST will be responsible for *supporting* all levels of Facility activity and for cross-Facility *coordination*. The MST's responsibilities include (see Annex 5 for more details):

- secretariat service for the AB
- promoting high quality relationships at the cross-facility level, ensuring those between officials and Advisers within each partner Ministry or Directorate General are sound (in terms of contemporary development practice, cross-cultural sensitivity, professionalism etc.); promotion of agreed Facility principles and approaches, including consideration of gender integration across all Facility activities; and quality assurance and monitoring
- support for Ministries and Directorates General, with their Advisers, to produce high quality activity designs and to implement activities through the activity cycle, to agreed standards, with responsibility shifting over time from MST management to GoI management

The MST will be responsible for *cross Facility administration*, establishing joint selection processes for Advisers, procurement, monitoring and reporting. Importantly, in this next phase of Australian cooperation, consistent with a shared commitment to the Paris Declaration and Accra Agenda for Action, there will be a shift in decision-making focus from the MST to the respective senior officials within partner institutions in each Sub-facility. The role of the MST in this context will be to provide support to maximise the effectiveness of relationships between officials and Advisers within Ministries or Directorates General. This support will include the provision of information, advice and additional resources in relation to:

- methods for collaborative planning and design of programs of activities
- cross-cultural communications
- activity cycle management, particularly in relation to design
- complying with Indonesia's commitment to gender mainstreaming
- technical issues related to organisational development and economic policies
- recruitment of specialist personnel

The MST may consider a range of methods to work with GoI agencies on these issues, including quarterly workshops dedicated to one topic, to promote networking and information sharing between Sub-facilities.

Wherever possible, the MST will promote and support the use of Indonesian systems for AIPEG Facility work, increasing over the life of AIPEG, thereby maximizing the sustainability of benefits. For example, instead of AIPEG Facility funding being provided for delivery of one-off training courses, effort should be directed towards strengthening the capacity of existing training units within Ministries or Directorates General, or promoting the use of Indonesian trainers or technical specialists, so they are able to deliver training on an ongoing basis. Joint Indonesian-external facilitation of training is a minimum requirement, but developmentally, it is preferable for all training to be provided by Indonesian people, with varied levels of support from Advisers.

All training supported by AIPEG should use adult learning principles which suit the preferred learning styles in the Indonesian cultural context.

In relation to selection and appointment of short-term personnel as jointly agreed within Sub-facility plans, the MST will ensure GoI personnel are included on selection panels. This includes short-listing, interviews, selection, briefing and mobilisation. Once appointed, Advisers will report to their respective Director in the Ministry or Directorate General. The MST will be responsible for contract and performance management for Advisers and will need to ensure that GoI Directors are involved in direction-setting for Advisers' work.

The MST will coordinate preparation of a six monthly report called a Facility Review and Implementation Plan (FRIP) (see Section 5.2.4 below), based on inputs from Sub-facilities.

Finally, the MST will be tasked with contracting and working collaboratively with the Facility Evaluation Team (FET) (see Section 8 and Annex 5 for details of the FET's roles). This may involve joint planning of evaluation activities, organizing meetings for FET visits, collaboration on preparation of reports to the Advisory Board, discussion on ways of integrating FET recommendations as appropriate and promotion of M&E thinking and practices within AIPEG Facility funded activities and partners.

5.2.2 Sub-facility leadership and management

The MST will initiate a Facility Inception Workshop with partner Ministries and Directorates General at the commencement of the AIPEG Facility. The purposes will be to establish relationships, provide an opportunity for the MST to brief stakeholders on the nature of AIPEG including the changes from the TAMF model and to commence discussions about plans in each Ministry or Directorate General for use of AIPEG funding. During this workshop, smaller sessions with individual Ministry/Directorates General will identify priorities for long-term Advisers or other AIPEG Facility inputs. For example, does the agency need long-term in-house expertise in particular financial or economic issues or in particular elements of organisational development? An expected output of the day will be direction to the MST regarding the types of expertise sought, so that the MST can work with each Partner to develop a draft Terms of Reference for each position and then commence a joint recruitment process.

Within Sub-facilities, the development of annual and 6-monthly work programs requires leadership from senior officials from respective Ministries: these should be Echelon I (at Director General or Secretary General level) wherever possible. This leadership will be important for ensuring ongoing implementation of activities and maximizing the chances of sustained benefits.

Senior officials in each Ministry or Directorate General will be responsible for the work of long-term "embedded" Sub-facility Advisers and for the activities funded by the AIPEG Facility within their respective mandates. Advisers will report to their designated supervisors within the respective Ministry and will support the implementation of activities in ways which promote GoI leadership and ownership. Regular communications events between Advisers, GoI officials and the Facility Director will be undertaken to promote information sharing and relationship strengthening.

If the MST needs to discuss the work of Advisers and AIPEG Facility funded activities, primary contact should be with the respective Ministry officials, rather than always through Advisers themselves. This will help to promote and sustain GoI ownership.

5.2.3 Advisers

As noted above, an Inception Workshop is expected to lead to identification of priorities for Advisers or other AIPEG Facility inputs for the first two years of operations, leading to the generation of Terms of Reference, as appropriate.

The MST will document the recruitment process. Advisers will be selected and appointed according to the priorities of the respective agency and could be placed at various levels. Men and women will be invited to apply for all positions and selections will be based on merit. All Advisers, whether long or short term will be appointed jointly by senior representatives from the Ministry or Directorate General and the MST. The MST will be expected to provide advice on the most appropriate recruitment process to find suitable Advisers.

Within each Sub-facility, based on experience from TAMF III, it is likely an Adviser will be delegated to facilitate planning for each year's program of activities jointly with their colleagues in the respective Ministry or Directorate General. Advisers will need to promote GoI ownership of plans in all circumstances. Advisers are not expected to undertake activities they consider to be important unless there is clear evidence of demand, commitment and ownership by senior GoI officials.

Under the AIPEG Facility, while relationships between Advisers and their colleagues will continue to be crucial and there will be a need to produce a plan and report each 6 months, there is no requirement for a "Lead Adviser" in each sub-facility. From Year 4 of the AIPEG Facility, it may be possible to continue activities without the presence of a long-term adviser. Instead a GoI liaison officer could coordinate the development of a plan and report across several areas – organisational, technical etc. It is possible to envisage that at some times, there could be no long-term adviser in a particular Ministry or Directorate General, but agencies could still submit plans and proposals for funding under the AIPEG Facility. Section 5.4.1 below describes expected transitioning during AIPEG where Sub-facilities can participate in AIPEG without necessarily having a resident long-term Adviser.

5.2.3.1 Technical Support Pool

The MST will also be responsible for coordinating inputs of a Technical Support Pool (TSP) which will be built up and maintained over the life of the Facility. The TSP will comprise a pre-approved selection of specialists in a variety of economic governance and public sector institutional strengthening areas (including gender analysis, capacity development, leadership coaching, monitoring and evaluation etc.), who can be drawn upon at relatively short notice if required within Partner agency activities. It is preferred that specialists be given repeat roles if appropriate, reflecting the value of continuity in ongoing relationships for effective capacity development. People in the pool should be selected on the basis of a combination of specialist skills and their open-ness to learning new ways of working in Indonesia alongside Indonesian colleagues.

5.2.4 Facility Review and Implementation Plans (FRIP)

The MST will coordinate inputs from GoI partners to produce a six-monthly FRIP in March and September each year to inform AB meetings in April and October.

The FRIP contains information about progress of work under the Sub-facilities during the previous six months and plans for activities in the following period. Normally, the September FRIP will take an annual perspective (i.e. for the period January to December in the following year), to provide a broader planning context and horizon. The March FRIP will give greater emphasis to reviewing the previous year's work and documenting lessons for future planning and operations.

The FRIP preparation process will commence once the long-term Advisers are in place. Each agency, together with the MST will convene an Agency FRIP Preparation Workshop to focus and prioritize broad areas where AIPEG can add value over the next two to three years. An output of each workshop will be a detailed analysis of the context and a prioritized list of activities to be designed and implemented in the first year. The first FRIP should be prepared and submitted by late January 2010 and include an Annual Plan for 2010 calendar year. The September 2010 FRIP will prepare for 2011 and from then on the calendar will be correct.

The first FRIP will also report on interim activities which have continued on from TAMF III during the AIPEG establishment phase under guidance of the agencies and interim advisers.

5.2.5 Trust Fund

As noted in Section 3.3.3 above, an AIPEG Facility Trust Fund will be established by the Managing Contractor, to channel Facility funds to meet the costs of Advisers (both long-term and short-term advisers drawn from the TSP (5.2.3.1 above)), activities in each Sub-facility in accordance with approved FRIPs, costs of the Advisory Board, and an unallocated amount for Immediate and Emerging Issues. The MC will develop Trust Fund guidelines as part of the AIPEG Facility Operations Manual which stipulate where the Fund will be held, who the signatories will be, how interest and bank charges will be treated and reporting arrangements. These will include monthly reconciliations to monitor expenditure, and quarterly reporting to AusAID of expenditure, along with a funds requests for quarterly top-ups in accordance with the projected forward commitments. The AIPEG Facility Trust Fund financial statements will also be included in the six-monthly FRIPs presented to the Advisory Board and EC.

There may be a case for locating the Trust Fund in Australia (if the MC is Australian) with a sub-account in Jakarta for in-country expenditure, or the Trust Fund could be located wholly in Jakarta. The decision needs to be made by the MC and AusAID. If the Fund is held in Australia, arrangements will need to be put in place to refund GST payments on a regular basis.

As Sub-facilities 'mature' consideration could be given to drawing down AIPEG Facility Trust Fund money in support of other donor activities of priority to GoI, such as the planned World Bank Trust Fund in the Ministry of Trade, which is expected to be using GoI systems in late 2009.

The MC will contract an auditor selected in accordance with Commonwealth Procurement Guidelines to undertake an annual audit of the Trust Fund and submit the report to AusAID. The cost of audits will be met from the MC's reimbursable expenses.

5.3 Coordination with other AIP elements, including GPF

There are many stakeholders in the AIPEG Facility, including a large number of Australian Government agencies involved in various GPF-supported partnership programs and a large number of Indonesian agencies. The size of Australia's program in this sector and the long-standing relationships at Ministerial level mean that the program has a high profile and attracts a great deal of interest. In addition, other donors play significant roles and provide significant assistance to the economic governance sector. Therefore coordination across these many aspects is important to the success of the AIPEG Facility, i.e. the likelihood that it will contribute positively to Indonesia's economic governance institutions. Of particular relevance is Australia's support for sub-national economic governance programs, including the Papua Public Expenditure Analysis and Capacity Harmonisation Program (PEACH) and similar programs in other areas of Indonesia.

The AIPEG Facility and GPF are quite different in nature, and have their own strengths and limitations. They will continue to work in similar agencies and areas, so cooperation and coordination between the AIPEG Facility and GPF activities is essential at agency level. At the strategic governance level, the AB will provide strategic advice to the AIPEG Facility as well as offer periodic advice to GPF about key issues relevant to policy focus and partnerships. The AB's high level perspective will help to promote coherence. At the operational level, AusAID, including the Economic Adviser, will be largely responsible for initiatives to promote information exchange and collaboration between AIPEG Facility and GPF personnel. The Managing Contractor of AIPEG will be asked to support these efforts. At the individual Adviser level, agency-specific communications systems will be encouraged and supported by both the Facility and GPF leadership. It needs to be recognized though, that the Facility and GPF operate in distinctly different ways, with different emphasis and accountabilities, and are also likely to change over time in different ways. A tolerance for different approaches should be promoted.

The major responsibilities for coordination across and beyond the AIPEG Facility will lie with the AB and AusAID's Economic Adviser. The MST will be required to maximise coordination and coherence within the AIPEG Facility, where appropriate, recognizing the diversity of stakeholders and their priorities. However, the MST must promote GoI leadership of donor coordination and cross-agency coordination wherever possible. This may include provision of funding for an Adviser whose responsibility is to support a GoI agency leader with the task of donor coordination, as has been done by the IMF in the area of tax administration reform. Within Sub-facilities, Advisers working with their senior colleagues will support GoI ownership of donor harmonization efforts.

The AB provides the most critical coordination point at the strategic governance level. Members of the AB will be expected to maintain and regularly share up-to-date knowledge of issues, relationships, programs and emerging priorities so they can both contribute to the success of the collaboration and extend the benefits of the AIPEG Facility broadly and coherently.

AusAID's Economic Adviser will be required to play a key role in coordination within the Australian partners, particularly with those agencies involved in GPF and other AIP activities. The Adviser will also be engaged in policy dialogue across the various activities of AIPEG, so will need to work closely with the MST and Sub-facility Advisers to maximise the likelihood of consistency. The Economic Adviser will be responsible for practical measures to reduce duplication or contradictory advice being given, such as regular meetings between the GPF and AIPEG Facility Advisers.

The MST could invite relevant donor and AIP program representatives to selected Facility-wide quarterly workshops. This would provide opportunity for information sharing and cross-fertilization of ideas. The MST will have regular contact with partner Ministries and Directorates General and their respective teams of staff and Advisers so will be responsible for identifying potential synergies within the AIPEG Facility. As Secretariat for the AB, they will be responsible for preparing agendas and minutes, and generally documenting and sharing information.

In relation to Australian scholarships (including Australian development scholarships (ADS), Australian Leadership Awards (ALAs) and others), AusAID will continue to identify partner agencies in the economic governance sector to which scholarships will be allocated annually.

5.4 Implementation Strategy

The previous sections have described the governance structure, leadership and the key management arrangements. This section describes timing, planning cycles and operational tools. It should be read in conjunction with the two Implementation Schedules at Annex 8. The first is a summary from a bird's eye perspective of the whole six years of AIPEG. The second provides details of implementation for the first six months.

5.4.1 Transition of Sub-facilities

AIPEG has been designed as a six-year Facility with a three-year (plus option of extension) contracting model. It is important that during implementation it is treated as a six-year program and consequences and impacts of decisions made in the early years are considered through a perspective of the full program, not the initial contract; however there still needs to be a breakdown between activities for the initial contact and in the event that this is extended the further 3 years.

Planning for the numbers and spread of Sub-facilities is an important example of the need to take a long-term perspective. The AIPEG Facility design anticipates a transition process whereby each Sub-facility progresses through various phases in a transparent and supported manner. The specific reasons for this process are to implement measures to increase the use of GoI systems in aid management over time and to ensure there is room for new Sub-facilities, as deemed feasible and appropriate.

Figure 2 below identifies the features of the typical phases envisaged for each Sub-facility as it progresses through the life of AIPEG, subject to negotiations among all governance and management stakeholders and understanding of the context in each partner Ministry or DG.

In TAMF there was a shift over time in the way activities were supported and coordinated in each Ministry or DG, based on consolidation of relationships, management simplicity and other lessons learned. During the 6-years of AIPEG, it is envisaged that the phases described in Figure 2 will guide partners in each Sub-facility. It is envisaged that any new Sub-Facilities starting in 2010 are likely to start at Phase 2 or 3, subject to negotiation and understanding of the particular context.

1. TAMF-style Model

- Long-term Lead Advisers located in each Ministry or DG providing direct technical advice (economic/financial)
- Lead Adviser also coordinates all TAMF activities in Ministry or DG
- Range of activities designed and sub-contracted
- Support staff funded by TAMF

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2. AIPEG Start-Up Model

- Long-term Adviser, located in Ministry or DG continues or commences to provide direct specialist advice as negotiated
- Long-term Adviser facilitates (with MST) development of plan of AIPEG activities for Year One of Sub-facility
- Adviser supports GoI Ministry or DG to develop internal AIPEG planning and management capacity
- Short term direct Technical Assistance (economic or organisational reform) recruited and supported by AIPEG MST, as required
- Menu of activities sub-contracted by MST/TSP, with input by Ministry or DG officials
- Monitoring undertaken by implementers with Ministry or DG participation

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3. AIPEG Model

- GoI Ministry or DG management team leads on AIPEG planning and activity prioritisation
- Long term Adviser provides advice to and supports Ministry or DG on organisational reforms/economic reform
- Short term technical assistance (economic or organisational reform) provided by MST/TSP as per negotiated and approved plans
- Menu of activities contracted by Ministry or DG with procurement, recruitment and financial support of MST/TSP
- GoI provides program support staff if required to implement AIPEG-funded activities
- Monitoring undertaken by Ministry or DG, with support from MST and contracted specialists and MST

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4. AIPEG Pre-Exit

- Ministry or DG management team leads all plans and implements/monitors all AIPEG-funded activities
- Direct contracting of specialists by GoI, with funding provided by AIPEG through GoI financial system
- If appropriate, ongoing technical advice provided by former Advisers via email or short-term inputs contracted by GoI
- GoI provides support staff if required to implement AIPEG-funded activities
- GoI uses internal monitoring systems and copies reports to the AIPEG AB

Figure 2: AIPEG Transitioning Model – Phases of Sub-Facility Engagement within GoI Partner Agencies

As Sub-facilities progress, Ministries or DGs may continue to seek specialist economic and financial advice and/or organisational development advice from the AIPEG Facility in various forms. The AIPEG Facility will contribute towards organisational capacity development contributing to civil service reform including, where appropriate in areas such as leadership, planning, project cycle management, monitoring and gender analysis and planning

This progression through an AIPEG supported capacity development cycle needs to be carefully orchestrated and supported or there is a risk that there will be no graduation of Sub-facilities, therefore blocking the creation of new Sub-facilities in Years 3 to 6 (assuming a maximum of six Sub-facilities are in operation at any one time). This may still happen if priority is considered to remain in the four areas continuing from TAMF. However, this needs to be based on a process of strategic planning and decision-making rather than inertia.

Suggested planning and review processes to support this phased approach include:

- Overall AIPEG Facility workshops to introduce new approaches, shifts in emphasis, proposed phased approach, and any new personnel
- Sub-facility Inception Workshops
- Sub-facility Reviews
- Annual Planning processes, initiated by AIPEG at first, and progressively by GoI
- Facility-wide priority setting led by the Advisory Board
- Periodic Facility-wide Reviews

The MST should work closely with the AB, GoI partners and AusAID during Year One to develop details for each of these processes. The need for flexibility between partners should be prioritized, i.e. it is not necessary to use the same process in each partnership, depending on the context.

5.4.2 Sub-contracting

As Sub-facilities transition through the phases identified above, the MST will also need to factor in transitioning sub-contracting activities to GoI. To date in TAMF III all sub-contracting has been managed through the Facility MST rather than through GoI procurement systems. In line with AusAID's AIP Country Strategy 2008-13, AIPEG Facility sub-contracting is expected to transition from Facility management to GoI management. For this to happen, joint assessments will be made of the readiness, willingness and ability within GoI agencies to take on the extra sub-contracting work, during periodic reviews at the end of Year Two and again at the end of Year Four. Based on this assessment, leadership by the GoI and GoA is required, as otherwise the MC is in a difficult contractual position. A suggested approach is that as Sub-facilities progress through the various phases, efforts are made to establish the systems for introduction of GoI procurement. However, by Year 6, it is expected that GoI procurement systems will predominate.

5.4.3 AIPEG Systems

The Facility by its nature is flexible. The use of rolling annual plans and the provision of an unallocated amount in the Trust Fund (not tied to a specific Sub-facility) illustrate this flexibility.

The high level of flexibility implies many decision points and the need for robust planning within an organisational framework understood by all parties.

Whereas a traditional project can be described in greater detail in the project design document, and prescribed through the Scope of Services, a Facility design can define principles, methods and frameworks but not the detail of the content (activity inputs, outputs, outcomes) which will be developed through the rolling design process. To create both an audit trail (for accountability and transparency), and a basis for monitoring and evaluation (M&E), it is therefore essential in Facility management that there be thorough documentation of all the steps taken to both design and implement activities. In addition, in order to operate efficiently and consistently and to create ownership amongst multiple stakeholders, high quality systems and clear processes and timetables for cyclical events are required.

The MC will develop and distribute (in electronic format) an AIPEG Facility Operations Manual including details of activity cycle and other processes and templates. Some parts of the Manual will relate only to MC operations (e.g. AIPEG Facility Trust Fund Guidelines) and some will be relevant to roles and responsibilities of other stakeholders (e.g. reporting templates). The MC will update the manual regularly to take account of new policies and improved practices, and distribute revised versions as appropriate. Considerable time needs to be invested up front in reviewing and adapting current TAMF practices and procedures and either adapting or redeveloping the existing Operations Manual. Report templates will need to be developed to align with AusAID’s Quality Reporting System, particularly the Quality at Implementation and Quality at Completion Reports.

An Operations Manual once developed is a “living document.” To be useful, MST and Head Office staff, Sub-facility Advisers and relevant GoI staff, TSP and FET personnel and AusAID should be made aware of its contents through various methods (workshops, meetings, training etc.). The extent of training may vary from familiarisation (eg AusAID) to a deep understanding (eg MST staff). Training will therefore need to be delivered at different times to different audiences. Furthermore, because training is delivered in Year 1, with staff turnover and the long-term nature of the Facility, there may be need for training in later years or adherence to agreed practices and procedures may fall away.

5.4.4 AIPEG Facility Annual Calendar

The AIPEG Facility annual timetable will be based on six-monthly back-to-back meetings of the AB and the EC. Ideally, these meetings will be held in the same months each year (April and October) and become the anchors for other planning processes, creating a regular and predictable schedule. Timing certainty will make planning easier for all parties. The AB will set the scene in terms of the broad Indonesian economic governance context and consequent priorities for AIPEG while the EC will have a hands-on role to approve the Facility Review and Implementation Plans (FRIP). The April meeting will be the main planning meeting where the annual plan for the following Australian financial year (1 Jul - 30 June) will be considered. The October meeting will be an opportunity to update the plan, review progress and set the priorities for the next FRIP due for submission the following March.

FRIPs will need to be submitted by mid-March and mid-September to allow screening of activities by the Joint Appraisal Panel plus submission of FRIPs and JAP Recommendations to the AB and EC ten days before the meeting. This would lead to a downstream cycle of activity planning within each Sub-facility and across the whole AIPEG Facility.

5.4.5 Implementation Schedule: First Six Months

It is assumed that the Subsidiary Agreement between the GoI and GoA will be signed before the contract between AusAID and the MC is negotiated and signed. This means mobilisation and start-up can proceed smoothly (e.g. visas for long-term international staff, rental of office space).

The AIPEG Facility has the advantage of continuity from TAMF, but it will also be important to clarify the differences and ensure there is a good understanding of AIPEG Facility issues among stakeholders and a cohesion of effort to achieve its goals.

The Implementation Schedule at Annex 8 assumes that the MC will contract the core MST team and provide an interim briefing on essential matters including security from their head office. Full teambuilding and briefing will be conducted in Jakarta once locally engaged staff have been appointed and the handover from the TAMF MC is complete. By this time everyone should be more settled and able to absorb greater detail from the briefing. The briefing will cover a range of subjects including an overview of the AIP and AIPEG, points of difference between AIPEG and TAMF, operational aspects drawing on the Operations Manual and the program of events for the first busy months as the Facility takes shape. The team briefing will also cover the values which will underpin AIPEG success. These include: building and maintaining strong relationships between the various AIPEG parties; a culture where the Indonesian agencies lead and the MST supports; high quality, transparent and cost effective systems, management and records.

The six-week overlap and transition between the TAMF and AIPEG MCs has been described in Section 4. Creation of new systems, appointment of the AIPEG Board, long-term and short-term advisers (TSP) and the FET will necessarily take time. Interim measures to allow continuity of essential or urgent activities will be approved under TAMF and continued under AIPEG. If it is essential that advisers continue, short- term interim contracts will be negotiated. There will need to be flexibility around what is really considered to be essential and decisions will be made on an agency by agency basis.

During the first six months there will be an intensive period of recruiting, contracting, mobilising and briefing of personnel including the long-term Sub-facility Advisers and short-term advisers in the Technical Support Pool. It will be essential that clear processes are articulated in the Operations Manual and followed by the MST. While AusAID will select the FET members, the MST will contract them

5.4.6 Activity Cycle

The activity cycle will include the following steps and decision-making elements:

Step	Decision making responsibility
Concept	Proposed by GoI agency to/with Adviser or direct to MST; Included in FRIP (depending on timing)
Design	Developed by GoI agency with Adviser and input from MST

	Included in FRIP (depending on timing)
Appraisal	Joint Appraisal Panel
Approval	By EC (or MST if under $100,000 and between FRIPs)
Contracting and Procurement	If required, undertaken by MST up to Year Two Subject to negotiations (and overall review of GoI procurement systems) undertaken by GoI agency from Year Three (determined on a partner by partner basis
Implementation	By GoI agency, Adviser(s) and Sub-contractor, depending on needs
Monitoring	By GoI agency, Adviser(s) and Sub-contractor, depending on needs
Completion	By GoI agency, Adviser(s) and Sub-contractor, depending on needs
Spot Check	By MST

5.4.7 Selection criteria, quality assurance and appraisal

As noted above (5.4.1), it is envisaged that participating Ministries and DGs will identify concepts for activities, which will then be negotiated and further developed within the AIPEG Facility. Selection criteria will need to be negotiated by AIPEG Governance stakeholders early in Year One of the Facility commencement. Annex 13 provides a suggested basis for discussions. Once these are confirmed, they should be distributed and explained to all stakeholders during inception and other workshops and through other communications strategies.

A Joint Appraisal Panel, chaired by the Facility Director, will be tasked with appraising proposals against agreed criteria and making recommendations to the EC for approval. The Joint Appraisal Panel, comprising AusAID officials, the MST DFD and a Bappenas representative (for their project management expertise and responsibility) will be responsible for reviewing proposals included in FRIPs (and those received outside the approved plan period) to make recommendations for approval or non-approval, based on compliance with selection criteria, quality assurance guidance, judgment about feasibility and AB advice. The JAP will be given delegation to approve small activities (under $100,000) to avoid delay and to avoid taking up the time of the EC if the activities are considered to be both beneficial and low risk.

This model could continue to operate as the shift is made towards decision-making about activities within partner Ministries and DGs.

6. Gender

The AIP is built around four high priority issues that cut across the Country Strategy for Indonesia: partnership; gender equality; combating corruption; and performance. This section identifies how the AIPEG Facility addresses gender equality[14].

A key area for improvement in Australia's work with the Government of Indonesia in economic governance is the integration of gender considerations. The AIPEG Facility will include a Gender Strategy which will identify how Facility supported activities will assist with meeting Government of Indonesia and Government of Australia commitments to mainstream gender throughout all public service work and development assistance respectively (see Annex 2).

[14] Section 7 addresses partnership and combating corruption and Section 8 addresses performance.

Indonesia continues to lag behind its neighbours in terms of women's economic engagement and slow progress towards gender equality has had a significant economic cost. Several issues in the economic empowerment of women relate specifically to economic governance, in particular access to financial services, access to land and property, the level of women in the labor force and the status of women in the civil service.

The AIPEG Facility has been designed in a way that integrates gender considerations throughout. All Advisers and staff will have some responsibility to ensure that the concerns of both women and men are considered in their work, and to work to support existing GoI systems which support women's empowerment. Until Advisers are working directly with their colleagues, have built up relationships and understanding, it is not possible to be prescriptive about what is possible to achieve in terms of Australian support for Indonesia's efforts at agency level.

The Advisory Board's view will be sought with identifying key areas for potential engagement on gender equality and the economic empowerment of women. This advice may refer to issues within current or suggested areas of engagement, or new areas to support Indonesia's commitments to gender mainstreaming such as the current interest in gender sensitive budgeting.

Advisers will hold the key responsibility for ensuring that the technical advice that they give and the programs they implement with GoI colleagues are aligned with the AIPEG Gender Strategy (see below), which will be consistent with GoI decrees and practices in relation to gender mainstreaming. Selection criteria for AIPEG Facility Advisers will include demonstrated experience in or capacity to engage in gender integrated programs and advice and an understanding of the importance of gender issues for the work of the AIPEG Facility. Advisers will be supported in this gender integration mandate by the AIPEG Gender Coordinator and short-term Gender Advisers contracted for specific initiatives.

A full-time AIPEG Gender Coordinator will report to the Deputy Facility Director and work closely with a part-time Gender Adviser who will visit regularly and be available between visits as a mentor (see below) and other short-term Gender Advisers if needed. The role of Gender Coordinator is expected to be filled by an Indonesian gender specialist, familiar and experienced in gender issues in economic governance and the Indonesian civil service. The Gender Coordinator will support Advisers to mainstream gender analysis and programming both in terms of economic policy and institutional support. They will also work with all staff of the MST and the FET in identifying opportunities, integrating gender in AIPEG Facility work and monitoring progress and performance.

The Gender Coordinator will work together with a Gender Adviser to develop an AIPEG Facility Gender Strategy to accompany the first FRIP. The Gender Strategy will identify gender issues involved in the AIPEG Facility's work overall and within each Sub-facility, and set out practical and integrated approaches to addressing gender equality. The Gender Strategy will be reviewed annually in conjunction with the evaluation team. The Gender Strategy annual reviews will accompany the FRIP as required, reporting to the Advisory Board.

The Gender Coordinator will establish a network of relevant contacts in gender empowerment in GoI agencies and the Ministry of Women's Empowerment. They will provide a point of reference for initiatives to address gender inequality that apply across the Sub-facilities, for example training programs. They will need to keep up to date with the work of the Sub-facilities in order to highlight good practice on gender in one Sub-facility to the others. The Gender Coordinator will work with Advisers to identify when additional gender expertise is required and how it can be provided and integrated.

As integrating gender into the work of the AIPEG Facility is primarily the responsibility of Advisers (supported by the Gender Coordinator and Gender Adviser(s)), financing of these commitments on gender will be largely part of the budget allocation for each Sub-facility. However, the Gender Coordinator will have access to an appropriate budget to support gender equality related cross Sub-facility activities.

The part-time Gender Adviser and any short-term Gender Advisers will be contracted through the TSP (see 5.2.3.1 above). The part-time ongoing Gender Adviser will provide inputs according to the Position Description in Annex 9 and any short-term Gender Advisers will work according to agreed Sub-facility plans and lists of activities. Gender Advisers may also be tasked to assist the Gender Coordinator on Facility-wide gender initiatives, or to work with other Advisers on integrating gender into activity designs or broader work. They will also conduct training in gender awareness for AIPEG Facility stakeholders as negotiated annually.

The part-time Gender Adviser will be responsible for development, with the Gender Coordinator, of the AIPEG Gender Strategy during Year One. It is expected they will build close working relationships with the Gender Coordinator, other members of the MST, Advisers and Indonesian stakeholders. Given that the issue is relatively new to economic governance agencies, it may be that a progressive approach is used, to gradually build up awareness, skills and activities over time. Guidelines on implementation of the Gender Strategy will be included in the AIPEG Facility Operations Manual and briefing of Facility personnel.

Gender Advisers may also be tasked to assist the FET to evaluate the success of gender integration in AIPEG Facility work. They may work with FET to develop reports on the implementation of the AIPEG Gender Strategy for the Advisory Board.

The scoping for the two new Sub-facilities will include inputs by Gender Advisers and the Gender Coordinator to ensure that the opportunities for women's economic empowerment and potential gender implications are identified and addressed.

7. Partnership and combating corruption

The AIPEG Facility aligns well with the AIP implementation strategy which promotes partnership between Australia and Government of Indonesia and the use of Indonesian systems. . The Facility has been designed to maintain and build on the collaborative approach developed under the TAMF programs. Flexibility and responsiveness are key characteristics of the facility.

The design of the AIPEG Facility is a direct response to Government of Indonesia (GoI) priorities. Advisers will work within Ministries directly with their GoI colleagues on issues deemed as priorities by the Ministries at senior levels.

During the design process for the AIPEG Facility, all GoI agencies expressed a reluctance to use GoI procurement, staff appointment and other systems for the next phase of cooperation in the economic governance sector. This design incorporates a review of this situation at the end of Year Two, to identify steps which can be taken to increase the use of GoI systems within Ministries and Directorate Generals – a Sub-facility by Sub-facility approach should be taken to these reviews, recognizing that some may introduce procurement reforms and monitoring systems prior to others.

In relation to the theme 'combating corruption', the AIPEG Facility will continue the TAMF practice of identifying and working with 'champions' of reform, as a means both of enhancing the likelihood of success and promoting Indonesia's own anti-corruption strategies. Guidance from the AB will continue to be important in ensuring that AIPEG Facility support is given in areas where anti-corruption mechanisms are institutionalised and where leaders are champions of reform.

Mechanisms for the approval of Facility activities also provide anti-corruption measures.

8. Monitoring and Evaluation (M&E)

8.1 M&E context

The approaches, methods and systems in this design reflect:

- lessons learned from TAMF's experience with monitoring and evaluation
- contemporary approaches to monitoring and evaluation of flexible forms of aid, particularly those related to organisational capacity
- AusAID's current emphasis on Performance Assessment
- the Paris Declaration on Aid Effectiveness and its encouragement to use Indonesia's existing systems of monitoring where possible
- the need for coherence and feasibility in monitoring and evaluation terms
- contemporary understanding about the link between capacity and results.

Monitoring and evaluation (M&E) are intricately related to leadership, management and implementation of successful development work. Processes for M&E within the AIPEG Facility will therefore involve all stakeholders at various levels and at various times. It is important to note that different stakeholders have different M&E interests and priorities and it is unrealistic to expect one simple system to meet these various needs.

Effective M&E approaches and methodologies increase the quality of work, increase the level of ownership and produce greater results and sustainability of benefits. Undertaking effective M&E also increases workloads for all participants, so it needs to be appropriately resourced, budgeted and scheduled.

As is the case for all flexible funding mechanisms and facilities, it is conceptually challenging to pre-determine what success will look like from the beginning. In the AIPEG Facility, many factors contribute to this challenge, including:

- the spread, size and diversity of partner agencies and the different histories of partnership with Australia
- the relatively small size of the Australian contribution in each agency
- the complexity and dynamic nature of the economic governance context, globally and nationally, and the key institutions operating in the sector
- the large number of donors contributing to various aspects of economic governance and institutional strengthening in partner agencies
- the lack of certainty about specific activities and priority areas before negotiations with each partner agency take place in 2009 and 2010
- a commitment to change approaches over time to increasingly use GoI systems for aid management and reporting
- the long time frame for AIPEG Facility (6 years)

Given these factors, this section proposes some principles to inform M&E for the AIPEG Facility, and specifies some ways of ensuring that the primary purpose of monitoring is met to a high standard and other purposes are adequately addressed. This section also provides details about the "what, how, when, who and where" aspects of monitoring and evaluation for the AIPEG Facility.

8.2 Principles for M&E of the AIPEG Facility

The following principles are suggested to guide M&E for the AIPEG Facility:

- *a commitment to mutual learning over time about what works well and why, and how to improve ongoing management and practice, should apply throughout AIPEG*

There is no "right answer" to the question "how best can Indonesian and Australian people work together to bring about better economic governance capacity?" While much has been learned through TAMF I, II and III, AIPEG is operating in a changed political and economic context, with potentially different people and within dynamic and diverse organisations. The focus of monitoring within activities, within partner organisations and across the AIPEG Facility will therefore be on ensuring that events and processes are organised which allow for reflection and analysis of what has happened, what has worked well and why and what to do next to reflect this learning. A mix of different sources of information and processes for gathering information will contribute to rigour and contestability.

- *GoI monitoring systems should be used and where appropriate, support provided to strengthen these systems*

As the AIPEG Facility represents a shift in emphasis towards greater leadership and ownership of Facility-funded activities, the M&E approach should similarly reflect and maximise the use of existing GoI monitoring systems where possible. This is consistent with the concepts of "alignment and harmonization." In practice, the use of existing systems is likely to be more feasible at the goal and objective level, than at activity level. The AIPEG Facility should seek opportunities to support the strengthening of monitoring systems within GoI agencies where appropriate over the next six years. These opportunities would be expected to contribute to partner agencies' monitoring of their own performance and activities as well as their development results (e.g. better economic performance, reduction in gender inequality, more stable economic management, reduction of poverty), during planning negotiations each year.

At the national level, the GoI has established its own development targets and outcomes as part of its MTDP, linked to MDG goals. Analysis of changes in the overall economic governance context in Indonesia should draw on Indonesia's own assessment against its own plans[15]. The challenge of attribution (of Australia's inputs to higher level changes which may occur in Indonesia) is significant. However, consistent with the Paris Declaration and Accra Agenda for Action, Australia is committed to donor harmonization and greater use of existing Government systems, meaning that donor expectations about "clear and attributable results" may receive less significance than would be the case under other paradigms.

When assessing the goal of AIP-EG (the objective to which the AIP-EG Facility is contributing in the longer term), relevant MDG targets include gender equality and women's empowerment in the economic context as well as development of an open, rule-based, predictable, non-discriminatory trading and financial system. Given that women are currently overrepresented amongst the poor in Indonesia; are least represented in many, particularly formal, economic activities; benefit the least from economic opportunities and the access to credit and other productive resources; and experience a significant wage gap,[16] there is an opportunity for AIP-EG to assist GoI efforts to undertake gender-aware economic monitoring and policy design. Other relevant targets in the MTDP should be included as appropriate when evaluating at the goal level.

- *Identify ways to understand the contribution of funded activities towards higher level results*

As noted above, it is conceptually unrealistic to add up the "results" of AIPEG, given the diversity of the context, partners, activities, starting points, contextual factors, relationships etc. but it is possible to identify ways of understanding the overall contribution of AIPEG to Indonesia's own economic governance targets. The use of performance questions (see Section 8.4 below) will generate information that will contribute to an understanding of AIPEG's achievements overall. The placement of this analysis against an analysis of changes in Indonesia's overall economic governance performance will help to generate an understanding of the nature and extent of contribution. Thus, Contribution Analysis is the key methodology proposed for assessing the results of AIPEG.

- *Develop clear objectives at activity level and at sub-facility level*

While it is conceptually difficult to add up "results" across multiple institutions, it will be possible to negotiate an agreed set of high level of objectives for Australian cooperation within each GoI agency, consistent with each organisation's own plans. Annual negotiations of overall plans will include the setting of performance frameworks.

At the activity level, each activity will be expected to develop clear high level objectives, specific outputs and clear monitoring systems. The primary responsibility for internal day-to-

[15] A Landscape Review should be prepared annually by the MST, included in each second FRIP, covering key developments in economic governance and drawing on available GoI assessments
[16] page 4 of AIP Country Strategy 2008-2013.

day monitoring of each activity will be held by the implementers (GoI agencies, Advisers or sub-contractors). The MST and FET will assist with technical guidance, training, quality assurance and advice about M&E processes and methods; and it will also have a role in monitoring the M&E processes of each activity and maintaining a good understanding of progress of each activity, to support triangulation.

- *Remain flexible*

Consistent with a key principle of the AIPEG Facility overall, flexibility in M&E is also required. Effective M&E activities must be relevant to the context and feasible. There is little value in collecting large quantities of data unless it is going to be used. There is little value in spending long periods of time researching the contribution of a single adviser to an organisation of tens of thousands of staff. If monitoring shows that an activity is clearly not progressing well (because of changed priorities, lack of commitment, poor relationships, unexpected issues), there is little value in insisting on it continuing and undertaking a major evaluation exercise to "prove results", although there may be value in documenting lessons learned and identifying any ways forward.

- *Share monitoring with GPF and with other donors*

GPF supports a range of personnel and activities within partnerships in the same agencies where the AIPEG Facility will be working. GPF therefore has an interest in the work of AIPEG Facility and vice versa. Joint assessment, shared reports, interviews during evaluation events and participation in occasional or regular workshops and seminars will help promote the sharing of relevant M&E information. As a minimum, performance reports should be shared with all major partners. This reflects Australia's interest in "whole of government" engagement in performance assessment.

As noted in Section 2.3, many bilateral and multilateral donors operate in the economic governance sector, working to various degrees within GoI agencies and under GoI leadership. They are all likely to have their own performance frameworks, again to varying degrees of dependence on GoI or external assessment systems. At national objective levels, and within partner agencies, the AIPEG Facility should draw from these analyses and processes wherever possible, rather than establish its own completely separate, parallel monitoring systems. The AIPEG Facility should also actively share relevant reports and lessons with other donors, through AusAID.

- *Recognise the complexity of links between capacity and economic performance*

Contemporary thinking and practice in relation to assessing capacity and M&E for capacity development is fairly uncertain and undeveloped[17]. There are not yet many approaches and tools which have proven to be useful or effective for aid practitioners and programs. Most monitoring focuses on performance and results rather than capacity itself. There are significant methodological difficulties in devising M&E approaches for large and complex systems and the costs of doing it systematically and comprehensively are high. While it may be easier for the AIPEG Facility to undertake M&E of "results" in terms of economic governance, AIPEG Facility is explicitly focused on strengthening the capacity of economic governance agencies to achieve their own results, so M&E of AIPEG should primarily focus on capacity and capacity development.

[17] Baser and Morgan 2008, page 98

- *Find efficient and cost effective ways of undertaking M&E*

TAMF III included high quality evaluations of each sub-facility over the life of the program, reported in Performance Assessment and Evaluation (PAE) documents. Significant research effort and other resources were applied to 6-monthly cycles of evaluation. The high quality reports were useful for those interested in progress and results and for contributing to ongoing improvements in management, approach and activities. M&E efforts generally are expensive, but worth investing in if the information produced by the M&E efforts is well used. M&E which is undertaken solely or primarily for donor accountability purposes is rarely useful beyond compliance with donors' internal requirements and therefore questionable in terms of its value for money, but M&E which is primarily for ongoing quality improvement and for generating increased commitment to change and reform, offers high value for money.

As noted in a recent M&E paper[18] "the success of M&E systems depends on the way they are applied, and whether they can be used in a cost-effective and credible manner. All the evidence suggests that successful evaluation and measurement strategies depend on significant investment to ensure they are of operational value. Performance measurement systems should be seen as a valuable investment rather than a burdensome cost, if they are to be effective and credible".

8.3 Purpose and levels of monitoring in the AIPEG Facility

The *primary purpose* of monitoring in the AIPEG Facility is to improve ongoing management and practice within Sub-facilities and across the AIPEG Facility. This means that the emphasis in all M&E events and processes is increasing understanding about what works well and why and providing explicit opportunities for stakeholders to identify how to improve future work. The *secondary purpose* is to demonstrate progress and achievements. This means that documentation of M&E events and processes is important and that specialist sectoral and evaluation expertise will be required.

The M&E Framework for the AIPEG Facility overall includes five levels of monitoring (Annex 7 includes a summary of key aspects of these levels):

1. quality of activity processes and progress in terms of the delivery of outputs (including accountability for expenditure by Ministries and DGs and their Advisers, as well as contractors, sub-contractors) and achievement of objectives
2. quality of relationships and achievement of objectives within partner agencies/Sub-facilities (see below)
3. coherence between Facility-supported activities
4. achievement of Facility-wide objectives (which may be adjusted over time)
5. extent of achievement of and contribution to Facility outcomes (including purpose level objective and other outcomes)

[18] Hailey, John and Sorgenfrei, Mia, 2007, Measuring Success: Issues in Performance Measurement, INTRAC Praxis Programme ,Occasional Papers Series No: 44

Each of these levels of monitoring requires specific attention to *lessons learned* over the life of the Facility. This is important because of the "progressive engagement" nature of facilities, whereby information generated through experience is intended to bring clarity to future activities and Sub-facilities. At the first and second levels, lessons learned will influence the selection, design and management of future activities and Sub-facilities in terms of type, context and partnerships. At the third level, lessons about the complementarity of activities across different agencies and the potential for sharing lessons and approaches between them will be sought. Information generated by monitoring at the fourth and fifth levels will influence future and related economic governance programs. At the first and second levels, participating stakeholders (such as participants in professional development, mentoring or exchange programs) should be actively involved in the process of identifying lessons as much as possible. This learning process is critical to building capacity overall, which is the objective of the Facility. Lessons learned at the third, fourth and fifth levels are likely to be generated through more independent assessment which is focused on facilitating discussion among key stakeholders.

In relation to level 2 (quality of relationships and achievement of objectives within partner agencies/Sub-facilities), those from GoI agencies, Advisers and MST who are involved in the AIPEG Facility will need to self-reflect and identify ways of strengthening relationships periodically (e.g. at Annual Planning meetings). This highlights the links between high quality relationships, management and monitoring. The expected objectives for each Sub-facility need to be the subject of GoI and the AIPEG Facility agreement, otherwise there is no value in monitoring them. The table of proposed Sub-facility objectives in Section 3.2 provides a starting point, but should be subject to further negotiations in the first 6 months of the AIPEG Facility, for inclusion in a detailed M&E Strategy.

8.4 Approach to M&E

Monitoring is an ongoing process involving implementers in reflection, checking, analyzing and understanding progress against plans and agreed objectives. *Monitoring of activities* within the AIPEG Facility will be centered within partner agencies. Advisers will be expected to provide advice and support in relation to internal monitoring processes and systems (with specialist support on M&E provided by the MST and or the FET as appropriate). Where existing GoI systems do not exist or cannot be relied upon to generate robust information, Advisers will need to work with their colleagues to develop such systems, preferably to suit their own agency plans and strategies, not only for AIPEG Facility-funded activities.

Monitoring of Sub-facilities will focus on assessment of progress within GoI partner agencies towards the agreed objectives (section 3). The FET will be responsible for periodic reviews at Sub-facility level. A cycle of reviews ensures each Sub-facility will be reviewed in detail at least once per each three years. They will use the questions listed below as the basis for assessing the contribution of Sub-facilities to the objectives. They will lead M&E efforts at levels 3, 4 and 5 and prepare PA&E reports accordingly.

The MST will also play an important role in verifying monitoring reports provided for all facility-funded activities but not for day-to-day monitoring of activities.

Monitoring questions[19] that will be central to all monitoring processes within the AIPEG Facility for funded activities and Sub-Facilities will include:

1. **To what extent is each activity achieving its planned outputs?**

2. **What are the results of this activity?**

3. **Is the activity delivered efficiently?**

4. **What are the lessons learned for future activities?**

5. **What progress has been made towards Sub-facility objectives?**

In all five of these questions, gender analysis will be included to suit the context. For example, in relation to question 1, monitoring will seek to understand the extent to which each activity has identified where and how it can contribute to gender equality and progress in relation to the particular objectives. In relation to question 4, monitoring will focus on what lessons are learned in relation to gender analysis and gender equality.

For *evaluation* (a process of periodic assessment of the quality of progress and likelihood of contribution to results) the FET will use key *performance questions* as the basis for assessing the AIPEG Facility. The following questions will be used by the FET to generate detailed analysis for stakeholders in the AIPEG Facility:

6. **What changes have occurred in (and between) economic governance capacity within partner GoI agencies?**

7. **What is the nature and extent of contribution by Facility-funded activities to these changes?**

8. **Is there value in ongoing collaboration between Australia and Indonesia in each area, or demand for consideration of new areas?**

All questions will include consideration of gender issues, as well as capacity development issues. So for example to answer Question 2, implementers will need to identify the results for both men and women in terms of capacity gained or other result achieved. And in relation to Question 7, the FET will consider the nature and extent of contribution by Facility-funded activities to changes in economic governance capacity within GoI agencies for both men and women.

[19] The questions will help generate information to feed into AusAID's Quality System, including Quality at Entry (QaE), Quality at Implementation (QaI) and Quality at Completion (QaC) reports. The QaI system requires annual assessment reports by AusAID staff about: key results; summary of objectives; implementation progress; achievement of objectives; quality of M&E; sustainability; as well as gender, partnerships and anti-corruption, risk management and current issues. For AIPEG, this will be completed across the whole Facility.

It is proposed that the FET undertake Independent Periodic Reviews *across the Facility* at the end of Year Two and then again at the end of Year Four. Further discussion is recommended at the AB and EC level to identify whether these above questions remain the key questions for an end of Year Six evaluation or whether other evaluation questions need to be considered. These Independent Periodic Reviews will help inform the transition form the first 3-year contract period to the next 3-year contract period.

Annex 8 is an M&E Matrix with details of each level of monitoring, the respective performance questions, responsibilities, possible tools and other comments.

8.5 Methods and tools

There is no single M&E tool that can be used across the AIPEG Facility. A number of methods will need to be developed to suit the different levels of monitoring. They will need to be detailed in a detailed M&E Strategy for the AIPEG Facility prepared by the M&E Specialist in Year One. The Strategy will be reviewed annually to ensure that M&E approaches remain as flexible as the Sub-facilities. General guidance about methods and tools at the design stage is included in Annex 7.

8.5.1 Management Information System

The MST will develop and maintain a simple management information system (MIS) for the input, collation and reporting of data across the AIPEG Facility[20]. The MIS data base should enable the MST to:

- input data on the AIPEG Facility-funded activities (code, title, partner, contact details, objective, outputs, indicators, budget and actual expenditure, start and finish date, participants (sex-disaggregated) etc.)
- collate data over time across the AIPEG Facility activities and within Sub-facilities in terms of progress through the activity cycle
- provide information about the AIPEG Facility-funded activities to those involved in giving overall strategic advice (AB), decision-making (the EC, AusAID, GoI agencies), coordination and support (MST itself) and evaluation (FET)

A record-keeping system should enable the MST to keep the following documents in a central location, to support all stakeholders involved in cross-AIPEG Facility work:

- activity proposals
- activity designs
- progress reports
- completion reports
- evaluation reports, if undertaken

[20] This proved difficult in the early stages of TAMF III because of different interpretations of what was required, so guidance is provided here to reduce the risk recurring.

- the AIPEG Facility-wide systems and approaches (including Manual of Operations plus Gender Strategy, M&E Strategy, capacity development guidance, HR systems, finance systems etc.)

8.6 Monitoring over-arching issues

The Government of Australia, through AusAID, has identified four cross-cutting principles for aid activities: gender equality, anti-corruption, risk management and sustainability. Strategies related to each of these areas have been incorporated in other levels of this MEF (e.g. financial transparency is referred to in relation to activity quality; gender equality considerations are at all levels; risk management is addressed in level 3 and 4).

The Governments of Indonesia and Australia (see Sections 6 and 8.4) are committed to gender equality and mainstreaming in terms of economic development and development cooperation. All M&E questions will therefore include gender mainstreaming considerations. Indonesia's *Presidential Instruction 9/2000* identifies a commitment to mainstreaming gender into all development initiatives and states that donors must also mainstream gender into all support. This is currently manifested through the establishment of Gender Focal Points and Gender Working Groups within GoI Ministries. The Ministry of Women's Empowerment is responsible for supporting and monitoring this system. Gender equality is as an overarching principle for Australia's overseas aid program. Gender equality includes "participation and leadership in decision making, the human rights of women and efforts to eliminate discrimination against women." All activities funded by Australia are required to report on their approach to gender equality and results.

In the AIPEG Facility, monitoring on gender equality issues will be undertaken at all levels. All activities funded by the AIPEG Facility will be required to:

- Explain how the project will identify and act upon the gendered implications inherent within it

- Explain how it will address these gender issues to promote gender equality and ensure that both women and men benefit equally from the project

- During implementation, describe how the activity addresses and responds to the different economic needs of women and men and/or the different issues affecting men and women in the workplace (e.g. promotions, rotations, participation in learning opportunities etc.)

- Explain direct/indirect benefits of the activity for men and women and how these are being maximized.

They will then be required to report on results for men and women. The Gender Adviser will prepare an annual Gender Assessment of the overall Facility, which will contribute to other reports but also stand alone. The report will provide a response to the overall question:

- what are the implications of the AIPEG Facility for gender equality in Indonesian economic governance institutions?

In terms of contribution of the AIPEG Facility-funded activities to the Facility's goal the MST will include analysis of gender equality aspects of the Facility's work, and this will be confirmed by the FET.

8.7 Monitoring risks

Section 9 below and Annex 10 provide details of the risks associated with the AIPEG Facility at various levels and proposed mitigation and management strategies. Monitoring of the risk environment for the AIPEG Facility is required at all levels as follows:

- the AB will be responsible for providing advice about overall risks within the Indonesian and Australian governance context
- the EC will be responsible for decision-making to respond to risks at the overall AIPEG Facility level
- the MST will be responsible for coordination of risk management responses across the Facility, emergency responses related to Advisers and for updating the Risk Matrix annually
- AusAID will be responsible for managing and monitoring risks associated with the relationship between the AIPEG Facility and GPF (within its mandate as one organisation within a whole of government agency approach)
- the FET will be responsible for analysis and making recommendations on emerging risks within Sub-facilities
- GoI agencies, Advisers and any appointed sub-contractors will be responsible for managing risks associated with activities

8.8 Allocation of M&E responsibilities

Primary *responsibility* for monitoring each of the five levels described in 8.2 above will be allocated to different groups (see Annex 7). Suggested allocations are based on thinking at the time of the design and may need to be reviewed and revised during the first 6 months of the AIPEG Facility's implementation following discussions between the MST's FD, DFD and M&E Specialist and the respective partners.

Overall, while the strengths of the TAMF III approach to evaluation will be retained, there is expected to be a gradual shift in responsibility over the life of the AIPEG Facility towards stronger internal monitoring of activities by GoI agencies, and increased use of any GoI monitoring systems that are developed during this period. This reflects the principles of the Paris Declaration, GoI's own commitment to strengthen its monitoring capabilities and a recognition of the need to consider an exit strategy which maximizes the sustainability of benefits of Australian-Indonesian cooperation.

The FET will have a key role in evaluation of AIPEG, i.e. periodic assessment of performance. The FET will undertake detailed six-monthly reviews, focusing on one or more Sub-facilities. Every two years, the FET will undertake a broader review with a longer term perspective, including reference to the emerging opportunities to increase the use of GoI systems. AusAID officials or other delegated independent specialists will need to join the first periodic review as this will be a trigger for decision-making relating to the extension of the MC's contract.

Over the six year period of the AIPEG Facility, it is increasingly likely that GoI monitoring systems will be better able to respond quickly to emerging priorities and to meet the organisational needs of Ministries. The AB and MST will monitor such changes and identify opportunities to increase the use of Indonesian systems.

Over the life of the AIPEG Facility, a balance will need to be maintained between self-assessment and external monitoring responsibilities. The use of self-assessment and reflection processes will ensure that those involved in implementation and management gain the most and can apply learning to their ongoing work, and the use of joint or independent assessment processes will contribute to triangulation of findings and promote increased confidence in them.

An M&E Specialist will work within the MST to support GoI partners and Advisers in their respective M&E work. They will also ensure systems are in place within the MST to collect, collate and report information appropriately across the AIPEG Facility. Simple data base systems must be used, which can be made accessible to people in a variety of positions. The M&E Specialist will need to have experience with facilities (or at least the management of multiple activities) and with using contemporary M&E approaches.

8.8 Reporting

Reporting across the AIPEG Facility will include the following elements:

- an Inception Report three months after AIPEG commencement, to report on the early establishment phase and fill the gap until the first FRIP is due
- 6-monthly Facility Review and Implementation Plans submitted in March and September each year, the latter one including a broad 12-month plan (see also Section 5.2.4 regarding the timing of the first FRIP)
    - compiled by the MST with inputs from each Sub-facility with information on plans, activity concepts, activity designs, progress and completion reports and other sources
    - financial statements including expenditure to date and over the previous six-month period, and projected expenditure and Trust Fund draw-downs for the following period
- Quarterly financial statements to be submitted in June and December each year (between FRIPs)
- 6-monthly PA&E reports
    - compiled by the FET on the basis of detailed assessments of individual Sub-facilities and/or the whole Facility
- annual Gender Strategy Review
    - compiled by the Gender Adviser and Gender Coordinator
- annual Quality at Implementation Reports
    - compiled by AusAID on the basis of above reports, and shared with MST and GoI
- Completion Report

    - as determined by the contract between AusAID and the MC, late in Year 6
- Independent Completion Report
    - as determined by AusAID in consultation with GoI

Consistent with the principles of this Facility, effort must be made to ensure the content of all Facility reports describe both the Indonesian and Australian perspectives of issues. The MST will also need to respond to AB, EC and AusAID requests for information on an ongoing basis, which may involve coordinating information from Sub-facilities and partner agencies.

9. Sustainability

There are a number of ways in which this design maximizes the likelihood of the sustainability of the benefits generated within AIPEG Facility including:

- efforts to promote and maximise the leadership and ownership of AIPEG Facility activities within GoI agencies
- ensuring Advisers work within GoI agencies and alongside senior officials
- commitment to a long-term time-frame
- placement of long-term advisers if deemed appropriate by GoI agencies
- progressive engagement approach to use of GoI systems for procurement, management and monitoring of Facility-funded activities
- joint provision of strategic advice to the overall Facility
- joint decision-making by GoI and GoA officials about proposed activities
- selection of activities and development of workplans on the basis of GoI agency priorities
- identification of "reform champions" with whom to work
- use of regular joint reviews of progress at Sub-facility level
- use of implementer-based monitoring, supported by spot-checks for triangulation purposes
- provision of a pool of short-term advisers (both local and international) to meet priority institutional strengthening and technical advice issues identified by GoI agencies
- adoption of AIPEG-provided training courses by Indonesian agencies into ongoing programs
- promotion of cross-agency coordination and collaboration

A number of factors in the Indonesian context also promote the likelihood of sustainability of benefits:

- the clearly enunciated MTDP, linked with globally-accepted MDGs
- a history of positive experience among Indonesians with TAMF
- clear, strong and very senior leadership (at Ministerial and Secretary General level in the case of TAMF) of activities and priorities
- experience with donor harmonization principles and practices
- broad political support for civil service reform
- the existence of many officials with a commitment to bringing about reforms in the civil service generally and their respective agencies.

With its focus on contributing to ongoing, Indonesian-led economic governance reforms and capacity development processes, AIPEG is designed to emphasise and support the sustainability of the benefits of activities for partner organisations. The long term nature of collaboration in this sector helps to support the application of new technical or institutional development approaches and allow for the testing and refinement of them, as well as efforts to build on previous experiences.

10. Risks

Many of the risks identified for the AIPEG Facility remain the same as those for TAMF, but the shift in focus, larger scale and longer-time frame introduces a few more. Annex 10 provides details of risks identified within the design and external environment for the AIPEG Facility.

The substantial increase in the size of the budget for the Facility compared with that available for TAMF also increases several risks, including the risk of not being able to find sufficient activities that meet the selection criteria in each planning period and the risk that even if activities are identified, they will not absorb the funding available. Capacity development activities are generally not very expensive compared with other kinds of aid, beyond the costs of advisers and travel, and with so many other donors in the sector, it may be difficult to generate sufficient and steady flow of activities to fund. While a Trust Fund will help to mitigate against this risk, it should be monitored closely.

Changes in the global economic context in late 2008, while of concern, are not likely to negatively affect AIPEG Facility operations because the flexibility required to respond to emerging issues is built into the Facility form of aid and processes.

AIPEG Design Document

Annexes

Annex 1 Indonesia's macro-economic context

This annex comprises three sections:

A Summary of the Indonesian economic situation, mid-2008

B Key issues in economic governance

C Analysis of Indonesia's economic governance context and agencies

A Summary of Indonesia's economic situation, mid 2008[1]

In 2007 the economic growth rate in Indonesia was 6.3%. Economic growth for 2008 is expected to be in the range of 6.0 – 6.5% and the forecast for 2009 is close to 6.0%. These figures are the best figures since the Asia financial crisis and, subject to no major domestic or international crisis, are likely to continue despite the slow process of economic reform. The main drivers of growth were private consumption, supported by private investment, and an expansion of net exports. The lower inflation and interest rates also helped push up consumer spending, with private consumption increasing by 5.0% in 2007.

Higher GDP growth was accounted for mainly by the services sector, with transportation and communications, and electricity, gas, and water supply recording double digit growth. The rapid expansion of telecommunications services owes much too growing demand for mobile telephone and Internet services, which have been expanding by 40–50% a year. The expansion of utilities was due mainly to a 30% rise in gas usage as the state-owned electricity company switched to gas from more expensive fuels, and to a government drive to get consumers to shift from subsidized kerosene to non-subsidized liquefied petroleum gas.

Manufacturing output growth of 4.7% reflected higher growth in machinery, food, rubber, and paper products, offset in part by declining output for textiles, refined petroleum products, and liquefied petroleum gas. Reduced output for textiles is a sign of declining competitiveness in this labor-intensive industry dominated by young, unskilled female workers. Growth in manufacturing employment accrued predominantly to men (ADB Indonesia: Country Gender Assessment).

Agricultural output growth at 3.5% was driven by a 4.8% increase in rice production and higher world prices for plantation crops such as palm oil and rubber. Mining and quarrying grew by just 2.0%, despite considerably higher prices for oil and gas (which account for 55% of this sub-sector's output). This weakness was largely due to a 1.2% decline in oil and gas extraction caused by years of underinvestment in the sector.

[1] This annex was prepared prior to the major global financial difficulties in late 2008.

Year-on-year inflation declined from a peak of 18.4% in late 2005 to 6.6% at end-2007, as the impact of a 126% rise in fuel prices in October 2005 faded. Amid some volatility, inflation remained within Bank Indonesia's target range of 5–7% during the year, averaging 6.4%. While movements in food prices and seasonal factors contributed much to the volatility, a combination of factors ranging from higher global nonfood commodity prices, a depreciating rupiah, and a steady increase in domestic demand kept inflation from declining further.

The relatively moderate impact of the US sub-prime crisis on domestic financial markets, together with an improved policy environment, led to Standard & Poor's as well as Moody's rating agencies to raise the country's sovereign foreign currency debt rating to BB- and Ba3, respectively, in 2007.

The overall budget deficit has gradually widened in recent years from 0.5% of GDP in 2005 to 1.2% in 2007 (versus a revised budget target of 1.5% for that year). The actual outturn was assisted by increased revenues from petroleum royalties as the Government's share of oil revenues rose along with higher oil prices. On the expenditure side, higher spending on food, fuel, and electricity subsidies was more than offset by reduced outlays on all other expenditure categories. Although there was some improvement in budget execution in 2007, capital expenditures were again subject to considerable back-loading, reflecting difficulties in the management of public expenditures. Capital spending fell short of the budgeted amount by an estimated 10%.

The authorities funded the widening fiscal deficit by issuing government securities and increased borrowing from development partners. Still, the ratio of total central government debt to GDP declined by 3.4 percentage points to 35.7% in 2007, reflecting the concessionary nature of the borrowing and higher economic growth.

The Government pursued its reform agenda in 2007 aimed at improving the investment climate and public service delivery. Parliament passed a landmark investment law, which stated the principle of equal treatment for all investors regardless of national origin, as well as a tax administration law that strengthened the rights of taxpayers, reduced discrimination against married women taxpayers and limited arbitrary decision making by tax officials. Other significant changes included reducing the time for refunds of value-added tax, streamlining business licensing procedures, and implementing good corporate governance and risk management standards for state- owned banks.

An economic policy package unveiled in July integrates and builds on separate policies covering investment, infrastructure, the financial sector, and small and medium enterprises. It involves 165 reforms to be achieved by July 2008. As of end-February 2008, 105 of these reforms had been completed. These gains have, however, taken place from a low base, and the investment climate continues to rank poorly. Transparency International's 2007 Corruption Perceptions Index ranked Indonesia 143 out of 180 economies, while the World Bank's Doing Business 2008 put the country 123 out of 178 on ease of doing business. Firms still face a difficult legal and regulatory environment.

The Government's Medium-Term Development Plan 2004–2009 identifies gender mainstreaming as a target under the theme of establishing an Indonesia that is just and democratic. However, much remains to be done. There is often still a fundamental lack of understanding of the benefits and importance of mainstreaming gender in policies and programs. The issues that may affect women are still viewed as primarily falling within the social sphere and the perception that gendered opportunities and constraints are having significant economic impacts is not widely held.

Strict labor regulations create a disincentive to employment expansion and particularly affect women. The existing labor law is criticized by business groups for, among other things, mandating severance payments that are much higher than comparable economies, and limiting the ability of employers to outsource work. These have been identified as impediments to hiring new workers, particularly women, on a permanent basis, particularly in labor-intensive industries. Revisions to the labor law were proposed as part of an investment policy package in 2006 but were not implemented because of opposition from labor unions. The proposed changes would have addressed these issues and brought labor regulations into line with those of countries such as Malaysia and Thailand.

B Key economic governance issues

Civil service reform

It is widely recognized that in the aftermath of the Asia Financial Crisis and decentralization, the Indonesian civil service is in need of reform. There are some 3.6 million public servants, 38% of which are women. Of these 2.5 million are teachers and health workers stationed in the regions, at 1.9 million women make up the majority. The various decentralization and civil service laws have complicated the reform process.

Across all echelons the total number of women in the higher or “structural” positions is approximately 14%. The percentage of women in managerial positions is 17%. This under representation of women has many complex drivers. Key among these are lower educational attainment overall, two year rotation requirements in the civil service that are difficult for families not willing to move often, and women’s reduced ability to work the long hours of their male colleagues due to family commitments.

The Medium Term National Development Plan for 2004–09 included a plan for reform of the bureaucracy, calling for the application of ‘good governance’ principles in general—and, in particular, improved supervision and accountability of civil servants; restructuring of management and institutions; better management of human resources; and the improvement of services provided to the public.

The Ministry of Finance has been at the forefront of several reform processes. The approach has been one of piloting reform rather than wait for whole-of–government driven reform process to take place. In particular, reforms have centered on the Large Tax Payers Office.

Annex 1

Decentralization and the DAU

Indonesia's main decentralization challenge is to ensure effective allocation of its resources towards the improved delivery of public services and pro-poor policies. A credible performance system could help establish an allocation system that captures needs and performance. Such a system would have particular benefits for community driven policy, and provide a facility through which currently underrepresented groups such as women, ethnic minorities and people with disabilities may make their needs heard. Indonesia's most important source of sub-national financing— the General Allocation Fund (Dana Alokasi Umum or DAU)—increased nominally by 64 percent in 2006. Most regions have now enough resources to make a real difference for the lives of their citizens. Even regions considered fiscally poor now command an average of US$425 per capita annually and have seen increases in their DAU transfers of 75 percent in 2006.

More than half of the DAU increase will go towards financing the civil service wage bill of provinces and districts. The full coverage of the sub-national wage bill provides disincentives for sub-national governments to streamline their civil services. Many local governments have difficulty spending their additional resources. Their reserves in local bank accounts have been rising rapidly and by November-2006 reached a record 3.1 percent of GDP.

Food security (rice)

Following a successful rice harvest, Indonesia is likely to require reduced imports in 2008. Nevertheless, the long-term trend is for consumption to grow quicker than domestic production. The recent increases in rice prices have triggered a desire by certain section of the Indonesia government to champion self-sufficiency in rice production. However, this can only be achieved by heavy subsidies or closing the border to imports. Both these measures are likely to substantially impact on the majority of Indonesia's poor, who are net consumers rather than net producers. Indonesian women are primarily responsible for the provision of food, for which they spend their time, labor and money; any policy that drives up the price of food for the majority net consuming poor, will adversely affect women in particular.

ASEAN trade Ministers at a regional meeting in Bali in May signaled that they did not support the earlier restriction on rice trade and called for the resumption of fair trade and orderly regional rice trade. Despite these signals there remain section of the Indonesian bureaucracy which perceive that Indonesia's food security is best achieved by self sufficiency in production.

Energy / Fuel subsidies

The rapid rise in energy prices has put pressure on the governments to address the fuel subsidy issue. The 2008 draft budget was based on an assumed oil price of $60 per barrel. However, by mid 2008 the price of oil had risen to over $130 per barrel. The government policy of keeping fuel prices fixed meant that the subsidy paid on fuel and the pressure on the budget increased despite the increase in government oil revenue. Oil at $100 per barrel implied approximately $26 billion is subsidies. Moreover, the wealthier parts of the community disproportionately benefited from the oil subsidies.

On 24th of May, 2008 fuel prices were increased by an average of 28.7%. This had significant implications for the poor, particularly poor women who are the main consumers of fuel for domestic use. To compensate for this, the government implemented a cash transfer program implemented through Post Offices. Some 19.1 million families will receive Rp 100,000 per month until the end of 2009. The government faces further challenges in reducing remaining fuel subsidies and compensating the poor.

C Analysis of Indonesia's economic governance context and agencies

The main economic Ministries are improving their capacity to implement and manage economic reform. Key economic Ministries' face three inter related challenges: a) Public Financial Management and managing budget processes, b) Dealing with economic reform processes and policy formulation and implementation, and c) Manage the central government's link with sub-national and sub-national performance. Within this context the emphasis has shifted from managing short term macro-economic issues to implementing longer term structural reform and improving the investment climate. Both issues, however, remain important, particularly as the global economic outlook becomes more uncertain and volatile. Nevertheless, in the context of a more assured Indonesia bureaucracy and a changing economic environment, the emphasis has shifted to Ministries' building capacity to manage economic governance.

Much needed civil service reforms are beginning to take place. The need for reform has been exacerbated by the Asia Financial Crisis and decentralization. The various decentralization and civil service laws however have complicated the reform process. There are some 3.6 million public servants, 38% of which are women. Of these 2.5 million are teachers and health workers stationed in the regions.

The Medium Term National Development Plan for 2004–09 included a plan for reform of the bureaucracy, calling for the application of 'good governance' principles in general — and, in particular, improved supervision and accountability of civil servants; restructuring of management and institutions; better management of human resources; and the improvement of services provided to the public. The Ministry of Finance has been at the forefront of several reform processes. The approach has been one of piloting reform rather than wait for whole-of–government driven reform process to take place. In particular, early reforms have centered on the Large Tax Payers Office, but pilot projects are now being trialed in other parts of MoF.

Indonesia's main decentralization challenge is to ensure effective allocation of its resources towards the improved delivery of public services and pro-poor policies. A credible performance system could help establish an allocation system that captures needs and performance. Such a system would have particular benefits for community driven policy, and provide a facility through which currently underrepresented groups such as women, ethnic minorities and people with disabilities may make their needs heard. Indonesia's most important source of sub-national financing — the General Allocation Fund (Dana Alokasi Umum or DAU) — increased nominally by 64 percent in 2006. Most regions have now enough resources to make a real difference for the lives of their citizens. Even regions considered fiscally poor now command an average of US$425 per capita annually and in 2006 saw increases of 75 percent in their DAU transfers.

More than half of the DAU increase will go towards financing the civil service wage bill of provinces and districts. The full coverage of the sub-national wage bill provides disincentives for sub-national governments to streamline their civil services. Many local governments have difficulty spending their additional resources. Their reserves in local bank accounts have been rising rapidly and in November 2006 reached a record 3.1 percent of GDP.

Effective economic policy coordination across more than 34 Ministries remains a key area for improvement. Across the key economic Ministries and on a range of existing and emerging topics, from food and energy prices to climate change to civil service reform and centre–region relations, Ministries often take quite different approach and have overlapping mandates. While a significant amount of informal coordination occurs, systematic policy development and coordination are areas that have been consistently highlighted as needing improvement.

The GoI and key economic Ministries' have identified the above cross cutting issues as important and are actively pursuing reforms in these areas. Since 1998, TAMF has been working in partnership with several key economic Ministries. However, significant challenges remain and need to be addressed to alleviate poverty in Indonesia.

Higher development expenditures were made possible by the fiscal space of about $10 billion a year generated by a reduction in the fuel subsidy in 2005, declining debt service payments, and increased revenues from more effective tax administration. However, a recent decision by the Government to absorb the increase in global prices for oil and food and substantially increase the subsidies that it provides for fuel, electricity, and staple food items is likely to undermine the gains made by the 2005 fuel subsidy reduction.

The authorities were revising the budget in March 2008 to take account of the global economic slowdown and higher commodity prices. They raised the oil price assumption in the budget from an original $60 per barrel to $95 per barrel. As a result, the subsidy envisaged for fuel and electricity increased from Rp45.8 trillion and Rp29.8 trillion, respectively, in the original budget to Rp130 trillion and Rp61 trillion in the revised budget. The authorities also increased subsidies for food to Rp19.8 trillion from Rp7.2 trillion as part of a package of measures to bring down the price of food. The energy subsidies together currently exceed the total budgetary allocation for capital and social expenditures by 18%. Moreover, evidence suggests that the fuel and electricity subsidies have been poorly targeted, with minimal benefit to the poor and particularly poor women.

To offset these increases, the Government intends to raise revenues through the application of so-called safeguard measures aimed at advancing tax and dividend payments of state-owned enterprises, restricting access to subsidized kerosene, and applying an across the- board 10% cut in expenditures. Hoping to maintain development spending at original budgeted levels, the Government envisages the fiscal deficit for the year to widen to 2.1% of GDP. As in 2007, this deficit will be financed by the issuance of government securities and by increased borrowing from development partners.

Annex 2 Gender Analysis

The TAMF III Mid Term Review and the AIPEG design process have identified gender integration as a key area for improvement. The AIPEG Facility is mandated by Indonesian and Australian commitments on gender equality to ensure that it integrates gender throughout. The AIP states that gender equality is a priority for the partnership agreement. This agreement between the Government of Indonesia and the Government of Australia requires all bilateral aid to substantially address gender equality. Similarly, Indonesian *Presidential Instruction (9/2000)* on mainstreaming gender into all development initiatives, states that donors must mainstream gender into all support. The State Ministry for Women's Empowerment guidelines for gender mainstreaming, issued in 2002, are a key gender mainstreaming instrument.

Indonesia has signed and ratified the Convention for the Elimination of Discrimination Against Women (CEDAW). The core economic articles are: **Article 11** on 'discrimination against women in the field of employment'; **Article 13** on 'discrimination against women in other areas of economic and social life' . . . in particular, (a) the right to family benefits; and (b) the right to bank loans, mortgages and other forms of financial credit', and **Article 14** on rural women.

AusAID's gender policy *Gender in Australia's Aid Program – why and how* sets out gender equality as a principle that is fundamental to all Australian aid.

Across Indonesia notable achievements on addressing gender inequality include the production of gender disaggregated statistics in some provinces, districts, and sub-districts, the application of a Gender Analysis Pathway in a range of ministries, and an increasing number of gender issues included in annual development plans at district level. However women's empowerment divisions which exist at district level tend to be poorly staffed, under-resourced, and not appropriately placed within local government structures.

Indonesia continues to lag behind its neighbours in terms of women's economic engagement, particularly with the formal economy. Economic policy affects women and men differently because they have different roles and responsibilities – best practice economic governance takes this into account. The overall slow progress towards gender equality has an economic cost, for example:

- Persistent inequalities in the labor market have been estimated to cost Indonesia US$2.4 billion each year.[2] The persistence of the barriers to gender equality, despite the obvious benefits that removing them would bring, indicates a market failure which justifies active state intervention.
- The education gender gap in Indonesia is 3% - this is estimated to reduce Indonesia's GNI by $2.84 billion per annum.[3]
- Numerous behavioral studies have found women to be more trustworthy and public-spirited than men. These results suggest that women should be particularly effective in promoting

[2] UNESCAP, 2007, *Economic and Social Survey of Asia and the Pacific 2007: Surging Ahead in Uncertain Times.*
[3] Dollar & Gatti (1999) *Gender Equality, Income and Growth: Are good times good for women?* World Bank Policy Research Report on Gender and Development, Working Paper Series No. 1. Washington DC. AND Plan International (2008) *Paying the Price: The Economic Cost of Failing to Educate Girls* www.plan-international.org

honest government. Consistent with this hypothesis Dollar *et al*[4] find that the greater the representation of women in parliament, the lower the level of corruption.

There are several issues relating to the economic empowerment of women that relate specifically to economic governance[5]. Briefly, these are:

- **Access to financial services**: Estimates from Bank Rakyat Indonesia indicate that 25% of both their microcredit borrowers and micro savings customers are women. One of the main obstacles for women's access to credit is lack of collateral.
- **Access to land and property**: Access to land and property has significant implications for women's ability to utilize property as collateral, and as insurance in the case of death or divorce. While statistics are not widely available, for areas where systematic titling has been implemented, data show that as of 1998, 30% of title certificates were issued in the names of women, 65% in the names of men, and 5% in multiple names.
- **Women in the labor force**: Trends indicate that there is a decline in employment opportunities for both the existing female labor force as well as for new female entrants to the labor market. In the formal sector, women are in low-paying, low skilled occupations; very few occupy higher positions in the private or public sector. Young women are predominant in the low-paying textile, garment and footwear industries. Women dominate as laborers in the urban informal sector, and this trend has been increasing. On average female employees' average hourly wages are around 70% of male earnings.
- **Women in the civil service**: Women are underrepresented in the civil service. Of the 3.9 million civil servants, 38% are women. Across all echelons the total number of women in the higher or "structural" positions is approximately 14%. Most women in the civil service (around 1.9 million) are employed as teachers and nurses. The percentage of women in managerial positions is approximately 17%.

As per AIP requirements, gender will be built into all AIPEG terms of reference, selection criteria and performance appraisals, and include a vigilant monitoring and evaluation process. The AIP also requires that clauses covering the collection of sex-disaggregated data are included in contracts and agreements with implementation partners. The AIPEG Facility has been designed in a way that integrates gender throughout and tasks all advisors and other staff with the responsibility to ensure that the concerns of both women and men are considered in their work.

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[4] Dollar *et al* (1999) *Are Women Really the "Fairer" Sex? Corruption and Women in Government*, World Bank Policy Research Report on Gender and Development, Working Paper Series No. 4. Washington DC.

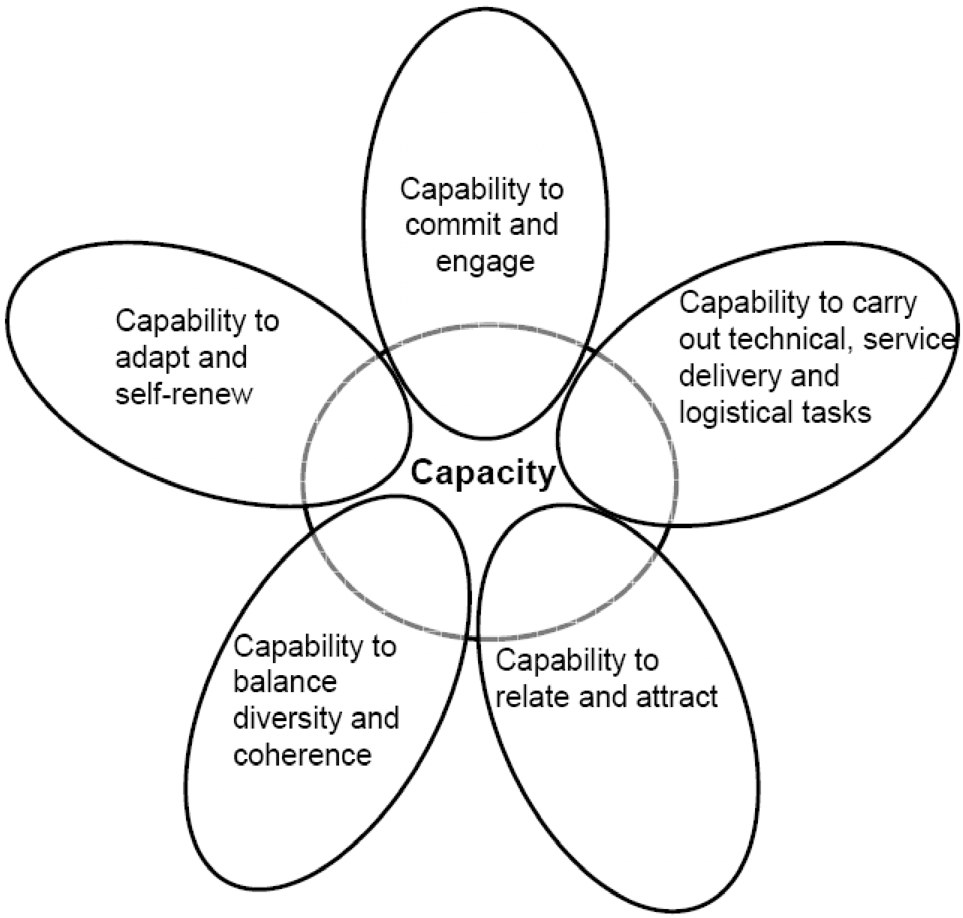
[5] ADB, 2006, *Indonesia Country Gender Assessment*, http://www.adb.org/Documents/Reports/Country-Gender-Assessments/cga-ino.pdf

Annex 3 Capacity Development

A great deal has been written about capacity development in the past decade. Many lessons have been learned about a wide variety of aspects and issues, but there is still considerable diversity in perspectives, the depth of understanding, approaches and practices used by various players in capacity development.

A major international research program on capacity and capacity development issues has recently been completed by the European Centre for Development Policy and Management (ECDPM). According to Heather Baser and Peter Morgan, the key authors of the final Study Report[6] there are five elements that make up the capacity of organisations. The five elements, included in Figure 1 below, provide a framework for considering efforts to contribute towards organisational capacity. They are described in the text below (extracted from the Study Report):

Figure 1 Elements of Capacity



[6] Baser, Heather and Morgan, Peter 2008 "Capacity, Change and Performance: Study Report" Discussion Paper 59B, ECDPM

"The core capability to commit and engage

…almost all the current discussion in development co-operation about the importance of 'ownership' and motivation has to do with this core capability. Its absence – or at least its fragility – dooms efforts at building any kind of a broader capacity. We are talking here about the capability to commit and engage in development activities. Organisations must be able to have volition, to choose, to empower and to create space for themselves. This is about the capability of a complex adaptive system – a living system – to be conscious and aware of its place in the world, to configure itself, to develop its own motivation and commitment and then to act. And to do it in time, over time and frequently, despite the opposition or resistance or non cooperation of others. This is a condition that goes beyond conventional notions of ownership. It has a lot to do with attitude and self-perception.

We regard this core capability as the one that energises all the others. We suspect it is also the key to self-organisation that lies at the heart of change in complex adaptive systems. Actors that developed it could overcome enormous constraints. When it was absent or weakened, they produced little of value. More specifically, this capability is about human, social, organisational and institutional energy and agency. Does the system have the collective drive, confidence and ambition to build its capabilities? Is it stuck or helpless? Is it trapped or immobilised by internal conflict or external forces? Has it been captured and hijacked and its resources diverted to other purposes? Is it in denial in certain areas or about certain issues? Has it given up on carrying out certain activities in the face of their complexity or uncertainty? Does it have a high level of organisational optimism and confidence? Or has the lack of integrity and purpose rendered it helpless in the face of difficulties. Has the system lost awareness and consciousness?

Such a capability is obviously not totally present or absent. Some systems may be energised in certain directions but not in others. An organisation may start implementing a programme with energy and commitment, but then lose traction and the willingness to act as the constraints mount.

In this report, we differentiate this core capability from that of carrying out technical and logistical tasks (see below). Both have to do with some sort of intentional behaviour. But the core capability for achieving results has more to do with 'first-order' change or the manipulation of skills and resources. It is about management, logistics, operations and task accomplishment. The capability to commit and engage, in contrast, is related to 'second-order' change, i.e. a complex blend of motivation, power, space, legitimacy, confidence, security, meaning, values and identity. It is connected to deeper patterns of behaviours that are partly structural, partly psychological, and usually deeply embedded.

Many organisations get stuck in a 'low commitment, low capacity, low performance' equilibrium that is a classic trap of weakened systems. Continuing political and bureaucratic instability causes, and is reinforced by, low levels of commitment, leading to ineffective processes of capacity development. Citizens then withhold support and legitimacy from public agencies, leading, in turn, to a 'weak demand, weak response' syndrome that further locks inaction in place. This pattern reinforces the poor performance, which leads back again to low commitment and low absorptive capacity. Many state structures are trapped in this kind of vicious cycle, which is hard to escape solely through narrow technical approaches to capacity development. In such cases, satisfactory underperformance – lack of engagement and lack of results – becomes the most sensible option available.

The capability to commit and engage can be developed, however. Organisations and systems can be given space. They can be buffered and given political protection. They can be helped to develop a greater sense of awareness and confidence. They can develop more coherence and leadership. They can get access to an increased supply of supply of resources. They can develop a willingness to decide, move and take risks, and to improve the pattern of relationships with outside groups.

It is also, in our view, the capability that is least understood by external actors. Funders can relate to organisations that are technically or organisationally 'unable' to do certain things. The design of most technical assistance (TA) is based on the assumption that actors in low-income countries indeed have the capability to commit, but that 'gaps' or missing pieces of the capacity machinery account for the lack of effectiveness. Funders are then usually puzzled and frustrated by actors that appear 'unwilling' to commit given the pressing needs to be addressed. Actors without this capability are usually characterised as lacking 'commitment' or 'political will'. The deeper explanations – usually political, cultural, psychological, social – also do not lend themselves easily to the conventional 'needs assessment' or capacity analyses.

This core capability depends on a series of what we call skills or abilities, including:
- the ability to encourage mindfulness;
- the ability and willingness to persevere;
- the ability to aspire;
- the ability to embed conviction;
- the ability to take ownership; and
- the ability to be determined.

The core capability to carry out technical, service delivery and logistical tasks

This second core capability underlies the most common way of thinking about capacity issues. From this perspective, organisations or systems are in the performance and results business. In most circumstances, they are supposed to deliver services, carry out functions, formulate policies, regulate activities, provide security or create some other form of public value. To do these things, they must carry out technical or logistical tasks such as programme analysis, financial management, project management, advocacy, community policing, vaccination campaigns, public communications and many others. The emphasis is on functional, instrumental ways of meeting a set of objectives and fulfilling a mandate.

This core capability is focused on what many see as larger development results – organisations are regarded as performance actors designed to act in accordance with technical and policy rationality. Attention to this capability matches up with the pressing need for IDAs to achieve or at least to be perceived to be achieving, substantive development outcomes. Many country governments also feel more comfortable with this instrumental perspective on capacity given the resultant shift of attention away from politics and power.

We can distinguish two kinds of organisations:

- Organisations focused on delivering programmatic results such as better policies or improved environmental protection. Task accomplishment was about executing or implementing to a certain standard. In many cases, this capability was equated with effective performance management in the form of better service delivery.
- Organisations concerned with improving the capacity of others. These included support or bridging organisations as opposed those engaged in policy or production or service delivery.

The core capability to perform, deliver services or achieve results is an obvious and crucial element of the capacity puzzle. Participants need to make sustained efforts to understand and strengthen the interconnections between capacity and performance. In particular, they need to be clear about which technical or logistical capabilities are crucial to generating results over time.

For an example of where this was done we go beyond the cases done for this study to the Public Financial Management Programme in Tanzania, described in the box below.

Box 4: Building a capability for financial management: the Tanzania experience

The reform of financial management has had a long history in Tanzania. By the mid-1990s, at least nine donors had separate programmes designed to improve the performance of the government's financial systems. But such efforts lacked connection to a coherent strategic approach to reform. In 1997/98, with the support of Sida and DFID, the government launched the Public Financial Management Programme that is generally felt to have been a success. Among the critical factors that led to this success were: collaboration among key donors and the government; the technical expertise and commitment within the Ministry of Finance; effective sequencing of the reforms with efforts at expenditure control; the gradual introduction of the International Financial Management System; institutional reform of rules and regulations; recruitment, incentives and training for local IT staff; and the effective use of external TA. Underlying these factors was a special set of conditions: a political leadership committed to improved performance in the public sector in general and the Ministry in particular, a culture of donor collaboration, a stable political system that could, in turn, support stability in key public appointments and improve conditions for staff. Being able to put in place a comprehensive approach to capacity development is itself a rare capability that few governments can successfully attempt.

The core capability to carry out technical, service delivery and logistical tasks includes the following capabilities:
- to deliver services;
- for strategic planning and management ;
- for financial management.

The capability to carry out technical and logistical tasks needs to be supplemented and combined with the four other capabilities to enable sustainable capacity to emerge.

The core capability to relate and to attract resources and support

This third core capability had profound implications for what the participants actually did as opposed to what they reported on. This was the capability to achieve a basic imperative of all human systems, i.e. to relate and survive within the context and in connection with other actors. From this perspective, capacity was not just about the capability to achieve results and carry out programme delivery. Capacity was also about being able to craft, manage and sustain key relationships needed for the organisation to survive. In the real world, organisations needed to attract support and protection, and to enter into relationships that produced new sources of funding, staff and learning. They could more effectively pursue their mandated goals provided they gained the legitimacy, operating space, control and buffering they needed to sustain themselves in a difficult context. This capability is particularly relevant in many low-income countries that are struggling to put in place an institutional and organisational infrastructure.

In the cases, systems ranging from individual organisations to whole governments had to organise themselves in ways that gave them the access to the resources they needed to keep going. Protecting the technical core of the organisation or system was key. Without this capability, the chances of achieving a level of real performance were not likely to be good. Thus in answer to the often-posed question ‘capacity for what?’, this capability has to do with consolidating and defending the system’s autonomy, functioning and existence.
Actors needed the capability to manage symbolic appearances, to communicate effectively, to enter into productive partnerships and alliances, to manage political conflict and, in general, to secure the organisation’s operating space.

This capability also had political aspects. Organisations frequently had to compete for power, space, support and resources with a variety of other actors, including individuals, informal groups and networks and other formal actors. Capacity, especially in the public sector, was thus an outcome of political conflict, bargaining and elite accommodation. Both individuals and organisations tried to establish norms of reciprocity that could be used to address collective action problems. Individuals and groups tried to capture other organisations and use them for public or private purposes. Organisations struggled to institutionalise themselves and to make sure the ‘rules of the game’ favoured their interests. Systems whose capacity was being developed were part of a wider context within which they competed, collaborated and co-evolved with other actors. Mandate, positioning and the system’s operating logic affected this core capability.

This capability operated as much though the informal and the intangible as it did through the formal and the tangible. Operating space, key relationships and legitimacy were usually secured through informal means. Formal structures are frequently induced or imposed through external demands and tend to get detached from the context in which they function. A preoccupation with strengthening this type of core capability comes with obvious risks. Among the cases, actors needed operating space if they were to have a real chance of building their capacity. They needed political support and alliances to function. But systems that became obsessed with their own survival and vested interests lost the capability to innovate and experiment. They defended their interests using mainly political methods. Performance was quickly sacrificed or at least produced through symbolic means. Loyalty was rewarded over efficiency. The system focused inward in an effort to defend its self-interest.

The core capability to relate includes the following capabilities:
• to earn credibility and legitimacy;
• to buffer the organisation or system from intrusions;
• to earn the trust of others, such as donors and clients; and
• to combine political neutrality and assertive advocacy.

The core capability to adapt and self-renew

The fourth core capability that showed itself in the cases was that of adaptation and self-renewal. Almost all the cases organisations were situated in a context of rapid, sometimes destabilising change. What was clear in almost all cases was the pace of change that acted to shape the nature of the tasks facing the participants and to erode the existing capabilities of those organisations that failed to keep up. The process of capacity development frequently took place in a context of enormous institutional upheaval. Windows of opportunity for capacity development opened and then closed. In Papua New Guinea, for example, where Ministers and senior officials rarely lasted in a job for more than two years, problems appeared in the form of complex, 'wicked' patterns that were resistant to simple solutions. Factors that used to be seen as transitory constraints on effective implementation – political conflict, civil strife, cultural dislocation – were becoming permanent conditions.

The capabilities associated with adaptation and change included:
• to improve individual and organisational learning;
• to foster internal dialogue;
• to reposition and reconfigure the organisation;
• to incorporate new ideas; and
• to map out a growth path.

The core capability to balance diversity and coherence

All the case actors needed to deal with the challenge of managing the balance between diversity and coherence. We can look at this issue from two perspectives. First, organisations needed different capabilities, interests and identities, and a variety of perspectives and ways of thinking. In practice, the benefits of this diversity helped them to build their resilience. Yet at the same time, they had to find ways of reining in the fragmentation to prevent the system losing focus and at worst, breaking apart. Increasingly, the pressure on all systems was on the side of greater complexity, diversity and fragmentation. They thus needed ways to balance diversity and coherence, and to encourage both stability and innovation.

The organisations also struggled to balance their different capabilities. If they paid too little attention to the technical and the substantive, they began to lose a sense of themselves as human community. Too much attention to the 'soft' capabilities, and they began to lose the ability to deliver technical value and services. Some key capabilities were in contradiction, such as those to with innovation and those to do with coherence and stabilisation. Effectiveness often came at the expense of efficiency. All the actors tried to achieve some balance and coherence amongst their capabilities. Often, this balancing involved trade-offs between, for example, being 'technocratic' and 'political' at the same time; having 'hard' versus 'soft' capabilities; focusing externally and internally; focusing on the short versus the long term; emphasising performance versus capacity; and being centralised or decentralised.

Some organisations tried to centralise this capability, only to lose effectiveness as innovation and flexibility were lost. They then entered into a period of oscillation in which the system swung back and forth from decentralisation to centralisation then back again. Some of the actors mounted multi-component strategies to achieve greater coherence including the upholding of certain values, the recruitment of particular types of people, the attention to communication and openness and the use of cross-functional, cross-country, cross-disciplinary teams and management groups. The need for this capability was key at the programme and sector level given the long-standing independence of many of the actors.

The core capability to balance diversity and coherence includes the following capabilities:
- to communicate;
- to build connections;
- to manage diversity; and
- to manage paradox and tension."

Annex 4: Other Donor Activities in Economic Governance

AREA	DONOR	OBJECTIVES	PROGRAM DESCRIPTION AND KEY ACTIVITIES	$/PERIOD	LINKS TO AIPEG
Tax Administration reform	World Bank	To increase rate of compliance with tax system among individuals and corporate taxpayers, and improve good governance (especially transparency and accountability) in tax administration Program will facilitate poverty-reduction, by fostering higher resource mobilization, and effective public management at local levels. To pilot support to district (kabupaten) governments in improving transparency, accountability and public participatory practices, and, in undertaking reforms in financial management and procurement.	Project for Indonesian Tax Administration Reform (PINTAR) PINTAR will be focused on technology, process and people, aimed at system development and automation of business processes. It offers a possibility to adopt a comprehensive reform approach for human resource management and IT reforms. Government Financial Management & Revenue Administration Project (GFMRAP) Project aims to lock in major policy and process reforms, to strengthen efficiency, governance, and accountability in public financial management, and the revenue administration; finance core investment and technical assistance (TA) to implement these reforms; and, facilitate coordination of donor TA. Comprises: 1) the Public Financial Management component will strengthen the effectiveness, transparency and accountability of national government spending 2) the Revenue Administration component aims to enhance revenue collection, compliance, integrity and trade facilitation; 3) the Governance and Accountability component shall strengthen entities, functioning as strategic "checks and balances" in the broader governance and accountability framework The current GFMRAP Project Phase II is focusing on IT project Initiatives for Local Governance Reform Project Establishment of a set of minimum reforms in public participation, transparency, financial management and procurement as well as in preparing a participatory Poverty Reduction Strategy and Action Plan (PRSAP). Includes provision of general facilitation, technical assistance and capacity building in: local governance reform (Budgeting Process, Kabupaten Budget Implementation and Financial Management and Reporting; and, Strengthening the Accountability Mechanism) and poverty targeted investment (ie. supporting pro-poor development expenditures) at the district, regional and national level. The activities also include: general facilitation and specialized technical assistance; capacity building, training/workshops and, monitoring, evaluation, and studies/surveys.	Approx US$150 million To commence mid 2009 US$80 million 9 June 2005 to 30 Sept 2009 US$46.3 million	Potential areas for collaboration: <u>Human Resources:</u> TAMF Central HR Advisor to instigate HR initiatives that support the PINTAR program (e.g. leadership training and change/performance management) <u>E-Learning:</u> TAMF has recently funded the development of 8 E-learning modules and there is an opportunity for DGT to use this methodology for training required under PINTAR. <u>Outbound Call Centre:</u> A component of the Pintar program includes the development of a call center. WB could utilize trained staff, or at a minimum utilize the lessons learnt from this TAMF Activity. <u>Data Improvement:</u> TAMF and USAID have recently supported a number of Data Improvement Activities including sector surveys, data evaluation, and e-views training. The WB could utilize the lessons learnt from these Activities and AIPEG / WB/USAID could also cooperate future data improvement initiatives i.e. support PINTAR program.

	IMF	To develop reliable administration and system and to promote the voluntary compliance	IMF support to the Government of Indonesia including the provision of technical advisers, improve compliance in Tax Audit management strategy and risk based system, audit training and organization strengthening: develop DGT's business strategies, modernisation programs, business processes IMF resident tax administration advisor assist DG Tax in coordinating donor assistance.		
	USAID	Develop Reliable Administration & System and integrated information system	Develop policy and operation to support strategic planning, internal audit, investigation unit; support data processing center (DPC)		
	JICA	To create Integrated & Professional Human Resources	TAX public relation (website, tax education programs) and Human Resource system		
	SIDA	To develop and implement a modern compliance plan and develop modern risk management model	Promote compliance: (tax audit and risk management, tax accountancy system)		
Treasury (domestic and external loan management, some cash management)	USAID		Placement of Adviser focusing on secondary market development		
	JICA		Engagement has recently finished		
	WB		Provision of Short Term Technical Assistance to DGDM and training courses in debt management. The Bank needs to identify the STTA area that aligns with DGDM strategic framework which will contribute well with other donors assistance, ie. USAID re-engaged adviser with focused on secondary market development		
Financial systems stability: Banks and NBFIs	WB		Some keys activities including: Modelling exercise / survey of Employee Pension Fund; Study of Tax regulation on financial and capital market; Banking systems, safety nets, SME access to micro finance and Insurance guarantee scheme		
	IMF		Provide Adviser in BI in financial supervision and other technical support		
	ADB		Provision of Technical Expertise in Bapepam-LK in the areas of Bond Market Development t, Syariah Capital Market and Risk Management; support the counterpart in implementation of Social security (Pension fund) and capacity building in Research Department		

Anti Money Laundering	USAID	USAID's Financial Crime Prevention Project (FCPP) is designed to strengthen Indonesia's ability to combat financial crimes. To assist Indonesia improve two key MCC policy indicators: Control of Corruption (and increased Immunization coverage) Goal: Indonesia achieving MCC Compact eligibility.	Financial Crime Prevention Project (FCCP) FCPP provides technical assistance to the Financial Intelligence Unit (PPATK), Supreme Audit Commission (BPK), the Attorney General's Office, the Corruption Eradication Commission (KPK), and the Ministry of Finance-Inspector General Office. FCPP's work aids Indonesia's own efforts to build a more modern legal and institutional framework to detect and prosecute corruption and financial crimes. USAID also supports activities that work with the Central Bank and commercial banks on Know Your Customer principles and other specialized training to enhance financial sector stability and soundness. USAID's effort has been promoting the Indonesian financial sector's safety and soundness, which will lead to increased investment, growth and job creation. Millennium Challenge Corporation (MCC) Threshold Program TA and training and provision of equipment focused on implementation of administrative reforms and greater judicial transparency, increased enforcement capabilities to fight money-laundering, prosecution of cases of public corruption, and reduction of opportunities for corruption through the modernization of public procurement systems. MCC related activities: PPATK - Enhance the "Know Your Customer" education and public awareness campaign; Increase the capacity of PPATK to receive and analyse online financial reports; establish an online communications system between PPATK and law enforcement agencies; Improve the Capability of the Corruption Eradication Commission (KPK); Implement Electronic Government Procurement and Increase Immunization Rates - Build Capacity and Public Awareness	$7.2 million (June 2004 – June 2008) $35 million focused on anti-corruption and $20 million on imubization activities over two years 2007 – 2009.	Future potential collaboration with AIPEG in provision of TA from PPATK's Australian counterpart in HR and IT area TA to PPATK in revising the Anti-Money Laundering Law, including expanded investigative authority for PPATK and other GOI agencies. Use TAMF methodology in delivery of participatory training sessions involving financial institutions, financial regulators, investigators, prosecutors, and judges.
	IMF/UE		Public Financial Management and Revenue Administration Program IMF will be the implementing agency, using funds provided by the European Commission. The program will target NPO (Non-Profit Organizations) and alternative remittance service providers.		
	WB/UN	Help developing nations recover billions of dollars of looted funds	StAR (Stolen Asset Recovery) Program World Bank/UN will facilitate processes to trace and return stolen assets and wealth, especially those kept in developed nations, to the developing nations of origin. In 2007, World Bank organized one-week AML training in Jakarta for FIU and law enforcement officials in the ASEAN region. The training covered the a-z of AML, from basic concept to law enforcement processes.		

Trade	USAID	To improve Ministry of Trade capacity and organizational effectiveness in addressing both domestic and international trade issues that will promote an enhanced trade regime, an improvement in the investment climate, and increased employment	Indonesia Trade Assistance (ITAP) ITAP contributes towards capacity building in trade law, economic analysis and human resource management, contributing to improved organizational capacity and increase in participants' knowledge and professional job competence in trade issues. ITAP consists of long- and short-term TA, commodity support and training and conferences. Emphasis on international trade issues. It includes: Support for WTO compliance and the DOHA development agenda; activities to enhance inter-agency coordination on trade related matters, including cross ministerial technical assistance and training; Intellectual Property Rights (IPR); Legal drafting and legislative reviews related to investment, trade, property and other laws affecting the trade agenda; Analytical skills development; Ministerial capacity development on international Trade in Law and International Trade Policy; institutional strengthening (support HR development) and Reduction of Non-tariff barriers.	$82.7 million over five years (2004-2008)	Use of TAMF's Trade Training Needs Assessment to support other donor programs Potential for AusAID to continue to work together on policy analysis, with TAMF utilizing WB work on domestic services to support its in-depth policy analysis of service sectors. Further cooperation and opportunities for synergies will be in HR and capacity building
	World Bank	Increase MoT capacity to deliver core services on domestic and international trade policy, trade negotiations, investment policy and management of staff training.	Multi Donor Trust Fund for Trade and Investment Climate Fund aims to support economic ministries/agencies in investment climate forum. The indicative MDF activities will cover trade and investment components. The trade component including improve HR training management and training to increase skill of staff, improve Ministry of Trade's institutional structure through setup the specialists teams, and provision of advisory services. Investment climate component comprises of capacity building for better policy coordination, technical assistance on regulatory and financial sector reform, and advisory services provision	Indicative funding US$6.7million (from Netherlands) 4 years starting late 2008	
	JICA	Improve Ministry of Trade capacity and Institutional Strengthening	Capacity building to implement WTO policies, investment promotion policy, export promoting; competition policy and administration; Institutional reform at National Agency for Export Development	-	
Public expenditure management	ADB		Loan and TA assistance – audit and public procurement		
	CIDA		TA financial management system fiscal framework		

Annex 5 Roles and responsibilities

This Annex provides a summary table listing a "who's who" of relevant stakeholders in alphabetical order, followed by details below on roles and responsibilities by stakeholder.

Summary Table

Abbreviated Title	Title in Full	Role
AB	Advisory Board	Five Indonesian specialists and two Australian senior representatives who meet six monthly to provide strategic program direction.
AusAID	Australian Agency for International Development	Donor and executing authority for the Government of Australia (GoA)
CMEA	Coordinating Ministry for Economic Affairs	Executing authority for the Government of Indonesia (GoI)
EC	Executive Committee	GoI and GoA Co-Chairs of the Advisory Board The highest decision-making authority for the Facility
FET	Facility Evaluation Team	Three-person team to be nominated by AusAID and GoI and contracted by the MC to undertake regular evaluations and report to the AB
JAP	Joint Appraisal Panel	Panel made up of representatives from AusAID Jakarta, Bappenas and the MST to appraise FRIP activities.
MC	Managing Contractor	Contracted to AusAID to implement the Facility
MST	Management Support Team	Jakarta-based team contracted by the MC to manage and monitor the Facility, and service the AB/EC
	Sub-contractors	Advisers/implementers of approved activities in accordance with signed contracts either with GoI for Sub-facility activities or MST for Facility wide activities
	Sub-facilities	Coordinated group of activities within up to six (at any one time) targetted Indonesian partner agencies
TSP	Technical Support Pool	Pool of pre-qualified international or local specialists to provide short-term technical advice

Roles and Responsibilities of Each Stakeholder

Advisory Board

The role of the Advisory Board is as follows.

- Provides high level advice on the strategic direction of the Facility;
- Connects the Facility to other arms of government and a broader economic governance constituency in both Indonesia and Australia;
- Considers the Facility Review and Implementation Plan (FRIP), the Performance Assessment and Evaluation (performance assessment and evaluation) reports and any supplementary briefings provided by the MST and FET.
- Makes recommendations to the EC on the appropriateness of the program of assistance proposed for each of the six core policy areas.
- Provides observations and advice to the EC on issues which may influence the direction of future assistance both in relation to existing sub-facilities and possible political, institutional and social changes which may require a corresponding change in program mix.
- Gives broad direction-setting regarding potential areas of focus for unallocated funds available to support emerging issues.
- Engages with external reviewers of AIPEG, as required.

AusAID

Engagement and management oversight will be through AusAID Jakarta. Key AusAID actors include the Minister-Counsellor as Co-Chair of both the Advisory Board and the EC, the AusAID Economic Adviser, Development Program Specialist – Governance, AIPEG Facility Activity Manager. This core group will be supported by other parts of AusAID Post and Canberra.

AusAID collectively is responsible for the following:

- Conducting the selection process and contracting the AIPEG Managing Contractor;
- Co-chairing the AIPEG Advisory Board Participating and the EC;
- Annual budgeting, financial planning, the provision of funds (payment of MC invoices according to the contract), monitoring of expenditure and review of annual audits of the Trust Fund;
- Chairing the Joint Appraisal Panel which meets prior to EC Meetings and prepares recommendations for the EC on whether proposed new activities meet funding criteria and therefore should be funded;
- Ensuring the Joint Appraisal Panel approves small proposals (under $100,000) efficiently and quickly;

- Monitoring and managing program quality and coherence, and MC performance;
- Monitoring implementation progress
- Reviewing Facility Evaluation Team's reports and engaging in the issues;
- Fostering a proactive approach to management and approving variations to the MC contract if appropriate;
- Consideration and approval of MC reports and milestones;
- Coordination with Whole of Government, including liaison with coordinators of the Government Partnership Fund.
- Commissioning and jointly conducting with the FET the two periodic reviews at the end of Year 2 and Year 4.
- Commissioning and management of an Independent Completion Report.
- Coordination with other donors.

Coordinating Ministry for Economic Affairs (CMEA)

The CMEA will be responsible for the following.

- Co-chairing the Advisory Board and the EC;
- Liaison and coordination with AusAID concerning the Facility direction and progress;
- Ensuring that potential partner agencies are aware of the technical assistance and capacity development opportunities provided by the Facility;
- Potentially hosting a new sub-facility on Policy Coordination from Year 2.

Core Group

The Core Group is made up of Senior GoA officials (often heads of department/agencies) who coordinate the Government Partnership Fund from Canberra.

Executive Committee (EC) the AB meetings

The role of the EC is as follows.

- Ensure the provisions of the AIPEG Subsidiary Agreement are being met.
- Co-chair Advisory Board, approve FRIP (Facility Review and Implementation Plan) and performance assessment and evaluation (Performance Assessment and Evaluation)
- Provide advice and make decisions as required

- Considers the recommendations of both the Advisory Board and the Joint Appraisal Panel and approves (or rejects) activities nominated in the forward program
- Decides which Sub-facilities and/or activities will be reviewed by the Facility Evaluation Team as part of the six-monthly Performance Assessment and Evaluation (PA&E) exercises.

Facility Evaluation Team (FET)

The FET is a three-person team contracted by the MC to undertake regular evaluations and report to the AB. It will include one Indonesian member nominated by GoI and two international experts nominated by AusAID. Between them the three members will have expertise in monitoring and evaluation (M&E), economic governance and the Indonesian policy context.

FET's functions resemble, but are not identical to, the functions performed by the former Technical Support Group in TAMF III. The FET will:

- Work with the MST and GoI to tailor the draft AIPEG M&E Framework into a document which will guide M&E work plans and produce results relevant to the needs of both GoI and AusAID;
- Undertake the six-monthly performance assessment and evaluations (PA&Es) for the duration of the program. PA&Es meet the requirements of Levels 3-5 of the M&E Framework;
- Participate in the Sub-facility reviews which inform the transitioning of "mature" Sub-facilities;
- With AusAID, conduct Facility-wide reviews at the end of Years 2 and 4;
- Reports in writing to the Advisory Board and MST on its findings and recommendations;
- Provide M&E leadership to all AIPEG stakeholders, including conducting training workshops if required.

FET visits will be scheduled to be conducted six-monthly in a regular cycle timed to precede FRIP development and Advisory Board meetings.

Government Partnership Fund

A twinning program between Australian and Indonesian public sector agencies operating in parallel with Facility activities under the AIPEG umbrella.

Joint Appraisal Panel

A three-person panel which reads and appraises all applications for activity funding from Sub-facilities in terms of feasibility of design, and value for money, and makes recommendations to the EC prior to its six-monthly consideration of the FRIP. The JAP will include representation from AusAID (Chair), Bappenas and the MST. It will meet six monthly prior to EC consideration of FRIP reports so that it can brief EC members. It will also meet as required beyond these two set meetings if required. The MST will provide secretariat services including setting meeting dates, agendas and preparing and distributing a summary record of each meeting.

The JAP will be given delegation to approve small activities (under $75,000) to avoid delay and to avoid taking up the time of the EC if the activities are considered to be both beneficial and low risk.

Managing Contractor (MC)

The MC provides all management services necessary for the effective and efficient operation of the AIPEG Facility. The MC is expected to operate out of two offices with the majority of functions being conducted in Jakarta. Staffing will include:

- A head office team, comprising the part-time services of an MC Corporate Representative and an Accountant;
- A Management Support Team in Jakarta led by a Facility Director. Other international positions include a Deputy Facility Director and Activity Design and Management Mentor. National positions include a Gender Coordinator, Program Coordinator, Management Information System Coordinator, Finance Officer, Facility Administrator(s) and driver.

Position descriptions for the MC team members are provided in Annex 9.

The MC's combined management roles include the following:

- Coordinating stakeholders and establishing collegiate productive relationships;
- Secretariat to the Advisory Board including organizing meetings, travel by delegates, the agenda and preparation and distribution of minutes.
- Selecting, contracting, briefing, mobilizing and performance managing the MST, Sub-facility and Technical Support Pool personnel.
- Contracting the FET, in liaison with AusAID and GoI who will nominate the three FET members.
- Managing a rolling annual activity plan and budget summarized in Facility Review and Implementation Plans (FRIPs) framed to support AusAID's Quality at Implementation (QAI) reporting.
- Oversight of a portfolio of activities implemented by Sub-facilities following appraisal by the Joint Appraisal Panel and approval by the EC.
- Capacity development of Sub-facilities to select and sub-contract inputs to activities in a transparent documented manner, if required;

- Developing and operating financial, planning and management information systemsto support data collection and management, monitoring, performance assessment, review and evaluation.
- Documentation of systems in the AIPEG Operations Manual, and regular updating and distribution of the Manual in electronic format as required.
- An in-house training program that will ensure that relevant staff of the MST, TSP, FET, Sub-facility Partners, CMEA and AusAID understand and can use the AIPEG Operations Manual.
- Monitoring and quality assurance, as per Levels 1 and 2 of the M&E Framework.
- Ensuring that gender equality considerations underpin AIPEG Facility planning and implementation.
- Risk management and mitigation.
- Regular liaison and timely reporting which aligns with the needs of AusAID's Quality Reporting System and GoI's monitoring systems.
- Contribute to donor coordination on economic governance.
- Liaison with AusAID and GOI to coordinate with other AIP initiatives as appropriate, particularly the Australian Development Scholarships (ADS) program.
- Supporting reviews including the Periodic Reviews late in Years 2 and 4.
- Any other tasks to ensure compliance with the head contract with AusAID.

Partner Agencies

Partner agencies host Sub-facilities and must have full ownership of activities. They will have the following responsibilities in the implementation of activities.

- With support from the MST, be involved in design and implementation of activities and be responsible for the activity outcomes.
- Provide timely counterpart support as committed in the activity design, such as staff, facilities, local costs.
- For any training activity (courses, work attachments, study tours) undertake selection of participants in line with the agreed selection criteria in the activity design, ensuring equitable participation of men and women.
- At the end of the activity complete an activity evaluation sheet expressing the level of satisfaction with the activity and assessing the activity achievements against the stated outputs/outcomes.
- Where appropriate according to the approved design, together with the sub-contractor arrange workshops/roundtables to disseminate outcomes of the activity.

- Cooperate with the MST Jakarta and/ or the FET in providing feedback for M&E.

Sub-contractors

Sub-contractors will implement Sub-facility activities and activities which are Facility wide, in cases where resources beyond the TSP are required.

Sub-contractors have the following responsibilities:

- Provide all contracted services at the highest standards so as to achieve the outputs/outcomes as set out in the activity proposal and the sub-contract.
- Establish effective working relationships with relevant stakeholders to maximize activity effectiveness and ownership.
- Prepare Reports, financial statements and invoices in accordance with the specific contract.
- Where appropriate according to the approved design, together with the partner agency arrange workshops/round tables to disseminate the outcomes of the activity.
- Be available to communicate in person or in writing with M&E personnel including those from the MST, FET and any independent reviewers.

Technical Support Pool (TSP)

The TSP is a Pool of pre-qualified international or local specialists who can be tasked to provide short-term technical advice as a stand alone activity or as part of a broader activity. Core positions include:

- Human Resources (HR) Adviser
- Gender Adviser
- Capacity Development Adviser
- Organisational Development Adviser
- Economic Policy Adviser
- MIS Adviser

Further details are provided in Annex 9. The focus for all advisers is on capacity development in their specific field of expertise. While there is a Gender Adviser, there is also expectation that all Advisers promote gender sensitive work practices and advice.

Annex 6 Summary of TAMF III Sub-facilities

Taxation

The taxation sub-facility, supporting the Directorate General of Taxation (DG Tax) in the Ministry of Finance, has been TAMF's most successful area to date. The appointment of a new Minister of Finance and new Director General Taxation in April 2005 has made a significant change in DG Tax's operational context with high level support for continuing reforms. Despite the increasing amount of support from a range of donors, the demands for support through TAMF have remained high because of its flexible and responsive nature.

The modernization program is still driving the DG Tax reform agenda, supported by three transformation directorates; Process, People and Technology. These directorates are responsible for the changes in following critical areas: 1) human resources and governance reform; 2) organization and business process reform; and 3) modernization of communication and information technology.

Success factors in TAMF's engagement with DG Tax include: responsive, flexible implementation; a progressive engagement strategy; strong support from senior management; a clearly identified transformation team responsible; a technically skilled and experienced lead adviser with skills in working with all level people; and successful coordination with other donors working in DG Tax.

TAMF has made significant contributions to the DG Tax modernization program through support for the head office re-structure; strategic planning; a communication strategy; and a training and capacity building plan. This has resulted in strong support from DG Tax leadership and staff for continued assistance from Australia for the tax modernisation program.

Financial System Stability

TAMF's support for financial system stability commenced in June 2000 with assistance for the Ministry of Finance's Monitoring and Governance Unit. The financial system stability sub-facility was later designed around five main components: support for the Financial System Stability Forum (FSSK); re-organization of Bapepam-LK; strengthening of Bapepam-LK; support for the Coordinating Ministry of Economic Affairs (CMEA); and anti-money laundering (AML).

As envisaged, the FSSK was to be the anchor for the Financial System Stability sub-facility. Although this forum did not initially have the necessary political influence to effect change, the emerging international financial crisis has seen a renewed political focus on financial system stability and elevated the status of the FSSK to a Secretariat supporting a Ministerial level committee.

The re-organization of Bapepam-LK supported the merger of Bapepam with parts of the old DG Financial Institutions and a major re-organization of Bapepam-LK along functional lines. The

institutional strengthening then undertaken complemented the GPF-based assistance from APRA, ASIC, RBA and other GoA agencies.
The current significant support to this sector is for the development of Crisis Management Protocols and Simulation testing which aims to assist the FSSK/Bapepam-LK to develop and test early warning systems for the Indonesian Financial Sector. In facing the current global economic crisis TAMF support to this activity is enormously strategic.

Support for the CMEA included assistance to develop a series of Economic Policy Packages; operationalization of the State Bank Oversight Committee; support for the State-Owned Enterprise Divestment Committee; and donor and industry coordination on selected financial matters.

Trade

TAMF initiated its support to the Ministry of Trade (MoT) in late 2004 in response to a direct request for technical assistance from the Minister of Trade, who has been a strong champion of reform within the Government of Indonesia. The key focus area of support to the MoT has been to support the formulation of better negotiation positions and strategies for international trade in services.

Ongoing support to establish and build the capacity of an International Trade in Services team within the MoT will enable this function to be transferred to the Ministry in 2009 from Fiscal Policy Office in the Ministry of Finance. In the interim, TAMF support entails a dual engagement with the Coordinating Team for the services sector in MoF and MoT.

Debt Management

TAMF support for debt management was originally provided to Directorate General Treasury in the Ministry of Finance, but since November 2006 has been provided to the Directorate General Debt Management (DG DM), created in June 2006 with three directorates: Debt Portfolio and Risk Management; Evaluation, Accounting and Settlement; and Islamic Financing Policy.

TAMF’s work in debt management has faced many challenges resulting from these new structural arrangements and unclear boundaries of responsibility between the various institutions with a stake in Indonesia’s debt management. Notwithstanding these challenges, technical assistance provided by TAMF has alerted the Government to significant issues in Indonesia’s debt management regime and made recommendations which could result in significant savings to the budget.

While the sub facility has been problematic, DG DM senior management has expressed a strong desire for continued support, particularly for development of the agency’s IT infrastructure vital to enable Indonesia to manage its debt portfolio. Given the current financial crisis there is likely to be a renewed focus on debt management and the new facility will be well positioned to provide support.

Annex 7 Monitoring and Evaluation Matrix

Level of monitoring	Key Performance Questions	Suggested sub-questions adapted to suit each partner/activity	Key Responsibility	Suggested Methods or Tools	Comments
1. Quality of activity processes and progress in terms of the delivery of outputs and achievement of objectives	1. To what extent is each activity achieving its planned outputs? 2. What are the results of this activity? 3. Is the activity delivered efficiently? 4. What are the lessons learned for future activities?	1. To what extent has each activity identified where and how it can contribute to gender equality? 2. Have results benefited women and men differently and why? 3. Have activities been implemented in a cost efficient manner? 4. What lessons have been learned in relation to gender analysis and gender equality?	1. Activity implementers (e.g. GoI agencies, contractors, sub-contractors, advisers) 2. Random triangulation by MST	Internal monitoring systems using indicators for each activity output and objective. Select appropriate tools from following list: • questionnaires • surveys • focus group meetings • trainers' reports • peer assessment • self-assessment • supervisor reports • etc.	This level of monitoring includes accountability for expenditure by Ministries and DGs and their Advisers, as well as contractors, sub-contractors and other activity implementers
2. Quality of relationships and achievement of objectives within partner agencies/Sub-facilities	What progress has been made towards Sub-facility objectives?	1. Are relationships between Australian and Indonesian partners contributing to good quality capacity development processes 2. What lessons have been learned about working in this partner agency?	Facility Evaluation Team, focusing on one or two partners/Sub-Facilities each 6-9 months (as negotiated within AIPEG)	The following tools may be useful: • focus group discussions • joint seminars and workshops • key informant interviews • joint expert analysis)	Representatives from other donor-funded programs in the sector could be included

3. Coherence between Facility-supported activities	Is there value in ongoing collaboration between Australia and Indonesia in each area, or demand for consideration of new areas?	What synergies can be obtained through collaborative work across Sub-facilities (e.g. joint sessions on capacity development, gender analysis, M&E etc.)	MST, providing advice in FRIPs to AB	• Six-monthly analysis by AIPEG governance and management stakeholders, including AB, MST and AusAID, taking advice from FET where appropriate	This is more of interest to AusAID than other stakeholders, but GoI participation in analysis and decision-making is crucial to contribute to leadership and ownership
4. Achievement of Facility-wide objectives (which may be adjusted over time)	What changes have occurred in economic governance capacity within partner GoI agencies over time?	What other changes have occurred which may have been contributed to by the existence or work of the AIPEG Facility	Facility Evaluation Team (both Indonesian and international specialists) MST to prepare annual Landscape Review	Variety of research and evaluation methodologies relevant to assessing and analyzing changes in organisational capacity at a national level (methods are emerging from a variety of international studies in 2008)	Specialists from other donor-funded programs in the economic governance sector in evaluations, could be included where appropriate
5. Extent of achievement of and contribution to Facility outcomes	What is the nature and extent of the contribution by Facility-funded activities to the any changes?	What have been the other key contributors to improvements in economic governance in Indonesia and why have these contributions been successful?	Facility Evaluation Team (both Indonesian and international specialists)	Elements of contribution analysis[7] and other evaluation methods that maximise participation by Indonesian stakeholders, will be appropriate to answer evaluation questions 1-3 and made recommendations about future engagement.	Specialists from other donor-funded programs in the economic governance sector in evaluations, could be included where appropriate

[7] Mayne, John 2001 “Addressing attribution through contribution analysis: using performance measures sensibly” in The Canadian Journal of Program Evaluation, vol 16, no. 1 pp1-24

Some guidance about methods and tools includes:

- At the *results* level, elements of contribution analysis[8] and other evaluation methods that maximise participation by Indonesian stakeholders, will be appropriate to answer evaluation questions 1-3 and made recommendations about future engagement. Consideration should be given to including specialists from other donor-funded programs in the economic governance sector in evaluations, where appropriate

- As AIPEG is a Facility with multiple partners, the focus of M&E should be on methods which assess the *quality of decision-making, the quality of management processes* and the *quality of relationships*. This will require periodic and shared reflection by members of the AB about their role and contribution (ie. by inclusion of an agenda item once per year); use of AusAID's regular contractor performance system to assess the MST (ensuring GoI participation in the process); and periodic surveys by the FET of GoI partner agencies' perspective of the quality of the AIPEG Facility management. While analysis of relationships is notoriously difficult, efforts need to be made to monitor this element of the AIPEG Facility, given the centrality of relationships to success

- At the *Sub-facility level*, focus group discussions, joint workshops, key informant interviews and joint expert analysis (perhaps including representatives from other donor-funded programs in the sector) and other related tools will provide opportunities to answer monitoring questions 1- 4 (the mix and selection will need to be negotiated by the MST with each partner during the inception workshops and annual planning process)

- At the *activity level*, a wide variety of tools will be selected to suit the nature of the activity and the kind of information required. As each activity will be designed using a simplified project approach (a single objective and a clear and small number of outputs, with indicators which include elements of quality, quantity and time), it will be appropriate for them to include indicators as the basis for monitoring. For each activity, different indicators will be appropriate and different methods of gathering information required. For example, assessment of a new approach to graduate recruitment (where the indicator is "Ministry-wide graduate recruitment system, meeting MenPAN [Ministry of State Apparatus Reforms] guidelines, established by October 2009") could be undertaken using focus group discussions with new recruits, the DG's HR officials and MenPAN officials. In another example, say related to a study tour (where the indicator is "increased skills in method X among # officials from Y Section"), assessment could be undertaken through interviews by Advisers and senior staff of participants and their supervisors, three to six months after their return. As noted in Section 8.2, "the success of M&E systems depends on the way they are applied, and whether they can be used in a cost-effective and credible manner".

[8] Mayne, John 2001 "Addressing attribution through contribution analysis: using performance measures sensibly" in The Canadian Journal of Program Evaluation, vol 16, no. 1 pp1-24

Annex 8 Australia Indonesia Partnership for Economic Governance (AIPEG) Facility: Implementation Plan for First 6 Months

	Q1													Q2												
	May 2009			Jun 2009				Jul 2009					Aug 2009				Sep 2009					Oct 2009				Nov
Activity	wk1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26
1 Facility Establishment at Home Office																										
AusAID contract signed																										
Contracting of MST international staff																										
Logistics for MST team mobilisation including visa applications																										
Establishing management/financial systems																										
Start preparing AIPEG Operations Manual																										
Liaise with TAMF Managing Contractor																										
MST team pre-departure briefing																										
2 Facility Establishment in Jakarta																										
MST FD and DFD meet with AusAID Activity Manager																										
Meet with TAMF MST																										
Select, rent and equip office																										
Develop relationships with GOI agencies																										
Selection and contracting of MST locally engaged staff																										
Open Bank Account in Jakarta																										
Establish Trust Fund and governance arrangements																										
Appointment of Advisory Board and Executive Committee																										
Contracting and mobilising of FET to attend Inception Workshop																										
Selection and contracting of TSP																										
Liaison and handover by TAMF MST																										
Operations Manual - continue development																										
Prepare selection process for Sub-facility Advisers																										
Establish Management Information System																										
Handover of relevant TAMF assets, staff contracts, systems, records																										
3 Inception Meetings and Follow Up Actions																										
MST teambuilding workshop																										
First Advisory Board Meeting																										
Prepare Gender awareness session for all Inception Workshops																										
Preparations for Inception Workshop																										
AIPEG Inception Workshop																										
Prepare and distribute AB Meeting minutes																										
Prepare Inception Workshop Summary Record																										
Prepare Position Descriptions for each Sub-Facility Adviser																										
Recruit long-term international Sub-facility Advisers																										
Mobilise and brief Sub-facility Advisers including handover by Interim Advisers																										
Prepare Inception Report																										
4 Prepare Facility Review and Implementation Plan																										
Prepare for FRIP workshops																										
FRIP Preparation Workshop for DG Tax																										
FRIP Preparation Workshop for DG Debt Management																										
FRIP Preparation Workshop - BAPEPAM-LK																										
FRIP Preparation Workshop - Ministry of Trade																										
Prepare Summary Records of each workshop																										
Prepare lists of priority activities for each Sub-facility																										
Prepare AIPEG Gender Strategy																										
Prepare first FRIP for submission to AB																										
Design priority activities for first FRIP																										
Appoint Joint Appraisal Panel and prepare for JAP Meeting																										
5 Implementation of Interim Activities																										
MST and Interim Lead Advisers deliver activities planned under TAMF for interim																										
MST and AIPEG Sub-Facility Advisers deliver interim activities																										
Prepare report on interim activies for FRIP																										
Lebaran Holidays																				L						

Annex 9 Position Descriptions

Managing Contractor Personnel

Head Office:
- Corporate Representative
- Facility Accountant

Management Support Team (in Jakarta):
International[9]:
- Facility Director
- Deputy Facility Director
- Activity Design and Management Mentor

National:
- Gender Coordinator

i. Program Coordinator

- Database Coordinator
- Finance Officer
- Facility Administrator(s)
- Driver

Technical Support Pool
International:
- Human Resources (HR) Adviser
- Gender Adviser
- Capacity Development Adviser
- Organisational Development Adviser
- Economic Policy Adviser
- MIS Adviser

Facility Evaluation Team
International:
- Economic Governance/ Public Sector Reform Specialist
- Monitoring and Evaluation (M&E) Specialist

National:
- Indonesian Economic Policy Specialist (to be nominated by GOI)

Sub-Facility Advisers (Not to be nominated in Tender)

- Adviser, Sub Facility X

[9]"International" indicates that the design has costed these positions as international , and "national" indicates that they have been costed as locally sourced. Tenderers are to nominate individuals who best meet the Terms of Reference for each position regardless of nationality.

Australia Indonesia Partnership for Economic Governance
Position Description

Corporate Representative

Reports to: AusAID Activity Manager / own CEO

Location: Managing Contractor's head office or Jakarta.

Duration and Inputs: Part-time, long-term - 14 person months over 6 years (assumes 20% or 1 d per week on average) including visits to Jakarta every six months for approximately 7 days.

Key responsibilities/tasks:

- Key Managing Contractor interface with AusAID Activity Manager;
- Ensuring AIPEG complies with the AusAID head contract;
- Interface between the Managing Contractor and the AIPEG team;
- Provide leadership and quality assurance;
- Ultimate authority for financial management and accountability;
- Relationship management ensuring excellent interpersonal communications between facility personnel and AIPEG stakeholders.

Qualifications and Experience:

- Position of authority and leadership within the Managing Contractor entity;
- Proven ability to operate at a strategic level;
- Extensive practical experience in the management of contracts with AusAID or other aid donors;
- Demonstrated capacity to oversight quality assurance reporting;
- Excellent interpersonal and cross-cultural communication skills;
- Understands gender equality and the implications for Facility implementation, or prepared to attend gender awareness training;
- Program management experience in Indonesia or another South East Asian country highly regarded.

Australia Indonesia Partnership for Economic Governance
Position Description

Facility Accountant

Reports to: Corporate Representative

Duration and location: Part-time, long-term, Managing Contractor head office.

Key responsibilities/tasks:

- Lead financial management of the Facility including budget and cash-flow preparation and monthly reconciliations of expenditure;
- Prepare quarterly financial statements and invoicing to AusAID;
- Oversight establishment, operation and annual audit of the Facility Trust Account;
- Train and mentor the MST team in financial management and reporting.

Qualifications and Experience:

- Tertiary qualifications in commerce or finance and current member of a recognised professional accountancy body;
- Experienced in donor project financial management and accounting requirements;
- Experienced in liaising with geographically dispersed teams;
- Good working knowledge of AusAID requirements;
- Good working knowledge of Australian Commonwealth Government Procurement Guidelines.

Annex 9

Australia Indonesia Partnership for Economic Governance Position Description

Facility Director

Reports to: AusAID Activity Manager / Corporate Representative

Location: Management Support Team (MST) Office, Jakarta

Duration and inputs: Full-time, long-term for duration of AIPEG.

Key responsibilities/tasks:

- Key AIPEG Facility interface with AusAID Activity Manager;
- Strategic leadership of AIPEG Facility including oversight of planning, budgeting, implementation and monitoring of the Facility as a whole and its component activities;
- Leadership of AIPEG team including directing, coaching, mentoring and performance assessment;
- Relationship management with Facility stakeholders including the Advisory Board, GPF Core Group, GOI and GOA agencies, AusAID, Sub-facilities, the Technical Support Team, the Technical Review Group and the Managing Contractor to ensure that the Facility is based on relationships of trust and that it contributes to the bilateral partnership;
- Lead risk management, quality assurance and adherence to AIP Country Strategy's themes of partnerships, anti-corruption, gender equality and performance orientation;
- Lead inception workshops with GOI Ministries/Directorates General on shaping of Sub-facility strategic direction and work plans including development of Terms of Reference for each Sub-facility Adviser;
- Provide leadership in the preparation of briefing and recommendations for the Advisory Board on both exit strategies for established activities and commencement of new activities through either new Sub-facilities or drawdown of funds for Immediate and Emerging Issues;
- In conjunction with the Corporate Representative, ensure contractual obligations are met.

Qualifications and Experience:

- Proven ability to undertake high level strategic dialogue with government officials, preferably in a public sector reform context;
- Proven track record of leading international multi-disciplinary teams for large-scale programs;

- Excellent communication skills and high level motivational skills for engaging both team and GOI colleagues;

- Demonstrated effectiveness in cross-cultural workplaces;

- Excellent understanding of, and preferably experience in implementing, public sector reform;

- Familiarity with international donor systems and requirements;

- Higher degree in social sciences (eg. organisational development, capacity development, economic policy, international development);

- Understands gender equality and the implications for Facility implementation, or prepared to attend gender awareness training;

- Fluency in speaking, reading and writing in English;

- Fluency in speaking and reading in Bahasa Indonesia.

Australia Indonesia Partnership for Economic Governance
Position Description

Deputy Facility Director

Reports to: Facility Director

Location: Management Support Team (MST) Office, Jakarta

Duration and inputs: Full time, long-term.

Key responsibilities/tasks:

- Support the Facility Director and deputise in his/her absence;
- Lead operation of the MST including physical establishment and maintenance of the MST office, design of the facility management system and manual, recruitment of locally engaged staff, oversight of procurement and expenditure;
- Lead the design and implementation of an appropriate selection process for Sub-facility Advisers, in accordance with Commonwealth Procurement Guidelines, following Sub-facility inception workshops;
- Oversight the development and management of the Management Information System (MIS) to ensure it meets the data needs for both management and M&E;
- Engage with Sub-facility Advisers and support development of their work programs including quality assurance of activity designs and performance assessment of personnel;
- Engage with the Gender Coordinator and support development of their work program; in conjunction with the Gender Adviser, ensure that obligations in regards to gender integration are met;
- Coordinate development of cross-Facility activities interacting with Sub-facility Advisers and advisers from the Technical Support Team;
- In conjunction with the Facility Director, ensure contractual obligations are met.

Qualifications and Experience:

- Excellent communication skills and high level motivational skills for engaging both team and GOI colleagues;
- Demonstrated effectiveness in a leadership role in cross-cultural workplaces;
- Demonstrated experience in the design and management of international donor activities, preferably capacity development activities in an institutional context;

- Good understanding of program effectiveness and monitoring and evaluation (M&E);
- Good working knowledge of the Commonwealth Procurement Guidelines and AusAID's anti-corruption policies;
- Degree in social sciences (eg. organisational development, program management, international development, economic policy);
- Understands gender equality and the implications for Facility implementation, or prepared to attend gender awareness training;
- Good understanding of public sector economic reform, and preferably the Indonesian context;
- Fluency in speaking, reading and writing in English;
- Ability to speak Bahasa Indonesia preferred.

Australia Indonesia Partnership for Economic Governance
Position Description

Activity Design and Management Mentor

Reports to: Facility Director

Location: Management Support Team (MST) Office, Jakarta

Duration and inputs: Full time, two years.

Key responsibilities/tasks:

- Support transition of quality assurance of activity design and management processes to GoI sub-Facility partner agencies;
- Conduct training workshops for Sub-facility staff including international AIPEG advisers in effective project design, implementation, monitoring and evaluation;
- Coach and mentor Indonesian officials in targetted partner agencies in designing activities to be proposed through the FRIPs for Facility funding;
- Coach and mentor Indonesian officials in targetted partner agencies in activity implementation including procurement processes, contracting, monitoring and reporting;
- Support the Deputy Facility Director to coordinate development of cross-Facility activities interacting with Sub-facility Advisers and advisers from the Technical Support Team;
- Support the MST in designing and running quarterly AIPEG seminars.

Qualifications and Experience:

- Excellent communication skills and high level motivational skills for engaging with both team and GOI colleagues;
- Demonstrated effectiveness in a capacity development role in cross-cultural workplaces;
- Demonstrated experience in the design and management of international donor activities;
- Excellent understanding of program effectiveness and monitoring and evaluation (M&E);
- Good working knowledge of the Commonwealth Procurement Guidelines and AusAID's anti-corruption policies;
- Degree in social sciences (eg. program management, international development);

- Understands gender equality and the implications for Facility implementation, or prepared to attend gender awareness training;
- Understanding of public sector economic reform desirable;
- Fluency in speaking, reading and writing in English;
- Ability to speak Bahasa Indonesia preferred.

Australia Indonesia Partnership for Economic Governance
Position Description

Gender Coordinator

Reports to: Deputy Facility Director / works closely with the Gender Adviser

Location: Management Support Team, Jakarta

Duration and inputs: Full-time, long-term for duration of AIPEG

Key responsibilities/tasks:

- Establish a network of relevant contacts in gender empowerment in the AIPEG Sub-facility agencies and the Ministry of Women's Empowerment;

- Support the Gender Adviser to design a Gender Strategy for the AIPEG Facility to promote gender integration in work plans and activities in accordance with both GOI policies and AusAID's Gender Equality Policy[10];

- Support the Gender Adviser to write guidelines on implementation of the Gender Strategy for inclusion in the operations manual and briefing of Facility personnel;

- Conduct training in gender awareness to AIPEG stakeholders;

- Support Advisers and GoI staff of sub-facilities in integrating gender into activity designs;

- Along with the Gender Adviser, support the Facility Evaluation Team to audit progress in gender integration across the Sub-facilities, and prepare an annual report on implementation of the Gender Strategy for the Advisory Board as part of the FRIP process;

- Promote gender equality in AIPEG Sub-facilities and the Management Support Team, including through provision of information on successful practical examples within AIPEG;

- Support the Facility Evaluation Team in integrating gender into evaluative research of AIPEG processes and outcomes;

Qualifications and Experience:

- Recruited locally and fluent in both Bahasa Indonesia and English;

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[10] Indonesian *Presidential Instruction (9/2000)* on mainstreaming gender into all development initiatives, and AusAID's gender policy *Gender in Australia's Aid Program – why and how.* This will be on a "best endeavours" basis developed in consultation with key stakeholders.

- Degree in social sciences (eg. Gender studies, human resource management, capacity development, international development),
- Experience in gender analysis and its application to international development projects in Indonesia;
- Knowledge of AusAID’s Gender Equality Policy;
- High level computer skills in word processing and PowerPoint applications;
- Excellent communication skills including experience working cross-culturally;
- Ability to work under pressure and meet deadlines;
- Ability to work effectively as a member of a multi-disciplinary team.
- A knowledge of the Indonesian civil service and/or the broad gender implications of economic policy in Indonesia would be desirable.

Australia Indonesia Partnership for Economic Governance
Position Description

Program Coordinator

Reports to: Deputy Facility Director / works closely with the Activity Design and Management Mentor

Location: Management Support Team, Jakarta

Duration and inputs: Full-time, long-term for duration of AIPEG

Key responsibilities/tasks:

[to be developed]

Qualifications and Experience:

- Recruited locally and fluent in both Bahasa Indonesia and English;
- Understands gender equality and the implications for Facility implementation, or prepared to attend gender awareness training;
- High level computer skills in word processing, Excel spreadsheet and Powerpoint applications;
- Excellent communication skills including experience working cross-culturally;

Australia Indonesia Partnership – Economic Governance
Position Description

Database Coordinator

Reports to: Deputy Facility Director

Location: Management Support Team, Jakarta

Duration and inputs: Full-time, long-term for duration of AIPEG

Key responsibilities/tasks:

[to be developed]

Qualifications and Experience:

- Recruited locally and fluent in both Bahasa Indonesia and English;
- Understands gender equality and the implications for Facility implementation, or prepared to attend gender awareness training;

Australia Indonesia Partnership for Economic Governance
Position Description

Facility Administrator

Reports to: Deputy Facility Director

Location: Management Support Team (MST) Office, Jakarta

Duration and inputs: Full-time, long-term for duration of AIPEG

Key responsibilities/tasks:

- Support the Deputy Facility Director in establishment of the office, procurement and commissioning of office furniture and equipment;
- Establish and maintain electronic and paper filing systems;
- Organise supply of office consumables;
- Maintain registers of staff movements;
- Coordinate travel bookings for MST, Evaluation Team and Technical Support Pool personnel;
- Organise logistics for visiting Managing Contractor personnel and short-term advisers;
- Organise the driver's daily schedule and check the driver's log. book
- Other duties as required.

Qualifications and Experience:

- Recruited locally and fluent in both Bahasa Indonesia and English;
- Relevant tertiary qualification;
- High level computer skills in word processing, Excel spreadsheet and Powerpoint applications;
- Excellent communication skills including experience working cross-culturally;
- Understands gender equality and the implications for Facility implementation, or prepared to attend gender awareness training;
- Ability to work under pressure and meet deadlines;
- Experience supporting international donor projects highly regarded;
- Understands Commonwealth Procurement Guidelines, or prepared to attend training on CPG.

Australia Indonesia Partnership for Economic Governance
Position Description

Finance Officer

Reports to: Deputy Facility Director / work closely with the Facility Accountant

Location: Management Support Team (MST) Office, Jakarta

Duration and inputs: Full-time, long-term for duration of AIPEG n

Key responsibilities/tasks:

- Establish accounts with utility and ICT service providers;
- Establish financial systems and standard forms;
- Prepare accounts and report monthly to Managing Contractor head office;
- Reconcile the Facility bank account monthly, organise cash withdrawals, manage the petty cash float and do banking for the office;
- Pay accounts and maintain audit trail including all receipts and vouchers;
- Organise the payroll for local staff;
- Coordinate staff medical cover, *jamsostek* and tax payments;
- Establish and maintain the Assets Register;
- Organise vehicle insurance and oversee maintenance;
- Organise other relevant insurance.

Qualifications and Experience:

- Recruited locally and fluent in both Bahasa Indonesia and English;
- Relevant tertiary qualifications in accounting or finance;
- Demonstrated skills and experience in an accounting or finance role in a multi-disciplinary team;
- High level skills in Excel and relevant accounting packages;
- Experience supporting international donor projects highly regarded;
- Understands Commonwealth Procurement Guidelines, or prepared to attend training on CPG.

Australia Indonesia Partnership for Economic Governance
Position Description

Technical Support Pool[11]
Gender Adviser(s)

Reports to: Facility Director

Location: Based at home office, short-term inputs in Jakarta or from home office as appropriate.

Duration and inputs: Short-term inputs as per Tasking Notes (in accordance with MST and Sub-facility work plans), including one month during the establishment phase.

Key responsibilities/tasks:

- Design a Gender Strategy for the AIPEG Facility to promote gender integration in work plans and activities in accordance with both GOI policies and AusAID's Gender Equality Policy[12];
- Write guidelines on implementation of the Gender Strategy for inclusion in the operations manual and briefing of Facility personnel;
- Mentor the Gender Coordinator who will provide an ongoing presence and practical support to the implementation of the Gender Strategy;
- Conduct training in gender awareness to AIPEG stakeholders;
- Support Advisers and GoI staff of sub-facilities in integrating gender into activity designs;
- Support the Facility Evaluation Team to audit progress in gender integration across the Sub-facilities, and prepare an annual report on implementation of the Gender Strategy for the Advisory Board as part of the FRIP process;
- Provide ongoing specialist advice on Gender Equality to AIPEG Sub-facilities and the Management Support Team, including through provision of information on successful practical examples within AIPEG;
- Provide specialist inputs on Gender Equality as per specific Terms of Reference (to be developed by the relevant Sub-facility or the MST).

[11] The Technical Support Pool will include pre-qualified advisers with agreed fee rates who provide services to AIPEG on a regular basis thereby building up relationships with key AIPEG stakeholders.
[12] Indonesian *Presidential Instruction (9/2000)* on mainstreaming gender into all development initiatives, and AusAID's gender policy *Gender in Australia's Aid Program – why and how*. This will be on a "best endeavours" basis developed in consultation with key stakeholders.

- Support the Facility Evaluation Team in integrating gender into evaluative research of AIPEG processes and outcomes;

Qualifications and Experience:

- Higher degree in social sciences (eg. Gender studies, human resource management, organisational development, capacity development, international development, economics),

- Specific qualifications and expertise in gender analysis, and preparation of program gender strategies relating to both gender integration in the workplace and downstream program impact;

- Demonstrated effectiveness in an advisory role in cross-cultural workplaces;

- Excellent communication skills and high level motivational skills for engaging with relevant AIPEG stakeholders;

- Team player and ability to coach and mentor staff;

- Knowledge of AusAID's Gender Equality Policy;

- Experience in Indonesia or another South East Asian country highly regarded.

Specific[13]:

- *(to be developed by the relevant Sub-facility and quality controlled by Deputy Facility Director)*
- *(or to be developed by the MST if the input is to support facility-wide activities or direct support to the MST)*

[13] Tasking Notes for inputs to Sub-facility or MST activities may specify additional requirements specific to the particular assignment. For the Gender Adviser(s) there may be a requirement for an Adviser to have a background in Economics if involved in a particularly technical activity (eg looking at downstream economic impacts on men and women of a complex economic policy decision). Alternatively, for generic public service reform type assignments it may be necessary for the Gender Adviser also to have a background in HR management. There will need to be flexibility, and conceivably more than one Gender Adviser in the TSP.

Australia Indonesia Partnership for Economic Governance
Position Description

Technical Support Pool
Management Information System (MIS) Adviser

Reports to: Deputy Facility Director
Location: Based at home office, short-term inputs in Jakarta or from home office as appropriate.
Duration and inputs: Short-term inputs as per Tasking Notes (in accordance with Sub-facility work plans) including a one-month input during Facility establishment phase.

Key responsibilities/tasks:

- In consultation with the Facility Director and Deputy Facility Director, design and establish the MIS for the AIPEG Facility to be located within the Management Support Team Office. This MIS will, at a minimum, include a database of all Sub-facility funded activities, personnel, milestones, Advisory Board and Facility Coordinating Committee Meetings.

- Provide ongoing specialist advice on Management Information Systems matters to AIPEG Sub-facilities and the Management Support Team;

- Provide specialist inputs on other Management Information Systems matters as per specific Terms of Reference (to be developed by the relevant Sub-facility, or by the MST if specifically supporting the MST).

Qualifications and Experience:
Generic:

- Relevant tertiary qualifications in management and information technology;

- Proven experience in creating Management Information Systems for international projects;

- Demonstrated effectiveness in an advisory role in cross-cultural workplaces;

- Excellent communication skills and high level motivational skills for engaging with relevant AIPEG stakeholders;

- Understands gender equality and the implications for Facility implementation, or prepared to attend gender awareness training;

- Experience in Indonesia or another South East Asian country highly regarded.

Specific: *(to be developed by the relevant Sub-facility and quality controlled by Deputy Facility Director or to be developed by the MST if the input is to support facility-wide activities or direct support to the MST)*

Australia Indonesia Partnership for Economic Governance
Position Description

Technical Support Pool[14]
Human Resources Adviser

Reports to: Deputy Facility Director

Location: Based at home office, short-term inputs in Jakarta or from home office as appropriate.

Duration and inputs: Short-term inputs as per Tasking Notes (in accordance with Sub-facility work plans).

Key responsibilities/tasks:

- Provide ongoing specialist advice on Human Resources matters to AIPEG Sub-facilities and the Management Support Team;
- Provide specialist inputs on Human Resources matters as per specific Terms of Reference (to be developed by the relevant Sub-facility, or by the MST if specifically supporting the MST).

Qualifications and Experience:

Generic:

- Higher degree in social sciences (eg. Human resource management, organisational development, capacity development),
- Demonstrated effectiveness in an advisory role in cross-cultural workplaces;
- Excellent communication skills and high level motivational skills for engaging with relevant AIPEG stakeholders;
- Understands gender equality and the implications for Facility implementation, or prepared to attend gender awareness training;
- Experience in Indonesia or another South East Asian country highly regarded.

Specific:

[14] The Technical Support Team will include pre-qualified advisers with agreed fee rates who provide services to AIPEG on a regular basis thereby building up relationships with key AIPEG stakeholders.

- *(to be developed by the relevant Sub-facility and quality controlled by Deputy Facility Director or to be developed by the MST if the input is to support facility-wide activities or direct support to the MST)*

Australia Indonesia Partnership for Economic Governance
Position Description

Technical Support Pool
Capacity Development Adviser

Reports to: Deputy Facility Director

Location: Based at home office, short-term inputs in Jakarta or from home office as appropriate.

Duration and inputs: Short-term inputs as per Tasking Notes (in accordance with Sub-facility work plans).

Key responsibilities/tasks:

- Provide ongoing specialist advice on Capacity Development matters to AIPEG Sub-facilities and the Management Support Team;

- Provide specialist inputs on Capacity Development matters as per specific Terms of Reference (to be developed by the relevant Sub-facility or by the MST if specifically supporting the MST).

Qualifications and Experience:

Generic:

- Higher degree in social sciences (eg. education and training, capacity development, organisational development),

- Demonstrated effectiveness in an advisory role in cross-cultural workplaces;

- Excellent communication skills and high level motivational skills for engaging with relevant AIPEG stakeholders;

- Understands gender equality and the implications for Facility implementation, or prepared to attend gender awareness training;

- Experience in Indonesia or another South East Asian country highly regarded.

Specific:

- *(to be developed by the relevant Sub-facility and quality controlled by Deputy Facility Director)*
- *(or to be developed by the MST if the input is to support facility-wide activities or direct support to the MST*

Annex 10 Risk Matrix

Risk event	Impact on Facility	L	C	R	Risk Treatment	Responsibility
Risks in the Facility Design and Management						
Level of interest among Indonesian agencies in generic cross Facility areas (eg gender, HR) is low	Inefficient utilisation of resources; opportunity for public sector reform lost	3	3	M	Design pilot activities and promote them to GoI agencies while waiting for demand to pick up (i.e. may need to be supply driven to start with)	MST/Advisers
Resistance by GoI agencies under TAMF to developing exit strategies/ being graduated from AIPEG	Limitation on expansion to new areas of need.	3	3	M	Engage Advisory Board. Manage relationships well with GoI agencies.	AusAID/MST/Advisory Board
Lack of interest in broader institutional development focus of new Facility	Lack of proposals for funding	2	3	M	Facilitated inception workshops between MST and each GoI agency to explain/promote broader approach; building relationships with leaders in GoI agencies interested in institutional reform, including HR and other aspects; engagement with other donor activities in this area of work.	MST, AusAID Economic Adviser
GoI's gender empowerment strategies in each agency not effective	Focal point for gender support not ready/able to benefit from AIPEG	4	3	M	Gender Adviser to thoroughly research GoI's gender integration strategy and support its unrolling in each Sub-facility/agency; Lead Advisers' Terms of Reference include gender integration support and their mobilisation briefing to include gender awareness training.	Gender Adviser, Advisers
Insufficient GoI "champions" for reform with whom AIPEG can work	Lack of proposals for funding	2	3	M	AusAID to expect slow take up of additional funding in first year and challenges with finding appropriate partners in new sub-facilities; MC to work with AusAID and AB to ensure adequate risk analysis of each activity with new partner.	AusAID, AB and MC
Advisory Board loses	Strategic focus & ability	3	4	H	Care taken in briefing and supporting members to the	AusAID, CMEA, MST

Risk event	**Impact on Facility**	**L**	**C**	**R**	**Risk Treatment**	**Responsibility**
capacity to provide strategic direction through resignation or unavailability at meetings of key members	to prioritise activities undermined; opportunities for informal interaction with GoI leaders lost				Board, setting meeting dates well in advance; prompt but thorough process to replace a Board member who resigns.	
AusAID annual Budget is insufficient to meet demand	Facility unable to implement all planned activities or respond to new priorities	3	2	M	Align AIPEG planning cycles with Australian budget timeframe Allow contingency in Annual Budget for high priority unforeseen, ad-hoc requests that fit within Facility parameters	MST/AusAID
AusAID annual Budget exceeds absorptive capacity of GoI agencies	Facility is unable to expend allocations	3	2	M	Long lead times for the development of new proposals; early planning for research into new Sub-facilities and negotiations with potential partners;	MST/AusAID
Activities not consistent with Facility objectives	Time spent on unsuitable activities	2	4	M	Ensure partner agencies and Lead Advisers are adequately briefed about Facility parameters prior to development of annual FRIP	Advisers/ MST
Facility design becomes out-dated or seen as too prescriptive.	Facility lacks resonance with reality and not meetings needs; impact lessened.	3	3	M	Proactive management by MST through the FRIP process used to recommend changes to the AB and EC. Agreed changes can be made leading to amendment of AusAID/MC contract.. Given that the time horizon is 6 years, the Mid Term Review will provide an opportunity to recommend updates to the design if required for the last 3 years.	MST, AusAID, MTR team, Advisory Board, Facility Coordination Committee
Transition from TAMFIII to AIPEG problematic	Goodwill in counterpart agencies lost; Staff become unavailable; momentum lost.	2	2	L	Transition Strategy developed by the Design Team to try to overcome transition problems and be as painless as possible for the counterpart agencies. Complexity will depend on whether there is a new MC and new Lead Advisers or whether there is continuity. Funding of overlapping hand-over period designed to allow for	Managing Contractor, MST, AusAID, Advisory Board.

Risk event	Impact on Facility	L	C	R	Risk Treatment	Responsibility
					"seamless" transition, even at the cost of some doubling up of personnel.	
Staff turnover (in AusAID, MST, Lead Adviser cohort) causes discontinuity in roles and activities	Delay and unmet expectations.	4	2	M	In a 6-year program there will be staff changes. Both AusAID and the MST will need to manage change in a positive way (e.g through requiring departing personnel to prepare handover notes and participate in specific handover discussions with successors; undertaking quality recruitment processes to select high calibre personnel; and by providing good briefing/orientation for new staff)	AusAID, MST, Advisers.
In being responsive to demand, Sub-facility activities are too disparate to form a coherent impact across AIPEG	Impact of AIPEG is dissipated	2	2	L	Advisers and MST should work closely with GOI agencies during the 6-monthly and annual planning process to identify opportunities to build linkages and coherence between activities	Advisers and MST
Poor relationships between key stakeholders	Poor quality management processes and decision-making leading to sub-optimal achievements	2	4	M	Focus in recruitment of AIPEG advisers should be on personal qualities as well as technical skills and experience. .All parties will need to prioritise the achievement of effective professional relationships. If relationships fundamentally awry, assistance may be sought from skilled mediators and AusAID.	All parties
GoI agencies do not feel "ownership" of the activities or accept advice provided through AIPEG	Capacity development activities undermined and project impact lessened.	2	4	M	Demand driven approach should mitigate against GoI lacking interest in activities or their outcome. Focus on creating and maintaining effective inter-personal relationships at every level essential.	All stakeholders.
Association with GPF gives perception that AIPEG reflects donor's agenda	GoI avoids engagement and proposals not received	1	2	L	AB leadership, AusAID communication and MC interaction at agency levels will all focus on AIPEG's focus on responding to GoI priorities	All stakeholders

Risks in Operating Environment						
Downturn in the broader GoI/GoA relationship impacts on effectiveness of advisers embedded in GoI.	Undermines the credibility of Australian advisers from GoI viewpoint and therefore the effectiveness of capacity development.	1	4	L	In worst case scenario the Australian Advisers would be removed from Indonesia and the MST reduced to a skeleton staff until a more conducive operating environment returned.	AusAID, MST
Downturn in security as a result of an extreme terrorist event.	Temporary cessation.	1	5	M	MST to prepare a thorough Security Plan and keep it updated. All personnel to receive a security briefing and international advisers to be supplied with mobile phones loaded with key numbers relevant in an emergency. In worst case scenario the Australian advisers would be removed from Indonesia and the MST reduced to a skeleton staff until a more conducive operating environment returned.	AusAID, MST.
Changed GoI or GoA priorities in economic reform and economic governance	Need to review and restate priorities	3	2	M	Six monthly AB,/Core Group/EC meetings provide opportunity to speak frankly and share information about current and upcoming priorities; rolling FRIPs give opportunity to reframe activities though duration of long-term adviser contracts imposes some rigidity on sectoral focus.	AusAID, Advisory Board, Jakarta Core Group, Executive Committee (EC)
Outcome of 2009 Indonesia election protracted and members of new Cabinet not known for some time.	Uncertainty in forward planning particularly for the two new sub-facilities and identification of Immediate and Emerging needs.	3	3	M	Continuity in the four ongoing sub-facilities and new cross-Facility generic areas should provide sufficient focus of the facility. Planning and implementing of the new activities will be postponed but not abandoned.	AusAID, CMEA, BAPPENAS Advisory Board, EC

Other donors do not prioritise coordination with AIPEG / sector experiences “donor crowding”	Synergies between donor programs not maximised; potential for duplication of effort.	2	2	L	AusAID uses its significant standing in Indonesia as bilateral donor to influence other donors; Lead Advisers to be tasked with understanding other donor activities in their portfolio (eg World Bank’s PINTAR in DG Tax) and to keep the MST informed; need for AusAID and MST to exchange information on relevant donor activities.	AusAID, MST and Advisers
Indonesia experiences a major financial or currency crisis and economic downturn	Services of Advisers more highly valued and prioritisation shifts to financial and economic technical and/or policy advice.	2	2	L	Consideration be given to increasing economic and financial advice and reducing generic advice (eg in HR) if financial crisis eventuated. FRIP and exception reporting provides opportunity for realignment of inputs.	AusAID, Advisory Board, EC, MST, Advisers
Flow of activities is “lumpy”, resulting in uneven use of resources	Pace of capacity development slowed due to lack of staff or funds at busy times; staff under-used at quiet times.	3	3	2	Monitoring of activities and thorough forward planning should mitigate this risk.	MST, Advisers
Technical Support Group’s recommendations lead to shift in priorities	Changed work plan or practices following liaison with stakeholders	3	3	2	Recommendations tested by Advisory Board and AusAID.	TSG, AB, AusAID, MST,
Adversarial relationship develops between TSG and other parties	Destructive relationships. Leadership and focus of Facility affected.	2	3	L	Appointment and contracting of the TSG by the Managing Contractor is designed to reduce this risk; all parties to be adequately briefed on respective roles and responsibilities.	Managing Contractor, TSG, MST, Advisers

Key to codes L = Likelihood (5 = almost certain, 4 = likely, 3 = possible, 2 = unlikely, 1 = rare)

C = Consequences (5 = severe, 4 = major, 3 = moderate, 2 = minor, 1 = negligible)
R = Risk Level (4 = extreme, 3 = high, 2 = medium, 1 = low)

Annex 11 Persons consulted during design process

Name	Position	Organisation
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Djunaedi Hadisumarto	Advisor	National Development Planning Agency, Republic of Indonesia
Jannes Hutagalung	Special Staff for Economic Policy Monitoring	Coordinating Ministry of Economic Affairs
Felia Salim	Deputy Director	Bank Negara Indonesia
Blair Excell	Minister Counsellor	AusAID
Sue Connell	Counsellor (Governance and Policy Coordination)	AusAID
Stephen Schwartz	Senior Resident Representative	IMF, Jakarta
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Bernie Carmody	Team Leader, TAMF	Deacons
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Nathan Dal Bon	GPF Deployee	Tresury
Mark Kilner	GPF Deployee	Australian Public Service Commission
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Muchtar	Director General for TREDA	Ministry of Trade
Jennifer Lewis	Assistant Director, Fund Management	ASIC
Cheryl Cutmore	Manager, International Policy	ASIC
Vincent Ashcroft	Senior Representative, South East Asia Minister – Counsellor (Financial)	Treasury
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Rahayubudi	Director for Personnel and Organisation	Ministry of Trade
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Dr. Sri Mulyani Indrawati	Minister	Ministry of Finance and A/c for Coordinating Ministry for Economic Affair
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Margaret Makeham-Kirchner	Director for Pacific Support Branch	Finance
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Penny Ngui	Director International	APSC
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Charles Litrell	International Relations	APRA (Teleconference)
Chris Gaskell	International Relations	APRA (Teleconference)
Ben Power	Director	AusAID Economic Thematic Group
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Kate Nethercott	Director	AusAID Gender Thematic Group
Philippa Venning	A/c Director	Indonesia Policy and Analysis Unit - AusAID
Katie Smith	Officer	Indonesia Policy and Analysis Unit - AusAID
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Annex 12 Increasing use of GoI systems

The Governments of Australia and Indonesia are committed to principles included in the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008).

The Accra Agenda for Action identifies "three major challenges to accelerate progress on aid effectiveness:

- Country ownership is key.
- Building more effective and inclusive partnerships.
- Achieving development results—and openly accounting for them—must be at the heart of all we do.

Under the first challenge, the Agenda for Action includes the following commitment:

> ***"Developing countries will strengthen their capacity to lead and manage development***
> 14. Without robust capacity—strong institutions, systems, and local expertise—developing countries cannot fully own and manage their development processes. We agreed in the Paris Declaration that capacity development is the responsibility of developing countries, with donors playing a supportive role, and that technical co-operation is one means among others to develop capacity. Together, developing countries and donors will take the following actions to strengthen capacity development:
>
> > a) Developing countries will systematically identify areas where there is a need to strengthen the capacity to perform and deliver services at all levels—national, sub-national, sectoral, and thematic—and design strategies to address them. Donors will strengthen their own capacity and skills to be more responsive to developing countries' needs.
> >
> > b) Donors' support for capacity development will be demand-driven and designed to support country ownership. To this end, developing countries and donors will i) jointly select and manage technical co-operation, and ii) promote the provision of technical co-operation by local and regional resources, including through South-South co-operation.
> >
> > c) Developing countries and donors will work together at all levels to promote operational changes that make capacity development support more effective".

AIPEG Facility response

The following is a summary of steps to be taken with AIPEG management to reflect the global shift in aid management approaches, and the commitment by the Governments of Australia and Indonesia to work towards increasing use of GoI systems in aid management. These steps will be subject to recommendations by the AB and willingness by GoI to commit the changes envisaged.

- Overall strategic advice for the AIPEG Facility will be provided by an Advisory Board comprising senior and highly experienced GoI and other Indonesian experts in economic governance and public sector management, as well as senior GoA representatives

- Ongoing monitoring by the AB and the MST of GoI readiness and interest in increasing use of GoI systems
- Shift, commencing in Year Two, within those GoI agencies which are interested, to use of internal Committees for approval of activities to be funded by AIPEG Facility
- Shift, commencing in Year Two, from joint (AIPEG Facility and GoI) recruitment processes for Advisers, to GoI led recruitment processes (supported by AIPEG MST) and over the life of AIPEG Facility to GoI implemented recruitment processes
- Shift, commencing in Year Three, from AIPEG Facility managed procurement processes (e.g. for travel, training, equipment etc.) to use of GoI systems as GoI systems are strengthened
- Shift, at a time deemed appropriate within the AIP, to use of GoI monitoring systems for AIPEG-funded activities
- At the end of each two year period, a specific review by the FET will identify ways to promote and support a shift to the use of Indonesian systems in AIPEG Facility management.
- Application of lessons learned from other Australian and other donor experiences with the shift to use of GoI systems in aid management, subject to discussions with GoI partners in the AIPEG Facility (including "roadmap" – see below)

AusAID "roadmap"

At the time of the design of the AIPEG Facility, AusAID is developing a roadmap to increased use of Government systems in Indonesia. The outcomes of this process will inform AusAID's perspective on the scope and pace of the alignment of the AIPEG facility with these systems. A significant element affecting the extent to which changes will occur, will be negotiations with individual GoI partner agencies.

The scope of the project is to analyse four aspects of Indonesian Government systems and processes and consider options for the Australia Indonesia Partnership's engagement with each over the next five years. This needs to be considered in the light of a decentralised Indonesia with special consideration given to the application of these systems/processes in the health and education sectors, both at the national and local level.

The 4 focus areas and some of the specific issues for consideration are:

1. disbursement and funds flow: Regulations with respect to disbursement of development assistance and funds flow mechanisms to both the central and local levels of government;
2. audit: the potential role of the internal and external audit institutions to audit foreign development assistance and the reporting and follow up of the findings;
3. public procurement; and
4. monitoring & evaluation; the potential of joint performance and evaluation systems in light of Australia's requirements and the recent move towards stronger performance assessment in the aid program.

Other developments in the Australian aid program which relate to the use of GoI systems include:

- work currently underway to develop a mechanism for inclusion of Australia's aid funds as a line item in the Indonesian budget and registration of projects through the 'blue book/green book' process
- proposed AusAID support for BAPPENAS to support the newly established monitoring and evaluation unit, the establishment of a joint performance framework and the establishment of a donor coordination unit
- previous assistance in the second quarter of 2007 to assist development of a new approach to monitoring the Indonesian Government's National Action Plan for Corruption Eradication
  AusAID's Indonesia Strengthening Public Procurement (ISP3) activity which commenced in January 2008 and will work at the central level with BAPPENAS and once it is established, the new National Public Procurement Office
- discussions with the other development agencies, including the World Bank, on a harmonised agenda for the move towards use of government systems and the opportunities for joint analysis and coordination on systems strengthening.

Annex 13 Selection criteria for AIPEG activities

Eligible applicants

From Year One, the AIPEG Facility will continue to work within four Sub-facilities, within the Ministry of Trade and selected Directorates General of the Ministry of Finance. Within the Ministry of Finance, the AIPEG Facility will concentrate in the following areas:

- Bapepam LK – financial stability
- Directorate General Tax
- Directorate General Debt Management

    - As proposals are developed, evidence of senior commitment to implementation will be sought by the MST

In Year Two, following research and negotiations, additional eligible Ministries will be added to this list.

Eligible activities

Activities proposed for AIPEG Facility funding support will:

(a) directly support, and have a clearly articulated relevance to agreed objectives of the Facility, which may vary from year to year

(b) support the policy objectives of the respective GoI agency

(c) have a well-defined and measurable development purpose level objective (a statement about the expected change at the end of the activity) which will include some form of capacity development

(d) have a number of well-defined and practical output level objectives (statements about what the activity will actually deliver within the life of the activity)

(e) be deemed by the MST [or specialist appraisers if used] to be feasible in terms of the likelihood that they will deliver effective development outcomes based on quality processes and management

(f) consider roles of women and men in decision-making and the differential impact of activities on men and women

(g) reflect the Facility's progressive engagement approach where support will be provided on the basis of developing relationships and deeper understanding of local contexts, most feasible approaches, most effective partnerships and other environmental and development factors

(h) be assessed as being highly likely to deliver sustainable benefits based on explicit reference to design and environmental factors contributing to sustainability

(i) have a set of performance indicators against each output and the overall objective which will provide valid and reliable sources of information for monitoring

(j) present an analysis of risks to successful implementation and identify strategies to mitigate and manage risks as appropriate to the context

(k) clearly demonstrate how capacity within Indonesian economic governance agencies will be developed

(l) recognise and respond to the differential roles and responsibilities of men and women and describe the expected participation and benefits of men and women

Requests for activities will most likely fall into one of the categories below, the selection of which will depend on agency interests and capacity and decisions about the most appropriate method to achieve and sustain desired outcomes. Each partner agency, with support from Advisers and MST, will plan a mix of activities on a six-monthly or annual basis.

The following is a menu of types of activities which may be considered as appropriate, depending on assessment of the most appropriate methods to achieve the intended outcomes in the particular GoI agency context:

- provision of Advisers for short or long-term advisory, project management or coordination roles
- joint or independent research
- planning and scoping missions in new areas
- assessments of capacity within particular agencies as a basis for preparing capacity development plans
- development and support of professional working groups, networks, and other task-focused on-the-job learning methods
- support for strengthening internal professional development/staff learning systems and programs
- attendance at other short or long term formal or informal training programs
- train the trainer programs and follow-up mentoring
- establishment of communications protocols between various agencies
- study tours (these will be subject to particularly careful scrutiny to ensure they are the best capacity development approach in the circumstances)
- exchange programs, either domestic or international
- workshops, seminars and conferences
- scholarships (through linkage with other GoA scholarship schemes funded from outside the Facility budget)
- organisational twinning programs
- provision of infrastructure and equipment
- development of guidelines, manuals etc

Activities to be supported by the Facility are likely to be in the range of AUD20,000 to AUD500,000.

It is suggested that study tours only be supported on the basis of pre-agreed learning objectives and defined outcomes and where there is a strong commitment to integration of learning into practice in the medium to long term. Where other Australian programs might better suit the delivery of particular activities (such as scholarships), the Facility will liaise and negotiate with relevant AusAID staff and other providers to identify the most appropriate processes.

Collaboration and coordination with GPF Advisers should be encouraged in planning and design and implementation where GPF and Facility activities are sought in the same Ministry or Directorate General.

Quality assurance systems will be developed and applied by the MST in a collaborative partnership context with participating GoI agencies. Where there are existing GoI standards for activity implementation, this should be used. Importantly, implementing agencies will be responsible for day to day compliance with these systems, with MST seen as a supporter for partner agencies to learn about and develop skills in quality project delivery, rather than the “police” in this context.