



Indonesia development cooperation report 2009

September 2010

This report summarises the bilateral aid program's progress in 2009 towards the outcomes identified in the Australia Indonesia Partnership Country Strategy 2008–13. Reports on the program's performance in previous years are available on the Australian Agency for International Development's (AusAID's) website.

Context

Indonesia made steady progress in reducing its poverty rates in 2009 and remained resilient despite the global economic crisis. However, development challenges remain as Indonesia moves towards full middle-income status.

Around 32.5 million Indonesians still live below the national poverty line¹, 42.6 per cent of the population (around 97 million people)² live on less than US\$2 a day and the incidence of poverty in Indonesia's provinces differ greatly. Indonesia lags behind other middle-income countries on performance against human development indicators. The main challenge Indonesia faces is how to use its resources effectively to realise development outcomes.

In 2009 Australia and Indonesia continued to work in partnership to achieve development outcomes as articulated in the Australia Indonesia Partnership Country Strategy 2008–13.³ Australian aid is closely aligned with the priorities of the Government of Indonesia, as outlined in Indonesia's Medium Term Development Plan⁴, and cuts across a wide range of sectors, reflecting the depth and breadth of the bilateral relationship.

While Indonesia remains the largest recipient of Australian development assistance (\$396.5 million in 2008–09), this assistance represents less than half a per cent of Indonesia's annual government expenditure. Australia is the largest grant donor to Indonesia and that support needs to be catalytic—it should leverage Indonesia's own resources and help Indonesia to use those resources more effectively.

The Government of Indonesia sees Australia as a long-term, flexible and responsive partner. That flexibility enabled Australia to respond to Indonesian priorities in 2009 by, for example,

¹ World Bank, *Indonesia rising: policy priorities for 2010 and beyond*, World Bank Office, Jakarta, January 2010.

² Indonesian National Development Planning Agency, *Summary report—achievement of Millennium Development Goals, Indonesia*, Indonesian National Development Planning Agency, Jakarta, 2009, July 2009, p. 7 (see 2008 poverty levels), and Indonesian Central Bureau of Statistics, *Statistical yearbook of Indonesia 2008*, Indonesian Central Bureau of Statistics, Jakarta, p. 70 (see population data for 2008).

³ Australia Indonesia Partnership, *Australia Indonesia Partnership Country Strategy 2008–13*, Australian Agency for International Development, Canberra, June 2008.

⁴ The plan covered the period 2004–09. Since then, a new Medium Term Development Plan covering the period 2010–14 has been released.

providing emergency assistance after the Padang and the Tasikmalaya earthquakes and assisting Indonesia to formulate policy responses to the economic crisis.

Table 1: Estimated bilateral expenditure in Indonesia in 2008–09

Sector	\$ million	% of bilateral program
Education	132.8	33.5
Scholarships	45.3	11.4
Health (incl. human immunodeficiency virus & emerging infectious diseases)	23.2	5.9
Water and sanitation	7.8	2.0
Transport and connectivity	63.7	16.1
Other infrastructure	6.7	1.7
Decentralisation	26.2	6.6
Poverty reduction	4.0	1.0
Economic governance	22.6	5.7
Other governance	12.4	3.1
Disaster risk management	9.9	2.5
Climate change	2.5	0.6
Rural livelihoods and agribusiness	16.4	4.1
Law and justice	7.9	2.0
Elections and parliament	6.3	1.6
Total	387.7	97.8

Note: Expenditure on overhead costs is not included in the table.

During 2009 the programs of the \$1 billion post-tsunami Australia Indonesia Partnership for Reconstruction and Development were completed, providing an opportunity to consider the future direction of support. In response to new priorities of the Government of Indonesia, Australia has developed, or is in the process of developing, a number of new programs.

Progress towards outcomes

Education

The Government of Indonesia is strongly committed to improving education, and Australian support has contributed to impressive improvements in access to basic education.

Australia is Indonesia's main development partner financing the construction of junior secondary schools. Between 2007 and 2009 the Government of Indonesia used Australian funds to complete the construction of 2014 schools in 241 districts, targeting areas with low enrolment rates. This equates to 41 per cent of all new junior secondary schools constructed by the Government of Indonesia between 2006 and 2009. The new schools provide more than 330 000 new student places and, at the beginning of the 2009–10 school year, 137 033 children were enrolled in the schools (49 per cent girls), half of these from the poorest of poor families.

The school-building program has also had a significant positive influence on national school construction and maintenance standards, but the Government of Indonesia needs to ensure that sufficient funds are available for ongoing maintenance.



Australia has been working on HIV/AIDS prevention, care, support and treatment programs in Indonesia for more than a decade. In 2009 this work led to an increase in the number of methadone treatment services to 29, with the number of kits containing clean injecting equipment that were distributed almost doubling to 300 000. HIV services to prisons in Java and Bali were expanded, reaching more than 80 000 prisoners in 2009, while more than 15 000 injecting drug users were reached through programs in hospitals, health centres and non-government organisations.

Australia is working with other development partners to support broader reforms to health systems in Indonesia. Australia has supported the production of financial accounts for health services at the district and national level, and provided training in how to analyse them. This has allowed the national government to identify which areas are underfunded. The national government has used this information to design a new program to support health centres. However, district governments in areas such as East Nusa Tenggara still need further support to use health accounts effectively to advocate for increased funding for maternal and neonatal health.

Water and sanitation

The Government of Indonesia significantly bolstered its commitment to water and sanitation services with a substantial funding increase in 2009 and the aim of doubling the number of people who have access to safe water and sanitation.

Australia is funding infrastructure in urban and rural areas in Indonesia to improve access to water and sanitation services and is working with communities, governments and service providers to improve behaviour (such as hand washing and other hygiene practices), policy, planning and implementation. The work with providers of water and sanitation services is having the clearest success, with local government spending on water connections and community facilities increasing significantly.

By piloting for the Government of Indonesia the use of an innovative performance grant known as 'hibah', Australia is helping to improve the management of agencies delivering urban water and sanitation services. The central government will enter into grant agreements with local governments, making payments after connections are confirmed. This will be a valuable mechanism for delivering the Government of Indonesia's ambitious programs to increase household water and sanitation connections. The experiences of the hibah program will benefit a number of other Australian and Indonesian programs, which may also consider adopting the mechanism.

Australia is also contributing to improved coordination across Indonesian agencies involved in delivering water and sanitation services.

Transport and connectivity

A key strength of Australia's involvement in Indonesia's transport sector is its flexibility to respond promptly to the priorities of the Government of Indonesia with high-quality technical advice and management expertise.

In 2009 Australia's work on projects to upgrade and rebuild strategic sections of the national road network remained behind schedule due to slow land acquisition by the Government of Indonesia and delays in its procurement processes. These issues are common to almost all



infrastructure projects in Indonesia and are being addressed, allowing work to start on 12 of 20 planned road and bridge projects. These projects were selected because they will provide high-quality road links between provinces and efficient transport options for people to access services and to get goods to markets. This in turn leads to economic and social gains through, for example, better access to hospitals, business opportunities, employment and education.

The design and procurement processes used for the roads have increased Indonesia's capabilities in these areas and there are early signs that the Government of Indonesia is increasing the supervision of the construction of these roads.

It is likely the Government of Indonesia will adopt part of the projects' approach, including improved contracting, design and ongoing management and maintenance of road assets. Such a move would contribute significantly to overcoming one of Indonesia's most serious development constraints—the lack of well-maintained road networks in many parts of the archipelago.

In 2009 Australia supported the Directorate General of Highways to adopt a medium-term expenditure framework, to identify its longer term spending needs. This will help the agency to prepare for future national budget allocations, which will be based on performance—the planning, budgeting and delivery of the national maintenance program for roads.

Decentralisation

There have been some improvements over the decade since Indonesia devolved significant amounts of political, administrative and financial authority to subnational parliaments and executive governments, including the delivery of services such as health and education. However, challenges remain in how to allocate resources and expenditure to improve the delivery of services to the poor.

Australia is helping the Government of Indonesia to unlock its abundant but inefficiently used resources to achieve better development outcomes in some of the poorest parts of Indonesia. With Australia's help Aceh, East Nusa Tenggara and West Nusa Tenggara have analysed their own government spending and identified gaps and weaknesses that are now being used to drive efforts to reform financial management. Such support will help local governments achieve sustainable improvements in service delivery, which is clearly linked to poverty reduction.

Australia has also established resource centres to encourage provincial and district governments to systematically use evidence from the field as a basis for their development policies and activities.

In addition, Australia has been helping communities to make their aspirations known to local parliaments so that they can be better reflected in budgets. However, this work has concentrated too heavily on involving communities in development planning at the expense of results in the form of better government performance. A new program has been developed to help local governments to better plan and budget for better service delivery, including working with local legislative bodies.



Poverty reduction

In response to new priorities of the Government of Indonesia, in 2009 Australia began to work with the government to manage its efforts to scale up its successful poverty reduction program, the National Community Empowerment Program, to achieve national coverage. Australia is also supporting the expansion of a pilot program that gives communities grants to improve health and education services, and has started to prepare for a micro-finance pilot in two provinces.

The Secretariat to the National Team for Poverty Reduction in the Vice President's office is now receiving Australian support. Its role is to provide analysis and advice to the National Team to improve Indonesia's poverty reduction programs.

Economic governance

In 2009 Australia continued to respond to requests from the Ministry of Finance and other central agencies for high-quality technical advice. Government-to-government discussions on economic reform are underpinned by strong personal relationships at all levels and enduring links between Australian and Indonesian institutions that recognise the need to work ever more closely on global issues of economic governance. As a consequence, all communication is frank, robust and increasingly broad in scope.

Australia is contributing to more efficient management of public finances through the Government Partnerships Fund, which among other things has enhanced the Indonesian Audit Board's financial and performance audit capacity. Internships for eight board staff for a full audit cycle in Canberra have proved to be particularly valuable.

With Australia's support to improve tax administration, Indonesia increased the number of taxpayers from 10.7 million in 2008 to 12.8 million in 2009. There has also been impressive medium-term growth in national tax collections.

Australia continued to help improve Indonesia's ability to develop and supervise financial institutions and capital markets. Australian assistance has refined the role of the Financial System Stability Committee in actively managing systemic risks. This helped to minimise damaging capital flight—the movement of savings and other financial assets out of Indonesia—during the global financial crisis.

Disaster risk management

Indonesia's heightened ability to respond to disasters was demonstrated during the September 2009 West Sumatra earthquake. Australia has become the lead donor in Indonesia for what is known as disaster risk reduction—reducing the vulnerability of communities to disasters and increasing their resilience to the impact of disasters. In 2009 the Australia–Indonesia Facility for Disaster Reduction was established and is a very practical illustration of Australia's commitment in this field.

When requested, Australia is able to respond quickly to disasters in Indonesia because of its ongoing relationships with key Indonesian government agencies, non-government organisations and faith-based organisations. Australia's response and recovery efforts after the West Sumatra earthquake included prompt humanitarian assistance and an engineering team



to assess why some buildings collapsed and others survived. This analysis will feed into rebuilding plans in Padang.

Indonesia is one of the most disaster-prone countries in the world, with millions of people living with a high risk of a natural disaster. Together Australian and Indonesian scientists have developed new information about the risks and impacts of earthquakes, volcanoes and other natural hazards to assist government disaster managers to make their communities safer.

Further, Australian work with local governments, civil society and faith-based and non-government organisations has improved their capacity to manage and minimise the community-based risks associated with disasters. Importantly, community knowledge of such risk has also improved as a result of this grass roots work.

Despite the successes, the unpredictability of disasters and the huge demand for resources and time in disaster response and reconstruction make this a challenging field of work. Australia and Indonesia need to work together to ensure that programs to prepare for and minimise the impact of disasters can continue uninterrupted despite the demands of disaster response. In 2008 Indonesia enhanced and renamed the National Coordinating Agency for Disaster Management as the National Agency for Disaster Management. Its mandate now extends beyond coordinating emergency relief efforts to encompass all phases of disaster prevention and preparedness and post-disaster recovery. This new organisation and dynamic environment has required Australia to be flexible and responsive.

Climate change

Indonesia is home to the third largest area of tropical forest in the world, but is also among the countries with the highest rates of deforestation, forest degradation and greenhouse gas emissions.

Indonesia and Australia are serious about working together to address climate change. A priority is to find cost-effective ways to tackle this challenge and reduce the degradation of forests. This approach is commonly known as reducing emissions from deforestation and forest degradation, REDD. Australia is helping Indonesia to implement a 120 000 hectare project in Central Kalimantan and to plan a second demonstration project in Jambi, which aims to demonstrate practical, effective and equitable ways to contribute to REDD.

Indonesia has demonstrated a genuine commitment to address climate change by, for example, showing international leadership on REDD and targeting a 26 per cent reduction in carbon emissions—a first for a large developing nation. But there is much work to do to achieve these political commitments. Also, issues such as ambiguity over the roles and responsibilities of national agencies need to be resolved to accelerate progress.

Australia and Indonesia have collaborated on the design for Indonesia's National Carbon Accounting System and its associated Forest Resource Information System. Australia will help Indonesia to develop this system to provide accurate and verifiable measurement of greenhouse gas emissions and storage.

Lessons learned from REDD demonstration activities have been jointly presented by Australia and Indonesia at various events of the United Nations Framework Convention on Climate Change. This has contributed to a growing understanding of the importance of forests in mitigating climate change, and the importance of Indonesia, as a major forested nation, in



addressing greenhouse gas emissions from this source. As a result, international consensus is emerging around the need to include REDD within a future global strategy on climate change.

At the request of Indonesia's Minister of Finance, Australia has helped to prepare a green paper on climate change. Policy advice contained in the green paper has already resulted in the Government of Indonesia allocating funding for low emission geothermal electricity generation and incentives for district governments to reduce their emissions. Further measures are being reviewed and are a reflection of the Government of Indonesia's focus on reducing the country's high greenhouse gas emissions.

The Government of Indonesia is also starting to turn its attention to how to adapt to climate change and is providing some limited support to address the issues involved, including at the city and provincial level.

A key challenge in addressing climate change is coordinating the large number of donors, and working through the range of domestic and international financing options. In the future, Australia will contribute to efforts to enhance coordination between donors and other stakeholders.

Rural livelihoods and agribusiness

In recognition of the importance of rural livelihoods to combating poverty, the Government of Indonesia has reinforced its commitment to revitalise the agricultural sector to increase local economic growth. But work is needed to further increase productivity and reduce bureaucratic hurdles, which affect agricultural businesses and poor farmers.

Australia's contribution to the sector has been to run pilot programs designed to upgrade farming practices, make it easier to do business, and improve the ability of government to conduct research and ensure results can benefit farmers.

The performance of Australia's program in agriculture has been mixed. The key Smallholder Agribusiness Development Initiative has made limited progress since its launch in 2006 because of problems with the way it was designed and monitored. However, it did provide an opportunity for large agricultural firms and governments to take risks and test new ideas. Other achievements included the following.

- > Seven hundred cattle farmers in more than 25 villages adopted new techniques that increased productivity by up to 50 per cent in 12 months.
- > By 2009 more than 7500 peanut farmers were implementing new farming practices, which raised their incomes by 20 per cent and cut their operating costs by 20 per cent.

In addition, the program cultivated entrepreneurship and leadership, especially among rural women, which led to sustainable increases in household incomes in a number of locations. In Selat Village in West Nusa Tenggara, a group of 20 women established a successful jackfruit chip enterprise, which supplemented their household incomes.

Lessons from the program are being taken into account in the design of new Australian support in this sector.



Law and justice

The Government of Indonesia has recognised law and justice reform as a national priority, particularly eradicating corruption in the judicial system and increasing the performance of key law enforcement agencies. Progress in implementing judicial reform and anti-corruption measures has been hampered by the lack of an overarching plan or strategy for reform across the sector, slow institutional reform and significant challenges in eradicating corruption.

Foreign assistance, including from Australia, makes up a relatively small portion of the government budget. Australia's support is designed to work as a catalyst for change in government policies, programs and priorities. In 2009 the judicial reform and anti-corruption work included:

- > assisting the Supreme Court to establish its first public information desk and further reduce case backlog, enabling an additional 6000 decisions to be posted online and improving the annual reporting of cases processed by the court
- > improving access to the Religious Courts for the poor and marginalised, through an access and equity study of family law matters in the General Courts (resulting in increased budget allocations to waiver court fees and hold circuit courts, which led to better data collection and improved policy and budget decisions targeting these services)
- > supporting the Corruption Eradication Commission by providing investigations training, which contributed to it upholding its impressive 100 per cent conviction rate
- > supporting a strong portfolio of legal aid and human rights activities by providing assistance to civil society organisations and national human rights commissions, including the National Commission on Violence Against Women.

Elections and parliament

Australia was the main development partner that provided funding support for Indonesia's elections in 2009. These elections were generally accepted as free and fair, with a high level of participation and clear winners at the national level. However, the Government of Indonesia recognised there are still areas to be improved, including voter registration.

Australia contributed to improved electoral procedures and administration, especially in the areas of procurement, public relations and human resources. This assistance helped the Indonesian Elections Commission to operate in accordance with its procurement guidelines and timelines, with a high level of integrity. Through the Australian Electoral Commission, Australia supported the development of election manuals and training to help ensure standardised procedures could be applied across the country.

Australia also supported greater transparency in the Indonesian Parliament by assisting both houses of parliament to produce the first five-year reports on their activities. The ability of new parliamentarians to undertake their duties was improved through the production of parliamentary handbooks and an induction session for new parliamentarians.



Gender

A key priority of the Australian aid program is to actively support women's full participation in economic, social and political life. That participation is important in reducing poverty, enhancing economic growth and democratic governance, and increasing the wellbeing of women, girls and their families.

Australia's various sectoral programs have been promoting gender equality in Indonesia. To maximise the impact of that assistance, AusAID is increasing its analytical work on gender issues in priority areas such as law and justice, democratic governance and health. This is an important first step in properly understanding the gender context in Indonesia, the issues and how Australia can best tailor its support to meet key needs.

Aid effectiveness

Australia is committed to improving the way it delivers its aid program in Indonesia to ensure that it makes a positive difference to the lives of poor people. On 12 January 2009, Australia signed the Jakarta Commitment along with the Government of Indonesia and 26 other development partners.⁵ The Jakarta Commitment is Indonesia's roadmap for implementing the Paris Declaration on Aid effectiveness and the Accra Agenda for Action, which outline a set of principles on how aid can be delivered more effectively. To implement the Jakarta Commitment, the Government of Indonesia established the Aid for Development Effectiveness Secretariat in 2009. Australia contributed funding to enable the secretariat to become operational. Through its involvement in working groups under the secretariat, Australia anticipates working more closely with other donors and the Government of Indonesia on improving aid effectiveness.

Next steps

Although Australia's aid budget for Indonesia is vastly outweighed by Indonesian resources, it is nevertheless significant. Australia needs to consider how the aid program can achieve results in the short term while leveraging funds of the Government of Indonesia to provide sustainable long-term benefits to Indonesian communities.

The completion of programs of the Australia Indonesia Partnership for Reconstruction and Development provides Australia the opportunity, when designing new programs of support, to consider whether the ways aid has been delivered are appropriate and how Indonesia can be better assisted to unlock its own resources.

To this end, Australia is increasingly engaging with the Government of Indonesia on how it can develop its own responses to development challenges. For example, AusAID is developing a new program to assist Indonesia to strengthen its home-grown knowledge sector (which includes think tanks and institutes) so that it is better able to support public policy formulation.

⁵ Government of Indonesia and its development partners, *Jakarta commitment: aid for development effectiveness—Indonesia's roadmap to 2014*, Jakarta, 12 January 2009, viewed September 2010, <www.oecd.org/dataoecd/59/21/44516334.pdf>. Another five development partners have signed the Jakarta Commitment since 12 January 2009.



Improvements in governance at all levels are crucial to development outcomes. To assist, AusAID needs to look at how it can better link its national and subnational governance programs in Indonesia to improve basic service delivery.

To maximise the development impact of the Indonesia aid program, greater importance is being placed on performance management by improving the evidence base for decision making. In particular, the program will raise the quality of its monitoring and evaluation and improve how it shares knowledge and lessons across its activities.