



Annual program performance report 2010: Indonesia

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Abbreviations

A4DES	Aid for Development Effectiveness Secretariat
ACCESS	Australia Community Development and Civil Society Strengthening Scheme
ADS	Australian Development Scholarship
AGO	Attorney General's Office
AIFDR	Australia Indonesia Partnership Facility for Disaster Reduction
AIPEG	Australia Indonesia Partnership for Economic Governance Facility
AIPD	Australia Indonesia Partnership for Decentralisation
AIPMNH	Australia Indonesia Partnership for Maternal and Neonatal Health
ANTARA	Australia Nusa Tenggara Assistance for Regional Autonomy Program
BaKTI	Eastern Indonesia Knowledge Exchange
BAPPEDA	Provincial and District/Municipal Development Planning Agencies
BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional</i> , the National Development Planning Agency
BEP	Basic Education Program
BNPB	<i>Badan Nasional Penanggulangan Bencana</i> , National Coordinating Agency for Disaster
BSNP	National Education Standards Board
COP16	United Nations Climate Change Conference in Cancun, Mexico 2010
DGH	Directorate General of Highways
ECBP	Evaluation Capacity Building Program
EINRIP	Eastern Indonesia National Road Improvement Program
ESP	Education Support Program
FPO	Fiscal Policy Office
GENERASI	Component of PNPM to improve health and education
GER	Gross Enrolment Rate
GoI	Government of Indonesia
GPF	Government Partnership Fund
HSS	Health System Strengthening
IAFCP	Indonesia-Australia Forest Carbon Partnership
ICCTF	Indonesia Climate Change Trust Fund
ISP3	Indonesia Strengthening Public Procurement Program
IndII	Indonesia Infrastructure Initiative
JiKTI	Eastern Indonesia Research's Network



KPPOD	<i>Komite Pemantauan Pelaksanaan Otonomi Daerah</i> , Regional Autonomy Watch
LAPIS	Learning Assistance Program in Islamic Schools
LOGICA	Local Governance and Infrastructure for Communities in Aceh Program
Madrasah	Islamic Schools
MDGs	Millennium Development Goals
MENKOKESRA	Coordinating Ministry for Social Welfare
MKPP+	<i>Matriks Koordinasi Perencanaan dan Penganggaran</i> , the tool for consolidating documents related to planning and budgeting
MoH	Ministry of Health
MoHA	Ministry of Home Affairs
MoNE	Ministry of National Education
MoT	Ministry of Transport
NTB	<i>Nusa Tenggara Barat</i> , the province of West Nusa Tenggara
NTT	<i>Nusa Tenggara Timur</i> , the province of East Nusa Tenggara
PAFs	Performance Assessment Frameworks
PAMSIMAS	Water Supply and Sanitation for Low Income Communities Project
PATEN	One-stop services for public administration
PEACH	Public Expenditure Analysis and Capacity Harmonisation
PFM	Public Financial Management
PINTAR	Project for Indonesian Tax Administration Reform Project
PNPM	<i>Program Nasional Pemberdayaan Masyarakat</i> National Programme for Community Empowerment
PPATK	<i>Pusat Pelaporan dan Analisis Transaksi Keuangan</i> , Financial Transactions Reports and Analysis Centre
PRSF	Poverty Reduction Support Facility
PUSKESMAS	<i>Pusat Kesehatan Masyarakat</i> , community health centres
REDD	Reducing Emissions from Deforestation and Forest Degradation
RENSTRA	Indonesia Government Strategic Plan
SEAMIE	Support for Enhanced Analysis on Indonesia's Economy
SEDIA	Support for Education Sector Development in Aceh
TNP2K	The National Team for Accelerating Poverty Reduction
UKP4	The Presidential Working Unit for Supervision and Control of Development
WASPOLA	Water and Sanitation Policy and Action Planning Project



Summary

Overview of Indonesia context

The incidence of poverty in Indonesia continued to decline in 2010 as the economy returned to solid growth of 5.9%. The first year of the President Susilo Bambang Yudhoyono's new five-year term saw a strong performance by his Administration as Indonesia cemented its lower-middle income country status. Indonesia has the aspiration and potential to emerge as a new major global economy but is constrained by poor infrastructure, low labour productivity and a difficult business operating environment. The Government released its new Medium Term Development Plan 2010-2014 which contained the six policies and basic strategies around a theme of Development for All and a vision of a prosperous, democratic and just Indonesia. Targets included 7% plus growth and single digit poverty numbers by 2014.

The Australia Indonesia relationship remained very strong in 2010. There were numerous high level visits and exchanges, including the first official visit of the new Australian Prime Minister, Julia Gillard, in November 2010. During her visit, the Prime Minister and the Indonesian President announced the new \$500 million Education Partnership. President Yudhoyono visited Australia in March, during which Australia's contribution of \$215 million to Indonesia's Community Empowerment program (PNPM) was announced.

Australia was Indonesia's largest bilateral grant donor in 2010, providing around \$450 million. Development assistance is a core plank of the Australia Indonesia bilateral relationship and Australia is the donor of choice with key Government of Indonesia (GoI) agencies. Strong relationships have been built with a range of Ministers and key GoI agencies including the Vice President who leads the Government's work on social protection reforms; Ministers for National Planning and Development, Education, Health, Public Works, Finance and Trade; key agencies such as the Fiscal Policy Office of the Ministry of Finance; and the Presidential Working Unit for Supervision and Control of Development (UKP4). During 2010 the Indonesian Vice President sought Australian support for his efforts to reform the Indonesian bureaucracy.

Indonesia's overall performance in achieving the Millennium Development Goals is encouraging but remains off-track for reducing maternal mortality, combating HIV/AIDs, malaria and other diseases, and environmental sustainability. Sectoral programs and poverty reduction efforts are often hampered by poor coordination and confusion across government agencies. Regional disparities continue to be a concern, particularly in the Eastern provinces of NTT, Papua and West Papua where service delivery and rates of poverty are well behind the national average. Social welfare programs have not been as effective in combating poverty with many of the programs either poorly targeted and/or suffering from poor management and weak capacity. The Vice President's Office is reviewing Indonesia's social protection system and has looked to Australia for financial and technical support in establishing the National Team for Accelerating Poverty Reduction.



Results

2010 was a transition year for many of AusAID's programs. The design of the new flagship education program was completed. Similarly designs for the new programs in decentralisation, emerging infectious diseases, elections support and justice sector were finalised. We started new phases of our two main economic governance programs and major new investments in community empowerment and reform of Indonesia's social protection instruments. Design of the new and large investment in primary health was also progressed.

Our existing portfolio continued to perform well. Of the 42 Quality at Implementation (QAI) reports prepared for our current major initiatives, the number of poor quality initiatives decreased from 27% to 24%, corresponding to the number of initiatives with acceptable ratings or higher increasing from 73% in 2009 to 76% in 2010. Notable results during 2010 were:

- Construction of 47 new schools and 173 additional facilities at existing schools through our flagship Basic Education Program. 2010 saw enrolments at schools built in previous years expand by 44,000 students, increasing new enrolments under the program to 185,492. In 2010, 60 private madrasah were assisted to meet the quality standards for accreditation and training in school management was provided to 1 132 schools.
- Providing 27,000 new water and sanitation connections to poor households through our output-based water and sanitation hibah program.
- A successful Build Back Better campaign in Padang, to assist communities rebuild their houses in ways more likely to withstand future earthquakes. 68% of the population now better understands the risks of unsafe construction methods.
- Reconstructing 45 schools damaged by the 2009 West Sumatra and West Java earthquakes, partly funded by USAID (West Sumatra only) through a delegated cooperation arrangement
- Providing relief to victims of the October 2010 Mt Merapi eruption and Mentawai Island tsunami. Australia's initial disaster response assistance of \$1m contributed to shelter and food for over 3000 families in the Mentawai Islands and up to 100 000 people in the Mt Merapi area.
- Reduced transmission of HIV amongst injecting drug users (net new infections estimated to be declining in this group now) and doubling of the number of patients on anti-retroviral drug therapy since 2008. We also provided 75,000 people in the Papuan provinces with HIV prevention information and materials.
- Training 5000 health workers and community health volunteers in NTT and renovating 24 birthing wards which, in 2010 is estimated to have saved the lives of 370 women and their babies in nine districts across NTT.
- Commencing construction on a further 8 national roads in Eastern Indonesia.
- Awarding 376 scholarships to Indonesians, of which half went to females. Awards to targeted regions in Indonesia increased to 23% (up from 15% in 2009), demonstrating the success of programs to address specific barriers to access in remote regions. Indonesia continued to receive the highest number of regionally competitive Australian Leadership Awards of any eligible country.



Major quality successes, issues and challenges

In 2010, a mid-term review looked at the program's progress in executing the 2008-13 Indonesia Country Strategy. The review found that the program was on track in key areas such as infrastructure, education, social protection, scholarships, disaster management and decentralisation. However it also identified a number of constraints on staff effectiveness, morale and ability to deliver a high-quality program. The review made seven major recommendations, which were all agreed by the management team and formed the basis of actions to be taken up in 2011 and beyond.

Monitoring and evaluation of the Indonesia program was identified as a key area for further improvement in the mid-term review. In 2010 an Evaluation Capacity Building Program (ECBP) was developed and implemented for Jakarta-based AusAID staff. A five-year undertaking, the ECBP aims to equip staff with the skills and tools to focus on aid quality and results.

Some progress was made in consolidating the program. In 2010, the number of initiatives in the AusAID portfolio was reduced from 110 to 95, despite a modest increase in expenditure. Efforts to consolidate the program will continue by focusing scale-up to two or three big sectors where Australia can take a leadership role. However given the profile and importance of the Australian aid program to Indonesia, it is unlikely that the breadth of the program will change.

In 2010 the program conducted eight Independent Completion Reviews (ICRs). In six of the reviews the findings were positive while in the other two concerns were raised about performance. Many of the recommendations in the ICRs have been taken up in the successor programs now being implemented. Other observations included a need for the program to strengthen designs and have better monitoring and evaluation systems to facilitate stronger evidence-based assessments. The ECB program for staff now underway aims to address this and plans to introduce in-house design expertise.

Australia's aid program strengthened partnerships with other key donors in 2010, particularly the World Bank and USAID. A 'model of cooperation' developed with the World Bank provides close collaborative engagement in sectors of mutual interest. Entering into its first delegated cooperation in Indonesia, USAID provided \$5 million dollars to AusAID to reconstruct schools damaged during the 2009 earthquakes in West Java and West Sumatra. AusAID took the lead in donor coordination in the Education Sector, resurrecting the Education Sector Working Group which it co-chairs with the Vice Minister for Education. Australia also chaired the informal donor working group on Decentralisation.

Gender equality remains a core objective for the program. Over 50% of program spending is on activities that have primary or secondary objectives of improving gender equality. A gender unit established at Jakarta Post this year is drawing greater attention to program-wide efforts to address gender equity issues in Indonesia and build the capacity of staff to assess gender issues at the initiative level.

The incidence of reported fraud in the Indonesia program remains low, totalling less than one-tenth of one percent of expenditure between 2007 and 2010. The program currently has 31 active cases of fraud dating back to March 2007 involving \$379,847. In nine of the cases funds were fully recovered while investigations by Indonesian authorities are continuing in most of the remaining cases.

In order to strengthen the program's capacity to assess fiduciary risk, a dedicated Public Financial Management team has been created. This team will also devise measures to build



capacity in GoI agencies as the program increasingly uses partner government systems as a mode of delivery. A fraud and risk assessment expert, to be engaged in 2011, will prioritise the development of a new risk management strategy for the Program.

A review of all long-term adviser positions funded by the Indonesia program was undertaken in late 2010. As at December 2010 the Indonesia program employed 156 long-term advisers across 26 programs. The review found that GoI counterparts highly value the technical assistance provided by Australia and want it to continue. 91 per cent of the existing long-term adviser positions were rated as high priority, while the remaining positions will be phased out. The review found that long-term adviser costs represented around five percent of total annual expenditure. A planned remuneration framework will guide the recruitment of national (Indonesian) advisers.

Other key challenges during the year included:

- Supporting the Government of Indonesia to improve its contract supervision of national roads contracts to better manage poor performance by contractors.
- Establishing strong relationships with senior officials in the Ministry of Finance given substantial changes in leadership during 2010.
- Expanding support for HIV/AIDS prevention in the Papuan provinces including assisting the Clinton Health Access Initiative establish an effective presence in the region.
- Situating Australian support for climate change in Indonesia in the context of a rapidly evolving domestic context including a new \$1 billion program of support from Norway.
- Dealing with the complexity of decentralisation and lack of capacity of districts in delivering basic services to the poor. Key lessons include the need to find better feedback loops between lessons learned on the ground and national policy reform and the need for stronger policy coherence between various AusAID programs operating at the district level, at least in priority provinces.

Management Consequences

Key priorities for management in 2011 include:

- Starting new programs in education, elections, justice, decentralisation, and emerging infectious diseases.
- Finalising designs for health system support, women's leadership, rural livelihoods and the knowledge sector.
- Commencing analytics and designs on disaster risk mitigation, infrastructure, a second climate change REDD + demonstration activity, support for the Fiscal Policy Office and scholarships.
- Planning for the potential expansion of the program including analysis of where further AusAID investments are likely to best impact on poverty alleviation.
- Establishing a Policy and Analytical Unit under the Lead Economist that will strengthen the program's analytical and research capacity and ability to engage in high level policy dialogue on reform with Government of Indonesia.
- Implementing Mid Term Review recommendations including: acquiring and using knowledge to engage in policy reform, including better understanding the gender



impacts of our program; improving people management and leadership so AusAID can continue to attract and retain high calibre staff; and improving AusAID Jakarta's capacity to monitor and review the quality of the portfolio.

- Strengthening portfolio risk management and fraud mitigation approaches, such as establishing more robust management information tools to drive program coherence, consolidation and growth; and restructuring part of the Jakarta operation to strengthen our quality assurance and design capacity.
- Undertake workforce planning that will look at the implications of scale-up, including whether we have the right resources to implement the program



MAIN REPORT

Indonesia context

Indonesia's economy grew steadily in 2010, with real GDP growth of 5.9 per cent. This represents a return to 2008 growth rates, following a slight slowing of growth to 4.5 per cent in 2009. Economic growth was driven primarily by strong domestic consumption, which has ensured the country emerged largely unscathed from the 2008-09 global economic crisis. Exports also increased in 2010, thanks largely to healthy demand from China for Indonesian commodities. Nominal GDP per head (based on the Indonesian Bureau of Statistics' population estimates) exceeded US\$3000 for the first time in 2010, lifting the country into the world's low-middle-income group of economies.¹

Economic growth contributed to continued reduction in the percentage of the population living in poverty. Poverty rates fell from 14.2 per cent in 2009 to 13.3 per cent in 2010 and, if this trend continues, the Indonesian Government target of reducing poverty to 8-10 per cent by 2014 is achievable. Despite this overall positive trend Indonesia will continue to face serious poverty challenges for the foreseeable future due to three factors: very high levels of poverty vulnerability; lacklustre performance in non-income poverty measurements; and difficulty in dealing with the entrenched poor.

Approximately 12.5 per cent of Indonesia's population lives below the national poverty line (approximately US\$24.80 per month, or US\$0.82 a day, as at July 2011), however, there is a large number of people who are highly vulnerable to even minor shocks living just above it. There are around 110 million people living on less than US\$2 per day. The movement of people in and out of poverty is very volatile, requiring the government and its development partners to focus equally on the poor and the near poor. By 2015, even if the poverty rate declines to eight per cent, many people are unlikely to have moved far from the poverty line and will remain vulnerable.

Indonesia's comparative performance on non-income indicators of poverty is of significant concern. The maternal mortality rate, for example, is the fourth worst in the region at around 228 per 100 000 live births. As many as one in three children under five are stunted in their growth due to malnutrition. Indonesia has the 17th highest proportion of stunting in the world (and is in the top seven in terms of absolute numbers). With 41 deaths per 1000 live births, Indonesia is well behind other countries in the region on infant mortality, including Philippines, Thailand and Vietnam.

There are also pockets of deeply entrenched poverty among, for example, female-headed households and in the eastern provinces of the country. These groups are unlikely to be lifted out of poverty by continued growth alone given that current growth in Indonesia is less employment intensive than a decade ago. How to tackle entrenched poverty, particularly in the East, will remain a key policy priority of the Indonesian Government.

The challenge Indonesia faces in consolidating its position as a middle-income country is not so much a lack of financial resources, but the capacity to use its resources to achieve good development outcomes. President Yudhoyono acknowledged this in highlighting

¹ Economist Intelligence Unit <http://country.eiu.com/article.aspx?articleid=647793649&Country=Indonesia>



bureaucratic performance as a post-election reform priority. The release in 2010 of a bureaucratic reform strategy and legislation mandating public sector service standards are promising developments, but any such reforms face significant barriers in the political economy. Poor coordination and confusion over roles and responsibilities between levels of government, and weak capacity at the district level will also need to be addressed to improve service delivery.

A challenge for reform in Indonesia in 2010, and for the country's partnership with Australia, was the resignation in May of the then Minister of Finance, Sri Mulyani Indrawati, a key reformer and counterpart for development partners. The appointment of Agus Martowardojo, former CEO of the largest bank in Indonesia, Bank Mandiri, continued the tradition in Indonesia of non-partisan technocrat Finance Ministers and reassured markets of ongoing credible economic management. Prior to his appointment Martowardojo had a track record of reform in the banking sector but has been tested by the slow pace of reform in his Ministry.

In particular, Indonesia's taxation regime required the new Minister's immediate attention, with high-profile corruption cases threatening to further undermine the credibility of the system and undo the gains made in previous years. More broadly, corruption continued to be a significant issue for Indonesia throughout 2010, in particular through questions regarding the bailout of Bank Century during the financial crisis and in the operation of a 'judicial mafia'. President Yudhoyono made reform of the legal system a cornerstone of his post-election agenda and appointed a taskforce to address the issue, but progress has been slow.

Notwithstanding these challenges, the reform context in Indonesia remains positive, with strong public support for the Corruption Eradication Commission, which remains a credible enforcement agency, and an active Judicial Mafia Taskforce. The Presidential Working Unit for Supervision and Control of Development (UKP4) has been established with the mandate of driving forward the President's reform agenda and teams have been established in the Vice President's Office to coordinate the highest priority reforms, including combating poverty and bureaucratic reform.

The Australia-Indonesia Country Strategy (2008-2013) remained relevant in 2010. Aid represents around 2.5% of Indonesia's budget and 0.27% of GNI.² Australia's contribution in 2010 was \$450m, making Australia the largest bilateral grant donor to Indonesia. Other major donors included the World Bank, ADB, Japan, Germany, United States and Europe. The AusAID Director General, Peter Baxter, visited in August and held discussions with a number of portfolio Ministers, including the Vice President, as well as a range of senior Government officials. AusAID continued to gain good access to Cabinet level Ministers and to very senior Government officials. The Australian aid program is viewed very positively by the Government of Indonesia as well as donors active in Indonesia.

² <http://www.tradingeconomics.com/indonesia/net-oda-received-percent-of-gni-wb-data.html>.



Summary of results in 2010

The flagship of the Indonesia program, the Basic Education Program (BEP), was concluded and a set of transition activities were undertaken awaiting the approval of the new \$500m Education Partnership. The new flagship program was announced during Prime Minister Gillard's visit to Indonesia in November 2010. Under the BEP transition activities the last batch of junior schools were completed bringing the total number of schools constructed to 2074, offering 330 000 new places. The new Education Partnership will fund the construction or expansion of up to 2000 more junior secondary schools but will also focus on improving learning outcomes and education quality by strengthening school management. It will also assist the Ministry of Religious Affairs to accredit Islamic secondary schools (madrasah) and generate analytical products that address education quality issues. The partnership supports the goals in the Indonesian Education Sector Strategic Plan, and is assisted by a US\$500m budget support loan from the European Union.

In 2010, AusAID helped strengthen GoI's social protection programs. AusAID made a significant contribution to GoI's flagship Community Empowerment Program (PNPM) which reaches 80, 000 villages in Indonesia. Australia will be providing \$215 million to PNPM over five years. AusAID also initiated direct support to the Vice President's National Office for Accelerating Poverty Reduction (TNP2K) which will review Indonesia's poverty reduction instruments or safety net programs. There is considerable scope to scale up Australia's assistance to direct poverty reduction programs.

A major success story in 2010 has been our support in connecting households to water and sanitation systems through an incentives-based scheme. Local water companies that demonstrated sound business practices were reimbursed for part of the cost of new connections resulting in thirty eight water utilities signing up for the program. These companies connected 27 000 new households, giving more than a 135 000 people access to water or sanitation services. This program will expand in 2011.

AusAID's efforts in 2010 to prevent of HIV/AIDS transmission included a focus on injecting drug users and promoting HIV prevention information and materials in Papua and West Papua. Similarly the support for maternal and neo-natal health in Nusa Tenggara Timur continued with an emphasis on promoting increased facility-based deliveries (particularly health centres) to reduce maternal and child mortality.

In infrastructure, our national roads program made significant progress with 17 packages underway and work on the remaining 5 packages expected to begin in 2011. Quality of construction and contract supervision are emerging issues and exposing institutional weaknesses in Department of General Highways (DGH). The Indonesia Infrastructure Facility (IndII) continued to provide high calibre technical assistance, working closely with a range of GoI institutions on transport and connectivity issues. Institutional weaknesses such as those emerging in DGH are also being addressed by IndII.

The Decentralisation program's main activity, ANTARA, was replaced by the Australia Indonesia Partnership for Decentralisation (AIPD), which kicked off in early 2011. Related programs such as ACCESS, PEACH and LOGICA focused their efforts on provincial and local government planning and budgeting. Public expenditure analysis tools developed and disseminated by these programs helped local governments improve the quality and timeliness of their budgets. Support to civil society organisations enabled them to advocate for improved



budgets and plans providing the impetus for increased public spending on education, health and infrastructure.

Australia's lead role in disaster emergency response and disaster risk reduction continued in 2010. The Australia-Indonesia Facility for Disaster Reduction (AIFDR) Build Back Better campaign following the 2009 earthquake in West Sumatra is influencing building practices and community awareness. AusAID supported Indonesia's National Disaster Management Agency (BNBP) by contributing \$7.6 million to relief efforts following the Mt Merapi eruption and Mentawai Islands tsunami in October 2010. In West Java and West Sumatra AusAID reconstructed 45 schools damaged by earthquakes in 2009. The school reconstruction funding included US\$ 10 million provided by USAID to AusAID to add to the number of schools reconstructed in West Sumatra. This was USAID's first ever delegated cooperation arrangement in Indonesia.

Economic policy coordination attracted the largest share of Australian assistance in the Economic Governance Sector. Foremost has been the support by the Australian Treasury to the Fiscal Policy Office within the Ministry of Finance (MoF). Macroeconomic analysis and growth forecasting has improved and the initial work on Tax Policy is also being taken up by a reform-minded leadership in the MoF.

Australia's support for Climate Change continued to evolve as Indonesia continued to pick up pace in its response to the game-changing Indonesia Norway Letter of Intent for a US\$1billion REDD Partnership. Indonesia has committed to establish new national architecture for REDD+. The Australia-supported Indonesia National Carbon Accounting System is expected to form the foundation of GoI's new Measurement, Review and Verification (MRV) Institution. A second pilot demonstration activity under the Indonesia Australia Forest Carbon Partnership was also selected and design of the program will get underway in 2011.

Sector Performance ratings

In this APPR, performance is assessed against sub-sector development outcomes and forms part of sector performance frameworks which have been developed and refined over the course of 2010. Teams collected data against performance indicators for each sub-sector outcome and assessed progress on these indicators using traffic light ratings. Ratings for sub-sector outcomes were based on an aggregate impression of progress drawing on ratings for each indicator and teams' own contextual knowledge. An explanation of the basis for ratings is at Annex 2.

Table 1: Ratings of the program's progress in 2010 towards the objectives of the Indonesia program

Objective	Rating in 2010	Relative to previous rating
Education and scholarships		
Access to quality research and analysis informing policy decisions and policy implementation	Orange	Unchanged
GoI projected infrastructure requirements met for Junior Secondary Schools for districts with low gross enrolment rate nationwide	Green	Unchanged
A national system delivering strengthened sub-national capacity for education system management	Green	Improved
Accelerated accreditation of Madrasah by the Body for National Education Standards (BSNP) in reference to eight National Education Standards (new)	Red	Not applicable



Objective	Rating in 2010	Relative to previous rating
Health: Health related MDGs achieved through a strengthened health system and a more effective and sustained response to HIV.		
Nurses and midwives delivery quality primary health care (new)	UTJ	Not applicable
Primary health care financing supports greater accessibility for the poor (new)	UTJ	Not applicable
Confident use of health facilities and services for delivery of babies, ante-natal and post-natal care in NTT	■	Unchanged
Increased HIV/AIDS prevention, treatment and care/support in selected regions	■	Unchanged
Strengthened leadership of the national and sub-national response to HIV/AIDS	■	Improved
Strengthened emerging infectious diseases prevention, detection and control mechanisms in the Ministries of Health and Agriculture (new)	■	Not applicable
Water and Sanitation		
Improved management performance of urban water service delivery agencies	■	Declined
Improved management performance of urban sanitation service delivery agencies	■	Unchanged
Improved operational systems and procedures for city and district governments to deliver rural water services	■	Improved
Improved operational systems and procedures for city and district governments to deliver rural sanitation services	■	Unchanged
Improved delivery of urban water (new)	■	Not applicable
Improved delivery of urban sanitation (new)	■	Not applicable
Gol policies adopted and applied by local government and community watsan providers	■	Unchanged
Transport and Connectivity		
Strategic regional sections of the national road network built or upgraded to a national standard	■	Unchanged
Improved DGH business processes (design, procurement, supervision) for works on National Roads	■	Unchanged
Better informed budgeting (social and economic benefits) of transport investments	■	Unchanged
Greater coherence and integration of Gol policies across transport and communication infrastructure	■	Declined
Decentralisation		
Improved linkage between planning and budgeting resulting in efficient resource allocation in education, health, and infrastructure	■	Unchanged
More efficient and timely disbursement and execution of budget – in education, health and infrastructure	■	Improved
Province / Local Government in NTT, NTB, Aceh, Papua & West Papua more systematically finding and using evidence from the field to inform policy setting / policy actions as an enabling factor for better public expenditure management and service delivery.	■	Unchanged
Stronger reflection by legislative institutions (local parliament) of community aspirations in planning and budgeting leading to government responsiveness for better service delivery.	■	Improved
Social Protection and Community Driven Development (PNPM)		
Strengthened the Gol poverty reduction instruments (new)	■	Not applicable
Strengthened ability to reach for the poor (new)	■	Not applicable
Economic Governance		
Improved capacity of core economic institutions for policy development, coordination and implementation	■	Declined







Objective	Rating in 2010	Relative to previous rating
Improved capacity for development and supervision of financial institutions and capital markets	■	Declined
Improved capacity to develop and implement trade and investment policy	■	Unchanged
More efficient management of public finances (needs to be read in conjunction with decentralisation)	■	Declined
Improved tax administration	■	Unchanged
Disaster Risk Management		
The National Coordinating Agency for Disaster Management (BNPB) is a mature organisation fulfilling its responsibilities as guardian of the Disaster Management Law	■	Unchanged
Sub national disaster management structure are established and fully operational to perform their mandated roles (new)	■	Not applicable
Non-governmental institutions as partners of the GoI in Community Based Disaster Management (CBDRM) have strengthened community reliance (new)	■	Not applicable
Climate Change		
REDD demonstrated to be practical, effective and equitable	■	Unchanged
Future global outcome on climate change influenced by Indonesian experience with REDD	■	Unchanged
Locally generated new knowledge of climate change adaptation being used in strategy development at all levels of government	■	Improved
Low carbon growth strategies developed and implemented	■	Unchanged
Additional domestic finance (government and private sector) and international sources of finance mobilised and accessed, for response to climate change	■	Declined
Rural livelihoods and agribusiness		
Improved smallholder agri-business practices	■	Improved
Improved enabling environment for agri-business that benefits smallholders, at the provincial and national level	■	Unchanged
Improved capacity of agricultural agencies to conduct agricultural research and transfer the results for the benefit of small holders	■	Unchanged
Better functioning agricultural markets as part of value chains	■	Declined
Law and Justice		
Judicial Reform	■	Unchanged
Anti-corruption	■	Unchanged
Elections		
Improved performance of electoral management bodies in managing and delivering quality elections (local and national)	■	Unchanged
Increased public engagement in Indonesia's elections and systems	■	Unchanged

Note:

- The objective will be fully achieved within the timeframe of the strategy.
- The objective will be partly achieved within the timeframe of the strategy.
- The objective is unlikely to be achieved within the timeframe of the strategy.
- UTJ** Unable to judge

Sector Reports

Education, scholarships and knowledge sector

Objectives	Rating in 2010	Relative to previous rating
Access to quality research and analysis informing policy decisions and policy implementation		Unchanged
GoI projected infrastructure requirements met for Junior Secondary Schools for districts with low gross enrolment rate nationwide		Unchanged
A national system delivering strengthened sub-national capacity for education system management		Improved
Accelerated accreditation of Madrasah by the National Coordinating Agency for Disaster (BSNP) in reference to eight National Education Standards (new outcome)		Not applicable

Assessment of results and performance

Education

In 2010, the Government of Indonesia (GoI) commenced implementation of the new Education Strategic Plan (2010-2014) and Australia's support was aligned to key targets within this plan. GoI committed 20% of its budget to the education sector (around \$26 billion in 2010), with donor contributions to the sector representing less than 2% of the total. The Ministry of National Education (MoNE) completed a major restructure at the end of 2010 which united responsibility for quality assurance under a single Board. Although the implications of this change are yet to be fully realised, it is indicative of the national government's focus on improving the system.

In 2010, the Australian and Indonesian Governments agreed on the future program of support to basic education in Indonesia, the Education Partnership 2011-2016. This Partnership will build on the achievements and lessons of the Basic Education Program (BEP) and the Learning Assistance Program in Islamic Schools (LAPIS), both of which will conclude in 2011. In 2010 AusAID also commenced a new partnership with UNICEF to support primary education in Papua and West Papua through improved planning, teaching practices, and school-based management.

Enrolments for the 2010-11 school year in schools constructed under BEP reached 185 492 (grades 7-9), of which 49.8% were girls. This is an increase of more than 44 000 students from 2009-10, which supports GoI's target of increasing Junior Secondary School enrolments in districts with Gross Enrolment Rate (GER) of less than 90%. In 2010, AusAID supported school construction with loan funds that were managed directly by MoNE (including financial management, procurement, and oversight of construction). Construction was completed on 47 new schools and 173 additional facilities (classrooms, libraries, and laboratories) at existing school sites, with a further 13 schools and 530 facilities planned for completion in 2011. In West Java and West Sumatra, reconstruction of 45 primary schools was completed, enabling around 7200 school students to resume normal classes following the 2009 earthquakes. The remaining 12 schools are on track for completion early in 2011.



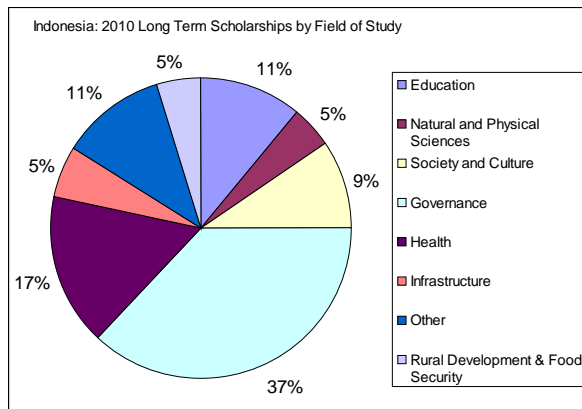
The program intensified its focus on improving the quality of education in Indonesia in 2010. The 2009 approval of the Ministerial Regulation establishing an Education Quality Assurance System, which sets out performance standards and systems for all education sector staff (including teachers), was the basis for AusAID to work with MoNE on developing a training program for school principals and school supervisors. These programs will be finalised, accredited, and rolled out to all school principals nationwide, under the new Education Partnership. MoNE also adopted a tool developed with BEP support for schools to assess themselves against national standards; prioritise and plan for improvements; and be responsive to student needs, including in relation to gender or disability. This will be included in all MoNE education personnel training programs. Training modules in school management, including resource management and maintenance, were delivered in 1132 schools in 2010.

In 2010, 60 private madrasah were assisted to meet the quality standards required for accreditation. Drawing on the experience of these 60 schools and building on our reputation as a trusted partner in the Islamic school sub-sector, AusAID assisted the Ministry of Religious Affairs to develop strategies for accelerating accreditation nationally (to meet their target of 30 000 madrasah newly accredited by 2014).. These strategies included working with non-government stakeholders, such as foundations, universities, and community organisations, as potential partners to help schools plan and implement the changes needed for accreditation. Further work is required by MoRA to finalise and build consensus on a consolidated strategy for achieving accelerated accreditation and, at the time of writing, no further support was requested from AusAID for this process. This, combined with the scale of the accreditation task, are the factors leading to a red rating for this objective.

AusAID contributed to policy development in 2010 by producing several analytical reports (chiefly an annual sector financial assessment and annual sector monitoring report) and engaging donor partners and GoI on key education sector challenges and policy opportunities. The Education Sector Working Group, the forum for this dialogue, was revitalised in 2010 with the involvement of Indonesia's Vice-Minister for Education as co-chair. In Aceh, AusAID worked with the provincial government to improve provincial and district education planning and management. We supported the province to produce the first public, comprehensive report on the state of education, with statistics for all state and private schools, teachers and students in the province. This report changed the long-held perception of government, schools and communities that Aceh had an undersupply of teachers (in fact, the reverse is true) and triggered the development of new policies to improve teacher management.

AusAID commissioned Independent Completion Reports (ICR) for BEP and LAPIS in 2010. The BEP ICR validated several of the choices made in the design of the Education Partnership, such as the increased use of GoI systems for program delivery; continued support for systematic capacity development at the school and district level; and the use of the community-based construction model for school construction. The ICR also highlighted where further analysis was needed to support more informed and better targeted programming, such as district-level demand for education services and infrastructure needs (to inform site selection) as well as financing frameworks (for sustainability). The first of these studies is planned for 2011-12. The LAPIS ICR highlighted some of the challenges of operating in a diverse and complex sub-sector and supported the move towards a direct partnership with the Ministry of Religious Affairs, which will be the basis for the Education Partnership's future investments in madrasah accreditation. The ICR also recommended a

Scholarships



In 2010, the number of scholarships awarded increased to 376 (350 Australian Development Scholarships-ADS, 26 Australian Leadership Awards), in line with the commitment to expand the program. Of these, 50 percent were awarded to females. Indonesia continued to attract the highest number of Australian Leadership Awards of any eligible country despite the expansion of these awards to new regions. The 10 percent

target for doctoral degrees was achieved. Targeted GoI agencies and other organisations in priority sectors for the aid program in Indonesia accounted for 49 percent of ADS awards. The number of successful applicants from targeted regions increased to 23% of the total (up from 15% in 2009). This significant change was brought about by increased targeting of the ADS program and provincial pilots in Papua and Nusa Tenggara Timur to address specific barriers to access.

The Indonesia Program continues to develop its alumni program. An alumni reference group was established, identifying a group of around 200 alumni from most Indonesian provinces and representing major fields of study, with potential to contribute their knowledge, skills and advice to Australia's aid programs in Indonesia. Four alumni professional development activities were held, attracting around 200 participants.

AusAID continued to provide the secretariat for the Overseas Scholarships Roundtable (OSR), which is the GoI-led coordinating body for all domestic and international scholarship providers in Indonesia. In 2010, OSR-commissioned research identified that the main obstacles to overseas scholarships for applicants from regional areas were English language ability and access to information. Based on the research, the ADS program has piloted supplementary English training in NTT. In addition, BAPPENAS, with AusAID support, has commissioned a new 'one-stop scholarships shop' webpage, where applicants can access information on overseas scholarships provided by all donor agencies, GoI and the private sector.

Knowledge

Constraints in the regulatory environment are preventing research and analysis done in Indonesia from informing policy. These include barriers for non-commercial institutions to compete for contracts to provide intellectual services to government³, the lack of autonomous structures and skill mixes within government organisations to obtain reliable internal policy advice⁴, lack of incentive systems to produce policy-relevant research^{5,6}, and a national

³ Stephen Sherlock, "Knowledge for policy: Regulatory obstacles to the growth of a knowledge market in Indonesia", AusAID, June 2010, pp. 27-29.

⁴ Ibid., pp.10-12

⁵ Ibid., p. 12

⁶ John McCarthy and Rustam Ibrahim, "Review of Social Science Capacity Building Support to Indonesia's Knowledge Sector", AusAID, 8 March 2010, pp. 5-6.



research agenda that is largely silent on social research needed to inform development policies⁷.

At the institutional level, there are issues of capacity in existing Indonesian research institutions and the lack of sustainability of independent research organisations⁸. Aside from little long-term core funding, the common internal constraints for research organisations in producing policy-relevant knowledge include a lack of a consistent long-term research agenda, weak organisation structures for policy research, and a lack of internal quality assurance systems⁹. However, these organisations have either already demonstrated or recognised the value of building effective alliances with other research and advocacy organisations to influence policy decisions.^{10, 11, 12}

In 2010, work began on designing a program of support for the knowledge sector that focuses on four main program streams: policy assistance to improve the enabling environment; improving the demand for analysis to inform policy; improving the quality and quantity of the domestic supply of policy-relevant research; and bridging the link between the production of research and its use in informing policies. The immediate priorities to forward this agenda are: a) obtaining consensus on which policy reform agendas should be addressed and supported through the program; b) finalising the design for Australia's support for the knowledge sector; and c) ensuring a smooth transition from design to implementation.

Factors contributing to or hampering success

Although GoI has committed considerable resources to education delivery, significant improvements in efficiency and effectiveness are needed to absorb growth in demand and achieve improvements in quality. In particular, the management and monitoring of teacher placement and performance must improve, both to free up resources to direct towards quality improvements and to have an impact on learning outcomes. The role of district governments in strategic planning, management of resources, and supporting school-level improvement is critical but capacity varies significantly between districts to fulfil these roles. The Education Partnership will work directly with district governments to increase the planning and management skills of relevant officials.

Delays in finalising the Education Partnership meant that some elements of AusAID's assistance, such as school construction, were scaled back in 2010 while the new arrangements for implementation were negotiated. However, this revised timeline provided the opportunity to progress many of the strategic policy or regulatory frameworks required for implementing key components of the Partnership relating to quality assurance and madrasah accreditation. It also allowed us to identify additional resources required for effective delivery of key elements of the Partnership, both within AusAID and MoNE.

⁷ Petrarca Karetji, "Milestone 8: Draft Final Report", AusAID, 30 September 2010, p. 11.

⁸ McCarthy & Ibrahim, "Review of Social Science Capacity Building", pp. 5-6.

⁹ Sandra Hamid, "Progress Update: Knowledge Sector for Development Policies", PowerPoint presentation to the Knowledge Sector Management Group Meeting, 10 February 2011, The Asia Foundation.

¹⁰ Ibid.

¹¹ Workshop Discussions, "Pembahasan Temuan Awal Studi Strategi dan Kapasitas CSO/NGO dalam Advokasi Kebijakan", convened by the SMERU Research Institute and the Evidence-Based Policy Development Network (ebpdn), 1-2 February 2010.

¹² Piter Edward, "Peran Organisasi Masyarakat Sipil dalam Proses Pembuatan Kebijakan di Indonesia pada Era Reformasi", unpublished Masters Thesis, University of Indonesia, December 2010.



Management consequences

Good progress was made in addressing the management consequences identified in the 2009 APPR and the establishment of the new Education Partnership with Indonesia has positioned us well to intensify our evidence-based policy engagement with Government. AusAID needs to secure ongoing high-level technical expertise in order to enhance the quality of that policy dialogue. Our investments in research and analysis must meet the needs of policy-makers to ensure research findings have an impact.

Lessons from BEP show that addressing complaints or problems with school construction as they arise is critical to successful completion. This requires capacity to monitor, report and follow-up on issues, on the part of MoNE but also district governments. Additional support to MoNE in these areas will be necessary to manage the transition from a contractor-supported model to a greater reliance on partner government systems. Since our capacity to work directly with multiple district governments on school construction is limited, we will focus our efforts on improving MoNE's capacity to support district government work on the construction program.

Priorities for 2011 will be to advance the implementation of elements of the new Education Partnership, complete detailed designs for an expansion of the scholarships program and a new knowledge sector program and develop a concept paper on future investment options in the education sector.





Estimated expenditure in 2010

Objective	A\$ million	% of bilateral program
Education	88.6	22.6%
Scholarship	35.3	9.0%
Knowledge	1.1	0.3%

Source: 2009-2010 fiscal year's expenditures in AidWorks

Health

Rating

Health: <i>Health related MDGs are achieved through a strengthened health system and a more effective and sustained response to HIV.</i>	Rating in 2010	Relative to previous rating
Nurses and midwives deliver quality primary health care (new outcome)	UTJ	Not applicable
Primary health care financing supports greater accessibility for the poor (new outcome)	UTJ	Not applicable
Confident use of health facilities and services for delivery of babies, ante-natal and post-natal care in NTT		Unchanged
Increased HIV/AIDS prevention, treatment and care/support in selected regions		Unchanged
Strengthened leadership of the national and sub-national response to HIV/AIDS		Improved
Strengthened emerging infectious diseases prevention, detection and control mechanisms in the Ministries of Health and Agriculture (new outcome)		Not applicable

Note: UTJ unable to judge

Assessment of results and performance



The Government of Indonesia (GoI) provided overdue political and administrative attention to the health sector in 2010. This has included significant increases in funding with a 21 % (\$450 million) increase in the national health budget for 2010. This included a new budget measure for health centre operational costs of \$87 million. Indonesia's per capita expenditure and key health indicators have trailed behind that of other countries with comparable incomes in Southeast and East Asia. For example, Indonesia's maternal mortality rate (MDG 5) is lagging badly for a middle income country. Official figures estimate a rate of 228 maternal deaths per 100 000 live births, similar to Burma (219) and much worse than Vietnam (64) and the Philippines (84). The health reform agenda has been driven by attention to advancing Millennium Development Goals (MDGs) in both the lead up to the MDG Summit in September 2010 and beyond.

Our overall shared goal or central theme for Australia's investment in the sector is: *To achieve health related MDGs through a strengthened health system and a more effective and sustained response to HIV.*¹³ Total donor financing represents about 1.8 percent of total health expenditure¹⁴, which is skewed by heavy (up to 40% of total funding) donor investment in the HIV sector. Australia's relatively small scale contribution strives to influence and leverage GoI policy, planning and resource allocation. For example, in 2006, Australia started funding harm reduction services to reduce HIV transmission among injecting drug users in four health centres Jakarta. There are now 30 health centres providing such services in Jakarta, fully funded by local government.

In the absence of a GoI led forum for donors in this sector, our efforts to develop a partnership with USAID allows for greater cohesion and consistency in donor interactions with GoI. As we are the two largest bilateral donors to health, we expect this partnership will strengthen policy dialogue with GoI, facilitate sharing of lessons learnt and enhance complementary and/or joint programming.

HIV/AIDs

HIV/AIDS programming remains on track to meet Indonesia's targets in prevention, treatment and care, with a notable improvement in leadership largely due to increased focus on MDGs. Since 2008 Australia has contributed to needle exchange, methadone and safe sex programs that the National AIDs Commission has stated have significantly reduced the transmission of HIV amongst injecting drug users by providing information, counselling and referrals to almost 35 000 (around one third of) injecting drug users and more than 80 000 prisoners. Australian assistance has more than doubled the number of patients on anti retroviral therapy from 6068 in 2008 to 19 500 at the end of 2010; enhancing quality of life and reducing the risk of HIV-related mortality among those treated. Australia also helped to provide 75 000 people in Papua and West Papua provinces (where there is a generalised epidemic) with HIV prevention information and materials. This has required a high degree of coordination and commitment from a wide range of players – made possible by Australia's established presence since 2003 in HIV programs in these two provinces.

¹³ The portfolio is comprised of a number of programs that have a historical basis. Programs are aligned to areas of GoI priority for health in advancing the MDGs, and Australia's national interests.

¹⁴ WHO 2008 as reported in Indonesia Health Sector Review: Financing Universal coverage: Assessing fiscal space for health. Policy and discussion notes September 2010.



A key deliverable for 2010-11, a new phase of support for HIV treatment and care in Papua province has been mobilised through the Clinton Foundation. Furthermore, with Australian support the National Aids Commission has set up a working group to develop a coordinated plan for scale up. We are working with this process to increase the reach and depth of our HIV activities especially in the highland areas of Papua province. The relationships and trust we have built up in the two provinces since 2003 will help us to scale up more effectively.

Maternal and Neonatal Health

An independent progress review of Australia's investment in Maternal and Neonatal Health in Nusa Tenggara Timur (AIPMNH) was conducted in 2010. The review found the program to be strong and closely aligned to the policies and priorities of both the Indonesian and Australian governments. The review also found changes in skills, knowledge and practices of health staff in areas such as managing birth complications, processes for referral of patients, implementation of clinical standards and in ensuring maternal and neonatal activities better align with local needs.

The program supports the provincial government's plan to increase facility-based deliveries (particularly in health centres) to reduce maternal and child mortality rates. National survey data shows an increase in assisted deliveries in Nusa Tenggara Timur (NTT), however this is not yet supported by provincial administrative data. Therefore this sub-outcome has remained at amber rating with the expectation that it will transition to green over the next year. As of 2010 the program had trained more than 5000 health workers and community health volunteers (approximately half of all health workers and health volunteers in NTT), and renovated 24 birthing wards in public health clinics to provide basic emergency obstetric care. Data from the 8 clinics renovated in 2009 indicate that the number of facility births has doubled from an average of 3 per month to 7 per month. The training and facility upgrades are increasing demand for services, which is important as births in facilities rather than at home gives mothers greater access to emergency care and skilled teams. In 2010 health centres in nine districts supported through the program managed around 370 additional obstetric complications compared to 2009, every one of which potentially saves a life.

Health systems strengthening

The design for a new Health System Strengthening (HSS) program was undertaken during 2010 to contribute to pro-poor health financing, health workforce skills and the availability of primary health care in Indonesia. This has proven challenging and will require further efforts in 2011 to achieve high level ownership with the Ministry of Health (MoH); gauge the Ministry's capacity for reform in the design's focus areas; establish a clear and measureable development impact and a sharpening of the poverty focus of the design. Nevertheless we have capitalised on renewed energy toward MDG targets within GoI and the ministry, providing significant investment in preliminary HSS activities, and undertaking extensive consultation with MoH to advance the design process.

The short term projects (preliminary activities) lead into the longer term program under design that is characterised by shared five year objectives for institutional strengthening so that the government's growing investments in health achieve the outcomes sought. For example, with Australian support the National Health Account (NHA) for 2005-2009 has been completed and published. The annual production of a NHA is now a key performance indicator in the MoH's strategic plan and will become fully funded by Indonesia in 2014. A



health workforce map showing the distribution and type of health workers is also being developed. It will provide an important baseline for policy, plans and budgets to reach an equitable distribution of health workers. The program also supported the MDG roadmap endorsed by the President to guide Health and other ministries to achieve MDGs by 2015.

Emerging infectious diseases (EID)

A new government to government partnership in the prevention, detection and control of EIDs was launched in March 2011. In preparation for the program, the Indonesian Ministry of Agriculture has developed, with Australian assistance, a plan to move from expensive, donor driven disease surveillance towards a sustainable community driven network.

Other health initiatives

After two years of negotiation, Australia, Indonesia and the Global Fund (GF) signed the \$75m debt-to-health swap agreement in mid 2010. Indonesia has been granted Global Fund Round 10 funding of US\$157. 5m for TB and health system strengthening (attached to TB proposal) programs. AusAID's intensive advocacy to the GF and Indonesian government contributed to this result. By the end of 2010 construction of eight primary health care facilities in Padang-Pariaman in response to the 2009 West Sumatra earthquake was well underway. The second phase of support for the Australia Bali Memorial Eye Centre has been confirmed and a subsidiary arrangement has been signed after significant delays in obtaining agreement with MoH.

Factors contributing to or hampering success

GoI has an ambitious program of reform in the health sector and there is a clear political momentum for Indonesia to meet its targets on health MDGs. The development of two new funding streams from the MoH targeting maternal mortality signals a willingness to act decisively to ensure targets are met. On the downside, these new funding streams further fragment an already complex and administratively burdensome health financing system. Health insurance remains highly political and no clear consensus has emerged within Government around contractual arrangements, insurance providers and lead agency. AusAID's support is therefore likely to remain as targeted policy research rather than a joint shared outcome of the new HSS program.

Since Minister Endang Sedyaningsih's appointment in October 2009 improvements in the MoH have been slower than expected. However the Minister has secured additional funding for primary health care services, is introducing a culture of evidence-based policy and has been receptive to international support. Access to the Minister and key Ministry of Health officials, particularly during the development of new health system strengthening program continues to improve. A key measure of how far our relationship has progressed will be the extent to which the Ministry accepts joint ownership and accountability for the new Health System Strengthening program.

Management consequences

The development of a health sector delivery strategy that provides clarity on our strategic agenda and future scaling up has been delayed due to a significant focus on the new health system strengthening program and building new relationships in the MoH. Inputs were provided to the health forward projections for 2015 scale up and it is anticipated that the



delivery strategy will be completed in the latter half of 2011. An assessment of the staff and capacity needed to deliver on the strategic agenda will be subsequently undertaken.

The health sector is one of the most complex development sectors, and our work in 2010 on three new designs and an independent progress review report has highlighted some shortcomings in our ability to quantify and communicate results. While we have a focus on using GoI systems and monitoring frameworks they are not always sufficient to meet our program reporting requirements. The addition of staff with specific skills in interpretation and analysis of data in 2011 will assist the program staff in this regard, but we need better access to tools and design expertise to assist us in ensuring our programs can demonstrate clear and quantifiable development impact.

The requirement for subsidiary arrangements between Australia and GoI has resulted in a significant investment of staff time during 2010. Investment in a core set of skilled staff with experience in handling these negotiations across the agency could deliver efficiencies and limit the risk of erosion in standards.

The continuing proliferation of global architecture, with Australia's commitment to the Global Alliance for Reproductive Health added in 2010, adds further demands to already stretched human resources.

Estimated expenditure in 2010

Objective	A\$ million	% of bilateral program
Health	25.6	6.5%

Water and sanitation

Rating

Objectives	Rating in 2010	Relative to previous rating
Improved management performance of urban water service delivery agencies	Orange	Declined
Improved management performance of urban sanitation service delivery agencies	Orange	Unchanged
Improved operational systems and procedures for city and district governments to deliver rural water services	Green	Improved
Improved operational systems and procedures for city and district governments to deliver rural sanitation services	Orange	Unchanged
Improved delivery of urban water (new outcome)	Green	Not applicable
Improved delivery of urban sanitation (new outcome)	Orange	Not applicable
GoI policies adopted and applied by local government and community watsan providers	Green	Unchanged

Assessment of results and performance

While there is now consensus that rapid progress on water and sanitation is needed to support Indonesia's urbanisation, there is some way to go for that to be reflected in well planned and regulated, high quality investment at the scale needed. After years of falling short of targeted growth in household and community connections, Indonesia will not meet the MDGs in water or sanitation.



Water and sanitation is struggling to maintain its share of national infrastructure funding, especially against competing claims from transport. Local governments in particular need to lift their physical investment but also do more on public education to maximise community health benefits. The potential for Public Private Partnerships to meet a large proportion of Indonesia's investment needs is a distant prospect in most infrastructure sectors, but probably more so in water and sanitation where multiple jurisdictions tend to be involved. Decentralised management of much water and sanitation infrastructure also poses technical and management challenges which GoI is now focusing on.

AusAID has now scaled up its **Water and Sanitation hibah**¹⁵ programs and associated financial and planning work with city water and sanitation authorities. Both are operated by or with assistance from the Indonesia Infrastructure Initiative (IndII) in partnership with the Ministries of Finance and Works. They are among the more promising developments taking place in the sector. Their early success shows there is scope for further up-scaling of investment in household and community connections to introduce more efficient incentives and risk allocation among governments, instrumentalities and consumers. Thirty eight local governments have signed up for the program and by December 2010 more than 27 000 new household water connections had been installed that benefit more than 135 000 people. Interest in the project is growing from local governments and other donors.

Australia's water and sanitation investment in rural and peri-urban areas is made through the World Bank managed PAMSIMAS program. After a slow start in 2010, PAMSIMAS has now overcome technical and political impediments and is improving water and sanitation services for two million Indonesians in rural and peri-urban areas. More than 3804 villages now have access to safe water supply and the 30 best performing villages have expanded their services using the Australian grant. The World Bank managed **Waspola** Facility, supporting water and sanitation policy formulation and implementation, has struggled to become fully operational due to an overambitious set of objectives.

Factors contributing to or hampering success

A critical element of success in water and sanitation is community demand for better public provision and local government buy-in. Particularly advantageous is preparedness to make pricing and financing decisions to support sustained uptake in water and sanitation coverage and free up the time of key officials to take work forward. Local government interest can change quickly, so donors need to be in a position to respond fast. This is an argument against working through the multilaterals in some instances.

Management consequences

Sustainability of the hibah model is a priority and to this end we are sharing our experience in realising it and the lessons to take forward. One of these is that there is merit in rolling out full cost recovery pricing more broadly in achieving financial sustainability in the water sector. Another lesson is that for sanitation connections, the hibah approach needs to be revisited; the private benefit is lower as a proportion of total cost, especially where there is incomplete coverage.

¹⁵ A \$25 million pilot for output-based incentive grant mechanism to stimulate increased investment for local governments in piped water supply and to improve coverage and services delivery to the poor communities.



The Ministries of Home Affairs and Finance will be approached to assist with engaging heads of districts, remove borrowing impediments, and advance our work on financial management capacity building with urban water authorities. Our engagement on PAMSIMAS will be elevated to ensure it makes up lost time in the completion of activities in 400 villages. Lastly, consideration will be given to taking IndII's work on urban wastewater investment plans to the next level via detailed design work.

Estimated expenditure in 2010

Objective	A\$ million	% of bilateral program
Water and sanitation	34.2	8.7%

Source: 2009-2010 fiscal year's expenditures in AidWorks



Transport and connectivity

Rating

Objectives	Rating in 2010	Relative to previous rating
Strategic regional sections of the national road network built or upgraded to a national standard	Orange	Unchanged
Improved Directorate General of Highways business processes (design, procurement, supervision) for works on National Roads	Orange	Unchanged
Better informed budgeting (social and economic benefits) of transport investments	Green	Unchanged
Greater coherence and integration of GoI policies across transport and communication infrastructure	Orange	Declined

Assessment of results and performance

Awareness continues to build about the extent that the poor condition, inadequate capacity and coverage of transport infrastructure and services is the ‘binding constraint’ to Indonesia’s sustainable and regionally balanced economic and social development. Despite recent increases, public investment has not kept pace with demand and efforts to mobilise private investment in tollways, railways and ports have had limited success. Congestion is worsening in major cities, on the arterial links that connect them, thereby contributing to high inter-island cargo costs and impeding the operations of major seaports, notably Tanjung Priok. At the same time, underfunding and sub-optimal implementation of sub-national road maintenance has caused access to deteriorate for many rural and remote communities.

Intent to address these problems is evident in the current interest surrounding the National Economic Master Plan. However, it remains to be seen who in government is going to carry forward this agenda, and more importantly how, given the number of actors and interests that must be brought together and the changes and resources required. Policy fragmentation could be greater than a year ago as it is less certain that the Vice President will be leading the National Connectivity Agenda as directly as before.

Further, there is a risk of announcements of long term vision detracting from attention to more mundane but much needed improvements to the way transport infrastructure is planned, budgeted, designed, contracted, maintained, priced and policed. Without these, much of the announced scale up in GoI road financing and other investments risks being wasted.

While there are good reasons to be concerned about policy coherence in connectivity, AusAID through IndII is meaningfully involved in strategic planning in aviation, rail and (to a lesser extent) maritime transport. These offer the prospect of growing into an integrated engagement across all key partner agencies. The IndII initiative on road safety also has the potential to demonstrate to GoI the great benefit of cross agency policy and planning.

AusAID’s **Eastern Indonesia National Road Improvement Program (EINRIP)** has largely emerged from the land acquisition and procurement phases that caused so many delays early on in the program’s life. However, some quality and scheduling risks are emerging during construction, and at the time of writing we are exploring with the Directorate General of Highways (DGH) strengthened contract supervision and management arrangements to expedite progress. In 2010 a further eight (8) projects were contracted and started implementation with total road length of 142.7 km.



Recent discussions with DGH have succeeded in prompting senior DGH management to reflect on how the national road network is managed and maintained, and how they may drive systemic change to deliver more durable and cost-effective roads. DGH has since requested assistance from IndII to address fundamental weaknesses identified in business processes and human resource management. This presents an opportunity for us to work with them directly and with significant and lasting effect.

The IndII facility continues to build engagement with partners in DGH and the Ministry of Transport (MoT) on transport safety, transport sub-sector planning and medium term budgeting. Progress was made in 2010 with DGH, MoF & National Development Planning Agency (BAPPENAS) continuing preparations for the adoption of Performance Based Budgeting and the 3-year Medium-term Expenditure Framework from 2011, which will introduce major improvements to the effectiveness of overall planning and funding of the national road network, and more direct linkages of budgets to RENSTRA targets.

Factors contributing to or hampering success

EINRIP positions Australia uniquely among donors. By working through government systems, the program emphasises institutional change more than the road projects of other donors. That said, the resistance we are encountering should not be disregarded and success is by no means assured. Greater support from the banks in dialogue with DGH on construction quality issues would assist in further raising and spreading awareness of these within GoI.

As is the case elsewhere in Indonesia, counterpart engagement is critical. The key to the high success rate of IndII transport activities is its ability to engage progressively, starting small and building in response to demonstrated success and counterpart commitment. For some activities, access to globally recognised expertise has resulted in very high quality policy advisory work and demonstratively improved transport sector planning.

Management consequences

Throughout 2010 we have secured greater flexibility to deal with DGH around key EINRIP parameters including the rate of loan disbursement and scope and timing of the project. While this has complicated the task of programming AusAID's other activities in Indonesia, it is important that this be preserved. The escalation in the seniority of Australian Government representation in discussions about EINRIP has been useful to reinforce our key messages, preserve credibility and distinguish the program from other donor-funded road projects. We will maintain this escalation throughout 2011.

In 2011 we will need to clarify with GoI and the World Bank what is planned for the announced (but as yet unfunded) Road Preservation Fund and what might be possible, including utilising it for more efficient funding of local government roads.

AusAID's new adviser remuneration framework will have implications for part of the delivery of our assistance on budget reform within DGH as well as some of IndII's other policy and institutional activities within MoT. While we are confident of maintaining most of these activities while meeting expectations around quality, we are giving early thought to our options where we cannot do without the best advisers and can no longer afford them.



Estimated expenditure in 2010

Objective	A\$ million	% of bilateral program
Transport and connectivity	71.5	18.2%
Other infrastructure	2.7	0.7%

Decentralisation

Rating

Objectives	Rating in 2010	Relative to previous rating
Improved linkage between planning and budgeting resulting in efficient resource allocation in education, health, and infrastructure		Unchanged
More efficient and timely disbursement and execution of budget – in education, health and infrastructure		Improved
Province / Local Government in NTT, NTB, Aceh, Papua & West Papua more systematically finding and using evidence from the field to inform policy setting / policy actions as an enabling factor for better public expenditure management and service delivery.		Unchanged
Stronger reflection by legislative institutions (local parliament) of community aspirations in planning and budgeting leading to government responsiveness for better service delivery.		Improved

Assessment of results and performance

Provision of technical support and capacity building in public expenditure analysis for local governments and universities in Gorontalo, NTB and NTT Provinces has resulted in the changing of mindsets and practices in provincial planning and budgeting. Methodologies introduced by Australia Nusa Tenggara Assistance for Regional Autonomy Program (ANTARA), Australia Indonesia Partnership for Decentralisation (AIPD) and Public Expenditure Analysis and Capacity Harmonisation (PEACH), such as MKPP+¹⁶ and public expenditure analysis tools to produce better provincial plans and budgets are now being used, particularly in the three priority sectors: education, health and infrastructure. Early results indicate more timely budget formulation and approval of NTT and NTB Provincial Budgets in 2008 and 2009, compared to delays in finalising the 2007 budget. Budget deficits in Aceh, NTT and NTB Province have also been reduced and now comply with national regulations¹⁷.

An Independent Completion Report of ANTARA was completed in 2010 and among the key findings were: i) end of program outcomes were not realistically set; ii) it is important to recognise that changing service delivery is complex; iii) guiding complex institutional reforms will need solid change management strategies; and, iv) it will need implementation cases to link planning, budgeting and service delivery. A range of lessons arising from the review were taken up in the final design and implementation of the new Australia Indonesia Partnership

¹⁶ MKPP+: Matriks Konsolidasi Perencanaan dan Penganggaran, is a tool to consolidate all documents related to planning and budgeting, i.e. medium-term strategic plans, and annual plans. The MKPP+ is an elaborated version of MKPP to include international key performance indicators, such as the Millennium Development Goals and Human Development Indices.

¹⁷ The Government Regulations (PP No. 58/2005) stipulates that the maximum deficit of revenue from its expenditure estimates should be less than 5%.



for Decentralisation Program (AIPD). These included: ensuring realistic end-of-program outcomes are set; use a transition plan to refocus activities and establish relationships; demonstrate links between planning/budgeting and service delivery and where relevant coordinate with other decentralisation programs such as ACCESS and sectoral program such as AIPMNH and the Education Partnership; and, develop a clear exit strategy.

Our support has also increased links between state sectors to non-state sectors, for instance local research centres and universities in public expenditure management and development planning. The provincial governments are more open to ask for technical assistance from local universities to inform policy reviews and formulation.

In Aceh, for example, a forum of local researchers with the Aceh provincial government now work to enhance the capacity of local research organisations in producing good analysis and policy advocacy to inform development planning. Research analyses have been produced and presented to the Aceh provincial government for public dialogue. In post-conflict contexts like Aceh, the willingness of the Aceh government to engage in public advocacy and dialogue is a very positive change. Similar changes are also reflected in Aceh's development planning. Here the government has changed the way it handles post-conflict issues from direct and individually-targeted assistance, to a longer-term perspective by mainstreaming conflict-sensitivity and peace-building into regular development planning and utilising evidence through a locally-developed Decision Support System.

Through our support to increase the engagement of civil society organisations with district level parliamentarians and executives on key development issues (public participation in decision making; increasing economic opportunities for communities particularly the poor, women, and marginalised groups; and natural resource management) results across 16 districts in NTT, NTB, Southeast Sulawesi and South Sulawesi can be seen. Some examples include: 3% reduction in the level of poverty in Central Lombok between 2007 and 2008 after the district government worked closely with ACCESS partners; 176 local government regulations on natural resource management, planning and budgeting, public services and local economy successfully negotiated by ACCESS partners in six kabupatens in South Sulawesi, NTT and NTB. In other districts in South Sulawesi and NTT at least 54 village and district regulations are set to improve participation and gender inclusion, participatory planning and budgeting, primary health care, women and child protection and other areas of service delivery. The involvement of local parliamentarians and executives in planning and budgeting processes at the village and sub-district levels has ensured that district work plans and budgets reflect community needs, leading to efficient and effective resource allocations and service delivery.

These examples reflect how increasing trust between government and local civil society organisations (CSOs) has helped CSOs advocate more effectively, and to be meaningfully involved in district level policy reviews and formulation. Increasing demand is also evident in local governments to use evidence-based analysis to inform development planning in NTT, NTB, Aceh, South Sulawesi and South-East Sulawesi. More work is required in Papua and West Papua provinces to build government relationships with local research institutions and universities.

The improved interaction between civil society and government links also to a gradual improvement in the delivery of public services. Australian-assisted innovations for better public services have been nationally recognised by the GoI. PATEN (one-stop service for public administration) in Aceh has been officially adopted through the Minister of Home Affairs Regulation (Permendagri 4/2010) and is mandated to be replicated across provinces



in Indonesia. The comprehensive village planning reform (One Village One Plan) through village mid term development plans (RPJMDes) has also been adopted by GoI as a key tool for village development across Indonesia.

Factors contributing to or hampering success

Enhancement of AusAID’s subnational contributions will be sought through application of the common results framework which is now linking to AusAID’s national programs in Health and Education. Importantly, this will ensure cross-resourcing and referencing of AusAID’s decentralised projects and provide input to other country programs. The establishment of two Regional Coordinator positions for Nusa Tenggara and Papua regions have started to improve inter-sectoral coordination of AusAID’s work in these regions.

The National Development Planning Agency provided strong endorsement to the Eastern Indonesia Heads of BAPPEDA Forum and the Eastern Indonesia Forum as a whole (facilitated by BAKTI). The Minister, Armida S. Alisjahbana stated that this provides a clear example of how to involve CSOs in development planning processes. This should be seen as an opportunity to further strengthen the forum through a series of strategic activities, including piloting of women’s leadership, development of research frameworks on poverty in the region, and identification of smart practices for sharing not only nationally but also as part of Indonesia’s contribution to the G20 south-south exchange.

Our achievements with civil society strengthening and their effective contribution in development planning and process through Australia Community Development and Civil Society Strengthening Scheme (ACCESS) and Local Governance and Infrastructure for Communities in Aceh Program (LOGICA), link well with the demand side strategy for AIPD to ensure the right balance in our approach to assisting the GoI and sub national governments to reform their public finance systems.

The role and capacity of the legislatures in Aceh and Eastern Indonesia is still problematic and at times inhibit progressive development agendas. Concerted efforts are needed to include these stakeholders in a range of supported reform agendas.

Management consequences

We need a robust communications strategy and plan to ensure all stakeholders, both at national and sub-national level, are meaningfully involved in various stages and elements of our programs. Effective instruments and approaches are shared amongst decentralisation programs for broader application where relevant. A strong national level engagement strategy needs to be developed focussing on selected strategic priorities of the three key ministries managing Indonesia’s decentralisation, i.e. Ministry of Home Affairs (MOHA), BAPPENAS and Ministry of Finance (MOF) in the areas of: political and administrative decentralisation (revision of Law no 32/2004 and formulation of RUU Desa), fiscal decentralisation and public finance management, and public service reforms. It is important that we also bring best practices from sub-national level into policy discussions within these reform agendas.

Estimated expenditure in 2010

Objective	A\$ million	% of bilateral program
Decentralisation	20.4	5.2%

Source: 2009-2010 fiscal year’s expenditures in AidWorks



Social Protection and Community Driven Development (PNPM)

Rating

Objectives	Rating in 2010	Relative to previous rating
Strengthened GoI poverty reduction instruments (new outcome)	■	Not applicable
Strengthened ability to reach for the poor (new outcome)	■	Not applicable

Assessment of results and performance

Traction in GoI for strengthened poverty reduction instruments and ability to reach the poor remains strong. However the lack of clarity on roles of the National Development Planning Agency (BAPPENAS), the Coordinating Ministry for Social Welfare (MENKOKESRA), and the National Team for Accelerating Poverty Reduction (TNP2K) continues to be a risk that could undermine the effectiveness of AusAID's investments in the sector. Aside from the ongoing lack of collaboration between ministries and government agencies, progress has also been slow in the National Community Empowerment Program (PNPM) support facility (managed by the World Bank). This has delayed the development of long term strategies for specific activities we support within PNPM, including GENERASI which provides support to communities in improving health and education indicators, scaling up of our microfinance pilot, and general progress of approved activities.

Despite these constraints, both subsectors to which AusAID is contributing (PNPM and Social Protection) are progressing, and AusAID's influence within this niche is continuing to grow. The Poverty Reduction Support Facility (PRSF) interim arrangements have been effective and appropriate staff are being sourced. This will support a smooth transition to operations using a managing contractor currently being selected for the full PRSF which will start in July 2011. While challenges remain in establishing the PRSF, AusAID's focus is now shifting from the mobilisation phase to outputs of the policy formulation working groups in TNP2K. These groups will drive the policy and strategy for GoI's poverty programs.

Factors contributing to or hampering success

The national road map across parts of PNPM is still being progressed by MENKOKESRA. Extension of the consultation process means that this will be completed in the second half of 2011. Development of the long term strategy for GENERASI is commencing with shifting of management responsibilities and oversight within MoHA. Once this is completed, in-depth discussions can commence with the directorate designated with the responsibility to handle GENERASI.

The unit should respond to the delays and lack of human resources in PRSF required to ensure effective oversight of grants and pilots for PNPM. In full collaboration with the World Bank and GoI counterparts, AusAID could supplement the current team to safeguard investments in the program. Linking efforts between PNPM and TNP2K, through activities such as strategy workshops should assist in increasing cohesion between the various GoI institutions.

The objectives of the PRSF interim arrangements are to lay foundations for the full PRSF and get people and systems in place to establish the TNP2K secretariat. GoI appreciates our responsiveness and thus is relatively responsive to and supportive of our requests. While no



substantial discussion regarding PRSF multi-donor trust fund establishment has taken place so far, GoI has started directing donors interested to contribute to the TNP2K secretariat, such as USAID and *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)*, Germany's International Cooperation Agency, to coordinate their support with us.

The World Bank, which receives our funding to strengthen GoI poverty reduction knowledge, has been very cooperative in supporting the TNP2K secretariat achieving its goals. The Bank has been supportive in establishing the Targeting as well as the Monitoring & Evaluation working groups under the TNP2K secretariat. The Bank also provides intensive support to the Targeting Working Group to create a national targeting system.

With the shifting of our focus from the mobilisation phase to outputs of the policy formulation working groups in TNP2K secretariat, there is urgency to finalise recruitment of the working group coordinators and analysts. There have been challenges in securing appropriate expertise for the working groups such as poverty targeting.

Management consequences

Overall, we need to ensure that our communications with key ministries and international development counterparts lead increased levels of collaboration between these institutions.

Other priorities are:

- Participation in policy dialogue and key activities such as improving targeting mechanisms.
- At the program level, monitor and approve progressive scale up of large pilots in PNPM.
- Establish the management structure and governance of PRSF with AusAID as a constituent, and assess and make recommendations of the management, operational and organisational systems and structures of TNP2K, focusing on the PRSF supported positions and processes.
- Expand networks to source suitable candidates for key working group positions.

Estimated expenditure in 2010

Objective	A\$ million	% of bilateral program
Poverty reduction	23.2	5.9%

Source: 2009-2010 fiscal year's expenditures in AidWorks

Economic governance

Rating

Objectives	Rating in 2010	Relative to previous rating
Improved capacity of core economic institutions for policy development, coordination and implementation	■	Declined
Improved capacity for development and supervision of financial institutions and capital markets	■	Declined



Objectives	Rating in 2010	Relative to previous rating
Improved capacity to develop and implement trade and investment policy	Green	Unchanged
More efficient management of public finances (needs to be read in conjunction with decentralisation)	Orange	Declined
Improved tax administration	Green	Unchanged

Assessment of results and performance

While some elements of economic governance in Indonesia such as monetary policy are well handled, greater uncertainty surrounds other areas and this is where Australian assistance is most focussed. In particular, economic policy coordination is now more complicated. There is an immense and growing workload associated with Indonesia's chairing and hosting of regional economic fora. There are doubts about the government's resolve to implement announced reforms to energy subsidies, and there is potential for further cases of major tax fraud to emerge. These pose the most imminent risks to better management of the government's fiscal resources. The major long term risk is lack of progress with the national bureaucratic reform agenda – the current regime constrains what can be achieved on economic policy coordination and implementation. Conversely, growing public scrutiny regarding the efficiency and fairness with which the government raises revenue and allocates its spending presents long term opportunities.

Economic policy coordination attracts the largest share of Australian assistance in the sector with Government Partnership Fund (GPF), Australia Indonesia Partnership for Economic Governance Facility (AIPEG) and Support for Enhanced Analysis on Indonesia's Economy (SEAMIE) devoting significant resources. At the centre of this is Treasury involvement with the Fiscal Policy Office (FPO) under GPF. SEAMIE and Treasury GPF have already had an impact at FPO via improved macroeconomic analysis and forecasting and growth into policy analysis continues. AIPEG has also been assisting the Coordinating Ministry of Economic Affairs to coordinate Indonesian commitments made under the ASEAN Economic Blueprint while chairing ASEAN in 2011.

Strengthened **public financial management** (PFM) is also being pursued through a number of channels. ISP3's work on procurement reform has resulted in improved public sector standards being issued. The key challenge ahead will be the level of awareness and compliance by spending agencies. AIPEG is being tasked to commence scale up support of activities led by GPF deployees from the Australian Department of Finance who have already helped with the implementation a Medium Term Expenditure Framework and the imminent roll out of performance based budgeting. AIPEG will help push these reforms out to line ministries.

AIPEG engagement on **trade** policy is escalating. This year, in the lead up to Indonesia's hosting of ASEAN, the focus is on building the capacity of the Ministry of Trade to advise and negotiate on trade in services. Conversely, AIPEG's work on **debt management** and **financial regulation** have reached a natural review point, with phase down or complete withdrawal a possibility in each.

AIPEG's work in **Tax**, where we now have the coincidence of reform minded leadership with the appointment of a new Director General and considerable demand for assistance, offer potential for very meaningful scale up. Additional support has been approved to assist in internal investigations, audit and tax base broadening.



Factors contributing to or hampering success

The key elements in achieving successful outcomes are enduring and trusting relationships with Indonesian counterparts, and the willingness of senior GoI officials to actively promote reform. In DG Tax there is a risk of poor management of any new high profile fraud cases, thereby further eroding taxpayer confidence and potentially generating a taxpayer revolt. On the positive side, the new DG is widely respected among his peers and donors in Indonesia.

Management consequences

It is in Australia's interests to preserve maximum flexibility to scale up or down as we know more about levels of need and interest among partner agencies. However, these decisions are best made inclusively and transparently. In 2009, the selection of GPF activities was driven by the GoI for the first time. This will continue as we seek to refocus GPF, AIPEG and any future procurement programming on areas of emerging genuine need, impact, traction and poverty/development significance.

SEAMIE will end in 2011, and we will explore with FPO, Treasury and the World Bank how to reshape, resource and support it, including through other Australian programming, to become the preeminent source of economic advice and analysis for the Indonesian Government.

On tax, we will coordinate with other donors more effectively to better align our work with the needs of the new Director General and work with the agency to manage risks around communication of the agency's ongoing anti-fraud program.

Estimated expenditure in 2010

Objective	A\$ million	% of bilateral program
Economic Governance	27.1	6.9%
Other governance	4.3	1.1%

Source: 2009-2010 fiscal year's expenditures in AidWorks

Disaster risk management

Rating

Objectives	Rating in 2010	Relative to previous rating
The National Coordinating Agency for Disaster Management (BNPB) is a mature organisation fulfilling its responsibilities as guardian of the Disaster Management Law		Unchanged
Sub national disaster management structure are established and fully operational to perform their mandated roles (new outcome)		Not applicable
Non-governmental institutions as partners of the GoI in Community Based Disaster Management (CBDRM) have strengthened community reliance (new outcome)		Not applicable

Assessment of results and performance

Indonesia's National Disaster Management agency's (BNPB) successful role in responding to and coordinating events following the Mt. Merapi volcanic disaster has been recognised



across various Government of Indonesia (GoI) agencies. Furthermore, BNPB's roles and responsibilities are better defined within GoI and its annual budget has increased significantly. While this is a positive commitment to disaster risk management by the government it also requires greater Australian commitment to support and facilitate the development of basic program delivery and business process within BNPB.

The Australia-Indonesia Facility for Disaster Reduction (AIFDR) is co-directed with BNPB. The facility is building the capability of BNPB to implement a broad range of programs and has delivered significant results with BNPB and GoI in disaster prevention and mitigation. This has included new knowledge of natural hazard risks through support for: a new national earthquake hazard map; national guidelines for tsunami and earthquake risk assessments; and modelling and mapping tools to assist disaster managers to implement the guidelines.

To ensure that this new knowledge makes a difference to disaster managers across Indonesia, the AIFDR and BNPB are implementing findings from a sub-national disaster management training needs assessment to improve disaster management knowledge and skills. The AIFDR and BNPB are also developing and finalising BNPB's training programs for sub-national disaster managers and establishing a program for building and operating provincial emergency operation centres to support better preparedness for response.

Working directly with communities in disaster risk reduction is a priority of BNPB. The AIFDR has facilitated stronger relationships between government and active community based disaster risk management organisations. The Build Back Better program in West Sumatra has been reviewed and is influencing building practices and community awareness. Over 300,000 houses were destroyed or damaged following the Padang earthquake of 2009. The review found that sixty-eight percent of Padang households now have an improved understanding of earthquake safe housing.

Partnerships with Muhammadiyah, Nahdlatul Ulama and Oxfam are ensuring that objectives of BNPB's national plan on disaster risk management are met at the community level. Further, the AIFDR launched the first round of the disaster risk reduction Research and Community Grants. These grants will fund work in difficult issues facing the sector, including the role of gender, traditional knowledge, and climate change.

Australia's investment in disaster management has influenced GoI to better coordinate its own internal processes, including the development of a number of agreements and internal GoI Memoranda of Understanding. In particular, through the Graduate Research on Earthquake and Active Tectonics program, the AIFDR has facilitated collaboration between international and national tertiary institutions. Six Indonesian (including three GoI officials) students are now enrolled in scientific postgraduate training in Indonesia and Australia – the AIFDR is providing partial funding for their study.

Australia's strength in the sector was also demonstrated following the Mentawai Islands tsunami and Mt Merapi volcanic eruptions in late 2010. Australia delivered timely disaster response and recovery assistance in close cooperation with BNPB and other government and non-government partners. Following the Mt Merapi eruptions, the AIFDR, at the request of BNPB, also supported research to gain a better understanding of the impact of disasters on livelihoods and provide recommendations for improvement in preparedness and mitigation efforts. In addition, AIFDR has supported BNPB in its response activities by providing the Indonesia Disaster Rapid Response and Assistance Force (SRC-PB) with training and equipment.



The partnership between Australia and Indonesia is now starting to support and influence regional disaster management priorities in particular through support to the ASEAN Agreement on Disaster Management and Emergency Response.

Factors contributing to or hampering success

The AIFDR remains flexible and responsive in this dynamic environment, responding to the needs of BNPB and evolving partner organisations. While this environment has presented long term planning challenges for AIFDR, the facility is nevertheless identified by BNPB as helping to meet the GoI's disaster risk management priorities.

While program synergies between AIFDR and other areas of AusAID exist in the response space, the physical and ICT separation of the AIFDR from AusAID is a significant limitation. AIFDR is scheduled to move onto the AusAID ICT system from June 2011 which will address these issues.

Through its National Disaster Risk Management Plan, BNPB has a commitment to developing a holistic program focused on all aspects of disaster management. However, last year the agency responded to three large natural disasters along with broader bilateral commitments which hampered its leadership on disaster reduction, mitigation and preparedness initiatives with provincial governments.

Management consequences

In partnership with BNPB and other partners, AIFDR will focus its program in two provinces in 2011. This will provide a greater focus for AIFDR programs and create a stronger platform for both program areas and other AusAID initiatives to link together. Further, AIFDR will complete its mid-term evaluation in September 2011 so that progress to date can be reviewed and future programming design considered.

Estimated expenditure in 2010

Objective	A\$ million	% of bilateral program
Disaster facility	13.2	3.4%
Disaster risk management	9.0	2.3%

Source: 2009-2010 fiscal year's expenditures in AidWorks

Climate Change

Rating

Objectives	Rating in 2010	Relative to previous rating
REDD demonstrated to be practical, effective and equitable	Orange	Unchanged
Future global outcome on climate change influenced by Indonesian experience with REDD	Green	Unchanged
Locally generated new knowledge of climate change adaptation being used in strategy development at all levels of government	Green	Improved
Low carbon growth strategies developed and implemented	Orange	Unchanged
Additional domestic finance (government and private sector) and international sources of finance mobilised and accessed, for response to climate change	Orange	Declined



Assessment of results and performance

Indonesia is one of the world largest greenhouse gas emitters, largely due to land clearing. Indonesia is taking major steps forward in its efforts to address climate change, building upon President Yudhoyono's pledge to reduce Indonesia's emissions by 26 percent below business as usual by 2020, or 41 percent with international assistance. Like Australia, Indonesia is a member of the Major Economies Forum (MEF), Asia-Pacific Economic Cooperation (APEC), East Asia Summit (EAS) and the Group of Twenty (G20). Indonesia is also a member of the Cartagena Group, a collection of progressive developed and developing countries advocating for strong climate change action. Indonesia's ambitious domestic targets, progressive position in a range of international fora, opportunities for substantial emissions reduction from the forest sector, and local vulnerabilities to the impacts of climate change make it a key strategic climate change partner for Australia. Australia has a substantial bilateral climate assistance program in Indonesia, including assisting reducing emissions from forest degradation and deforestation (REDD+) (\$100m Indonesia-Australia Forest Carbon Partnership), adaptation (\$15m) and broader climate change policy (Green Paper), reflecting the ongoing importance of the relationship.

In May 2010 Indonesia and Norway signed a Letter of Intent (LOI) for a \$1 billion REDD+ Partnership. The signing of the LOI has provided a strong stimulus for the development of Indonesia's national architecture for REDD+, which had been stymied by a lack of whole of government leadership and uncertain roles and responsibilities between agencies. Pursuant to the LOI, President Yudhoyono established a REDD+ taskforce representing eight agencies and led by Kuntoro Mangkusubroto, Head of UKP4 (The Presidential Working Unit for Supervision and Control of Development). The taskforce will complete a national REDD+ strategy, establish a REDD+ agency, financing mechanism and an institution for measuring, reporting and verifying (MRV) emission reductions in the second half of 2011. The introduction of a two-year moratorium on new forest licenses has also since been introduced as a requirement of the LOI in 2011. Australia's Minister for Foreign Affairs, Kevin Rudd, and Minister for Climate Change and Energy Efficiency, Greg Combet, jointly announced in December 2010, that Australia will align relevant activities with, the REDD+ Partnership. Outcomes from the Cancun climate change negotiations were conducive to further development of REDD+ but progress on reaching a global climate outcome that could include international emissions trading, which is key for the sustainability of REDD+, remains incremental. Practical lessons from on-the-ground REDD+ demonstration activities continues to feed into international climate change negotiations.

Reform to the spatial planning processes and the adoption of low carbon growth principles is starting to have a positive impact in Indonesia. Several provinces, including Central and East Kalimantan are developing low carbon growth strategies. GoI continues to push forward on removing the impediments to geothermal power development and scaling back petrol subsidies.

Australia's support for REDD+ in Indonesia has been boosted by the new impetus around the LOI and the announcement of additional funding of \$30 million for the Indonesia Australia Forest Carbon Partnership (IAFCP). Australia and other donors are aligning our programs to assist in achieving the goals of the REDD+ Partnership. Despite procedural delays, Australia's first demonstration activity in Central Kalimantan will make a significant contribution to the LOI initiative to make Central Kalimantan a pilot province for REDD+. Livelihoods trial programs in rubber farming have had very good results. The Australian-supported Indonesia National Carbon Accounting System has been closely reviewed by the REDD+ Taskforce, and



is likely to form the technical basis of the new MRV Institution, a key contribution to the LOI. The satellite mapping of forest cover change over the last decade is yielding very useful results. Our activities have made a contribution to REDD+ policy development domestically in Indonesia, particularly in relation to MRV. Furthermore, initial lessons from our demonstration activities have been influential internationally in the UN climate change negotiations and other multilateral REDD+ fora.

Local knowledge of climate change adaptation is being generated through a number of activities. These include the whole of government, BAPPENAS-led Climate Change Sectoral Roadmap which has in-depth analysis of adaptation in the agriculture, health, water resources, and marine and fisheries. Australia's pilot support to the Ministry of Environment is enabling climate change vulnerability needs assessment to be tested at provincial and district scale with results guiding national adaptation strategy development and local development planning. Indonesia's strong commitment towards an improved climate change strategy is reflected by an increased rating in this area. In December 2010 Australia announced an additional \$15 million for adaptation in Indonesia, which will allow work to scale up from the current small base.

The language of 'low carbon growth' is now in common usage within government owing in some measure to the climate change green paper supported by Australia. A mantra of "7 percent growth, 26 percent emissions reductions" is increasingly being used by central agencies and donors. A high level policy dialogue forum encompassing all the major existing mechanisms and steering committees has been proposed by GoI. Indonesia is also building a financing framework for climate change mitigation and adaptation primarily through BAPPENAS and the Ministry of Finance. Meanwhile the Indonesia Climate Change Trust Fund (ICCTF) is operational but under-resourced to achieve effective impact. Uncertainty surrounding Indonesia's state budget contribution and a lack of private sector climate financing development has contributed to the downgrading of our rating for this objective.

Factors contributing to or hampering success

Presidential leadership has helped Indonesia make progress with whole of government strategy development on climate change mitigation. However the government still needs to resolve overlapping and unclear mandates of central agencies on climate change. The LOI with Norway provided a strong impetus to establish a new institutional framework for REDD+. Australia's forest carbon partnership made headway in Central Kalimantan but delays in appointing an implementing agency in the Ministry of Forestry have prevented progress with a second demonstration activity. Progress on adaptation has been less dramatic perhaps due a lack of high profile presidential leadership and the greater number of agencies involved.

Management consequences

Preparation of a whole of government strategy for climate change in the Indonesia program will get underway in the coming year. This will confirm Australia's objectives and strategies for executing climate change assistance, including mainstreaming climate into the broader development program and consider the implications of the changing international landscape. Future work will likely focus on assisting Indonesia to achieve its mitigation targets, adapt to the impacts of climate change and pursue 'low carbon growth'.

With delays in the international context and in the domestic implementation of REDD+, a risk remains if Australian funding is not extended beyond the current timeline to 2012-13,



when results will likely remain nascent. A decision by management will be needed in the coming year. With a large number of initiatives underway in this sector, the partnership will work to improve the cohesion of donor support for climate change, including aligning support for REDD+. We will put greater effort into documenting lessons learned from REDD+ and will implement a proactive communications strategy.

Estimated expenditure in 2010

Objective	A\$ million	% of bilateral program
Climate change	13.3	3.4%

Source: 2009-2010 fiscal year's expenditures in AidWorks

Rural livelihoods and agribusiness

Rating

Objectives	Rating in 2010	Relative to previous rating
Improved smallholder agri-business practices	■	Improved
Improved enabling environment for agri-business that benefits smallholders, at the provincial and national level	■	Unchanged
Improved capacity of agricultural agencies to conduct agricultural research and transfer the results for the benefit of small holders	■	Unchanged
Better functioning agricultural markets as part of value chains	■	Declined

Assessment of results and performance

The Indonesian Government recognises the importance of rural livelihoods to combating poverty,¹⁸ as reflected in its Medium Term Development Plan (2010-2014). However, this is not reflected in the national budget, with agriculture ranked eighth compared to other sectors. The prospect of rising world food prices is raising concerns over the fragile situation of Indonesia's poor farmers: for subsistence farmers, higher food prices hinder rather than help their food security status. Food security concerns as a result of recent crop failures due to unpredictable and unusual weather patterns are being addressed through subsidies instead of improving agribusiness and farming practices. Farmer terms of trade are steady but overall trending downward. Meanwhile, GoI is planning a number of food estates to generate a massive increase in food crops for domestic consumption and export.

The decline in ratings for 2010 for the indicator "better functioning agricultural markets as part of value chains" is based on a number of studies¹⁹ that highlighted the increasing number of by-laws for levies issued by local governments that are increasing the costs of transporting goods.

To address poverty concerns, work is needed to further increase farmer productivity, enhance linkages between farmers and markets, and improve the business-enabling environment in

¹⁸ The majority of Indonesia's poor live in rural areas and over 40 percent of Indonesia's labour force rely on low-productivity activities in agriculture for their livelihoods (source: World Bank, Indonesia Development Policy Review - Enhancing government effectiveness in a democratic and decentralised Indonesia, November 2009, page v)

¹⁹ Surveys and studies conducted by the Regional Watch Committee (KPPOD) and the Asia Foundation, and by LPEM, University of Indonesia



the agriculture sector. High and often hidden trade costs and a lack of public and private infrastructure investment remain considerable constraints to the sector, as well as the generally poor performance of government extension services for farmers.

2010 saw a hiatus in AusAID's substantive engagement in the rural sector, while the agency took stock of lessons learned and recommendations arising from reviews undertaken in earlier years, in particular the Smallholder Agribusiness Development Initiative. Building on these findings, a new rural development program is being designed for implementation in 2012. The new program will be integrated with the Australia Indonesia Partnership for Decentralisation, and aims to increase farmer competitiveness and net incomes.

Meanwhile, AusAID provided support to The Asia Foundation and the regional autonomy watch committee-KPPOD (through our partnership with IFC-PENSA) to conduct surveys and provide analysis on local economic governance and ease of doing business, respectively. These reports will provide important baseline data for the new rural development program.

AusAID contributions to the International Finance Corporation (the private arm of the World Bank) assisted linking smallholder farmers to lead firms. The IFC's agriculture lead firm initiative generated USD\$6.2 million in revenues for almost 5000 farmers (about USD\$3 million of this achieved in 2010) easily exceeding the project's USD\$5 million target. AusAID support is also helping banks to develop loan products more accessible to SMEs, for instance products that allow a lead firm to repay a partner farmer's loan based on warehouse receipts for produce delivered. The new bilateral rural program will expand the warehouse receipts model across eastern Indonesia.

Factors contributing to or hampering success

The extended approach to designing the new Rural Development Program demonstrates the lack of clarity around what works in terms of rural development interventions, and how AusAID can best engage in the sector. Although the IFC has delivered some success, it relies primarily on expensive international technical assistance, and has difficulty partnering with SMEs due to rigid criteria for engagement. This constrains deeper penetration and poverty impacts for farmers in eastern Indonesia.

Access to financial services, including banking, credit and insurance, is not widespread, and this has obvious implications for farm level capital accumulation and risk appetite. SMEs often are too small and ill-equipped to qualify for corporate lending, and yet too large and complex to be attractive to microfinance providers. On a positive note, bank loans portfolios continue to rise in eastern Indonesia, suggesting an increasing investment appetite over time.

There remains a significant need for good quality extension services, and financial awareness by small farmers also needs to grow before they can take full advantage of market opportunities. Lack of commitment from GoI in the form of budget allocation and substantive regulatory reform will continue to constrain better rural development outcomes.

Management consequences

We aim to establish national level partnerships for policy engagement and to support rural program delivery. We also aim to develop and implement a Rural Development Program to increase farmer competitiveness and net incomes by enhancing agriculture market systems, with management arrangements integrated with the Australia Indonesia Partnership for Decentralisation. We will also pilot an on-granting mechanism and effective farmer extension and agri-business technical assistance.





Estimated expenditure in 2010

Objective	A\$ million	% of bilateral program
Rural livelihoods and agribusiness	4.6	1.2%

Source: 2009-2010 fiscal year's expenditures in AidWorks

Law and justice

Rating

Objectives	Rating in 2010	Relative to previous rating
Judicial Reform		Unchanged
Anti-corruption		Improved

Assessment of results and performance

Australia continued to support the reform of two key law and justice sector institutions in 2010 – the Supreme Court and Attorney General's Office (AGO) - through a transition program. Key results included:

- The Supreme Court's launch of its 25-year Blueprint for Reform. Australian funded members of the Judicial Reform Team Office worked closely with the Supreme Court to develop and disseminate the blueprint. Launched in late 2010, the blueprint is based on the International Court Excellence standards and provides the basis for future court reform. We are working with the Attorney General's Office on a similar reform blueprint.
- Approval by the President of a new structure for the Attorney General's Office that streamlines the bureaucracy and ensures prosecutors are focused on their core tasks. Associated management reforms have also been agreed that will enhance accountability for prosecutors' performance, and ensure that recruitments, promotions and transfers are merit-based.
- Increased utilisation of legal aid for the poor and marginalised. Australian-funded analysis of women's demand for court services facilitated the allocation of funding for court fee waivers, circuit courts and legal aid lawyers. Between 2007 and 2009, the number of cases heard by circuit courts more than doubled, and court fee waivers increased 10-fold. This was achieved through the development of a model for cooperation between civil society and the courts to identify and meet the needs of marginalised groups.
- Completion of analytical pieces to inform the future law and justice sector program – assessment of access to justice for people with disabilities in Indonesia is the first report of its kind. Analysis on anti-corruption will lead to targeted assistance aimed at strengthening rule of law and public confidence.
- In addition, a long term program of support to the justice sector (2011-14) was approved and tendered in 2010.



Factors contributing to or hampering success

The Indonesian Government has recognised law and justice reform as a national priority. The eradication of the legal mafia and increasing the performance of key law enforcement agencies was the top priority identified in President Yudhyono's second term administration's 100 day program. A Taskforce on the Eradication of the Legal Mafia was formed shortly after the President's re-election in 2009, and the Supreme Court and Attorney General's Reform agendas remain priorities.

Justice sector reform remains a gradual, long term process and the sector continues to suffer from a lack of public trust and entrenched corruption and patronage. There were high expectations that President Yudhyono's second term administration would make further progress in combating corruption, in particular judicial corruption. However the continuing incidences of high level corruption cases in 2010 further reduced public confidence in the judiciary. The National Strategy on Corruption Eradication was due to be launched in 2009, but as at the end of 2010 was still awaiting presidential approval. In 2010 Australia operated only a small, discrete transition program.

Management consequences

Progress was made in addressing the management consequences identified in the 2009 APPR with most of the analytical products to inform the long-term program (anti-corruption, access to justice for people with disability, review mechanisms for discriminatory regional regulations) finalised or in their final stages.

Induction of the new justice program director will be important to ensure this model works in strengthening AusAID engagement with stakeholders. This will ensure a better understanding of the political dynamics in the justice sector so as to inform programming and manage risks.

Mobilisation of the new justice program will require significant investment of time and effort in 2011. Programming in 2011 will focus on continued support to stakeholders under the transition program while undertaking a comprehensive planning process by the end of the year.

Careful and strategic engagement of stakeholders, both in Indonesia and Australia, will be required to manage expectations.

Estimated expenditure in 2010

Objective	A\$ million	% of bilateral program
Law and justice	5.8	1.5%

Source: 2009-2010 fiscal year's expenditures in AidWorks

Elections

Rating

Objectives	Rating in 2010	Relative to previous rating
Improved performance of electoral management bodies in managing and delivering quality elections (local and national)	■	Unchanged



Objectives	Rating in 2010	Relative to previous rating
Increased public engagement in Indonesia's elections and systems	■	Unchanged

Assessment of results and performance

In 2010, more than 240 local elections conducted in Indonesia showed that problems evident in the 2009 national elections have not been resolved, and may be worsening. Violence was associated with approximately 10% of elections, 80% of results were disputed in the Constitutional Court, and parliamentary revisions to essential electoral legislation have been delayed. In this context, Australia funded a one-year interim program while finalising a new five-year program. Assistance under the interim program was targeted to inform legislative revisions and strengthen the capacity of electoral management bodies. Australia remains the largest donor in this sector although contributions are less than 1% of Indonesia's expenditure on elections.²⁰ Key results in 2010 included:

- Support for the Electoral Resources Information Centre that laid the groundwork for the Electoral Commission to make election information (such as election results) publicly available and meet responsibilities under the 2008 Freedom of Information Law for the first time.
- Training to local electoral commissions in five provinces that improved their ability to manage the voters list, confirmed the right to vote for 38 million people, and increased public confidence in the voter registry.
- The first standardised manual for polling officials working on sub-national elections across the country to ensure that all polling officials are able to consistently manage local elections.
- Production of evidence-based research on elections financing, women's candidacy and elections monitoring to inform amendments to the elections management law and local elections law. These have been favourably received by the Ministry of Home Affairs and Parliament.
- Elections financing research that was the first of its kind. It will assist increased transparency in elections budgeting, advise decision-makers of potential cost savings in the conduct of elections, and inform electoral legislation revisions.

In addition, Australia's long-term program of support 2011-15 was approved at the end of 2010.

Factors contributing to or hampering success

The provision of electoral assistance in 2010 was delivered against the backdrop of the problems highlighted in the 2009 national elections. Of most concern were: an inaccurate voters list that disenfranchised millions of voters; errors in vote tabulation; and a high level of invalid votes that could have led to significant disputes if the winning margin had not been so substantial. These weaknesses on election day were underpinned by weak human resource capacity and communication within electoral management bodies, an ambiguous and

²⁰ Note that this figure is approximate owing to the difficulty in reconciling figures from national and sub-national parliament



changing legislative framework and weak commitment to timely decision-making that meant key decisions were left too late to be effective.

The concern is that if the next round of national elections in 2014 yield unclear results (either through weak management capacity and/or corruption), this will undermine public confidence in political and legal processes to resolve election disputes, leading to the reversal of democratic gains and at worst, outbreaks of violence. The local elections in the lead up to the 2014 national elections will test whether progress is being made in addressing these problems.

Australia's key partners in the delivery of the 2010 elections program – CSOs, the United Nations Development Programme (UNDP) and the Australian Electoral Commission – demonstrated strong relationships with their respective counterparts. This resulted in effective participation in training, and research inputs were actively considered in parliamentary debates on electoral legislation. At the same time, prolonged parliamentary deliberations, especially on the elections management law, resulted in delays to the finalisation of activities.

Management consequences

Good progress was made in addressing the management consequences identified in the 2009 APPR. Additional staff were engaged and the new five-year elections program received Ministerial approval.

The transition program has positioned us well in terms of highlighting the benefits of engaging directly with partners in the delivery of a politically sensitive program. Approval of the procurement method and funding of the proposed delivery partner is required for the program to mobilise in 2011.


Further delays in passing electoral management legislation beyond mid-2011 will negatively impact on achieving the long-term program outcomes. The Democratic Governance team will continue to closely monitor the progress of electoral reform and regularly review and update the risk management framework. Key risk management strategies will include keeping the program open to opportunities for engagement, and ensuring the delivery partner has a proven track record of managing risks in the sector.

An independent completion review will examine the transition program. Its recommendations will inform the long term program.

Estimated expenditure in 2010

Objective	A\$ million	% of bilateral program
Elections	4.5	1.1%

Source: 2009-2010 fiscal year's expenditures in AidWorksQuality of aid activities



Gender equality

AusAID has maintained its commitment to the overall objective of its Gender Action Plan (GAP) to help internal stakeholders bring about changes that improve women's access to services, democratic process, decision-making and to women's rights. Our work to meet key GAP priorities is listed below.

a.) Developing a targeted program to support strengthening of women's organizations and groups and organizations promoting gender equality, to initiate and engage in informed public and policy debates on priority gender issues at all levels.

AusAID Indonesia supports a range of initiatives at the national and sub national level that directly and indirectly support women leaders to advance an equality agenda. In ACCESS and LOGICA for example, support is being provided to marginalised women to better understand their rights, participate in local-level planning activities and shape gender-related legislation. AusAID support to Komnas Perempuan has improved coordination among Violence Against Women (VAW) service providers and raised awareness of the range of services available to VAW cases among local governments, communities and law enforcement officers. Komnas Perempuan has produced a Strategic Planning document 2010-2014, training module of VAW for Law enforcements Apparatus in General Courts and an Integrative Report on VAW in 40 years Armed Conflict in Indonesia. It also held a conference on Law and Punishment which provided fellowship for 100 Indonesian women human rights defenders.

In 2010 AusAID started development of a program to promote women's leadership. It will support women within government and civil society to take-up political and decision-making leadership roles and will work with policy makers and civil society to promote policies and programs that respond to the needs of women, particularly poor women.

b.) Integrating initiatives to promote gender equality and help meet gender-related MDGs especially into health, education and community development programs, with a specific focus on creating sustainable impacts by increasing the number and capacity of women in the decision-making relating to these sectors at district level

Gender equality is well integrated into the AusAID Indonesia Program. In 2010/11 fiscal year, \$243 million or 51% of total funding was spent on activities that have improving gender equality as a primary or secondary objective. Health, education and governance sectors account for three quarters of this expenditure, a result consistent with GAP priorities.

In 2010, AusAID helped improve maternal and neonatal health in East Nusa Tenggara, one of Indonesia's poorest provinces by providing training for health workers and community health volunteers and renovating 24 birthing wards in public health clinics. In at least 8 of these clinics, the number of births has doubled.

Under the AIBEP program, which was completed in June 2011, AusAID Indonesia supported the construction of 2074 public and private (Islamic) Junior Secondary Schools. Through the program, enrolments in schools constructed under AIBEP reached 185,492 students (grades 7-9), of which 49.8% were girls.

AusAID's support to the National Program for Community Empowerment (PNPM) has increased women's participation in decision making and economic development. PNPM-



Rural reaches an estimated 40 million villagers from over 60,000 villages in 4,791 sub-districts - about 76 percent of Indonesia's sub-districts. The program has provided direct block grant financing to local communities to finance an open menu of local development priorities – typically small scale/economic infrastructure, education and health activities, and revolving loan funds (RLF) to women's savings groups. Almost 70 percent of funded village proposals come from women's special meetings and up to 25 percent of these block grant funds will be allocated for revolving loan funds. The RLF capital in PNPM Rural has reached more than US\$500 million and about 327,000 groups, with an estimated outreach of 3 million individual borrowers. Client surveys suggest that these funds have had positive impacts on household income, business development, job creation and children's education.

AusAID, with other donor agencies such as DFID, CIDA and ADB, international and local NGOs, and the World Bank, has been supporting the Ministry of Women's Empowerment and Bappenas in the development of policy briefs that address gender in eight different sectors. AusAID's contribution to a policy brief on disaster response and education has been well received. The briefs were officially launched on 28 June 2011.

c.) Monitoring the country program and providing specialist support to ensure opportunities to appropriately integrate a gender perspective are not missed in other sectors.

To ensure implementation of GAP priorities and facilitate access to specialist support, AusAID has established a Gender Unit to work closely with the AusAID Principal Gender Advisor and a network of 12 Gender Coordinators.

Boosting the capacity of staff to help coordinators integrate gender issues into the design, implementation and monitoring of programs is one of the Gender Unit's major priorities.

In late 2010, planning commenced for an assessment of how AusAID Indonesia's programs contribute to progressing gender equality. The objectives of the stock take are to:

- Establish a baseline of gender activities within the program and identify targets for implementing the GAP
- Map ongoing activities to improve women's participation in decision-making at all levels to contribute to development of a Women's Leadership Program
- Collect information on the effectiveness of different strategies for improving gender equality to contribute to other programs
- Provide an opportunity to enhance the knowledge and skills of gender coordinators in effective development approaches to promoting gender equality and empowering women.

The report of the stock take will be finalised in September 2011. Early findings suggest that AusAID relies heavily on the knowledge and capacity of implementing partners to integrate gender into activities but does not provide sufficient support and direction to implementing partners to ensure the meaningful participation of women. While some initiatives frequently include gender advisors working at initiative level, many are not engaged early and few initiatives conduct a gender assessment as part of the program design.

There is also a lack of internal tools and resources to help gender coordinators perform their roles. Therefore, the Unit aims to integrate gender into the Indonesia program's Evaluation Capacity Building tools so that gender issues can be adequately captured in the design, implementation and monitoring of initiatives.



Anti Corruption

AusAID has zero tolerance for corruption and fraud, and has robust safeguards in place to prevent and guard against fraud and corruption in the Indonesia program. Activities are externally audited and spot audited, and cases are investigated when issues are identified.

There are 31 active cases of fraud in the program dating back to March 2007 involving \$379 847, of which \$74 882 has been recovered and \$227 was prevented. In nine of the 31 cases, funds were fully recovered. In 22 of the 31 active cases, investigations are ongoing. A number await further progress by Indonesia's National Police, National Audit Agency or the relevant ministry and efforts to recover funds continue wherever possible. Incidence of fraud on the Indonesia Program is extremely low, representing less than one-tenth of one per cent of expenditure between 2007 and 2010.

The Indonesia Program's Anti Corruption for Development Plan 2008-2013 (the plan) emphasises mainstreaming anti-corruption throughout the aid program. This provides a reference point for the design and development of initiatives across the program. A snapshot survey showed that new designs in 2010 (for example, PNPM and justice) reviewed the plan and its principles are reflected in the designs, however the plan was not highly influential in the direction or decisions taken.

Australia supports Indonesian Government institutions in building their anti-corruption capacity. A notable example in 2010 was that support provided to the Financial Transactions Reports and Analysis Centre (PPATK) increased its ability to detect and report on suspicious transactions. This assisted PPATK in exposing a high profile corruption case in the tax office. The justice program also provided support to the development of the monitoring and evaluation framework of the Indonesian Government's new National Strategy for Corruption Eradication 2010-2015 (STRANAS PK 2010-2015). This strategy will synergise government efforts to combat corruption in accordance with the UN Convention against Corruption.

AusAID works with the Indonesian Government and communities to strengthen their capacity to combat fraud and corruption through measures built into our joint programs. For example the \$395 million Basic Education Program included a complaints-handling system so that communities supervising the construction of schools could report any suspicions of fraud or corruption. The system was resourced so complaints could be acted upon. A number of the active cases have come through the complaints handling system.

Given the recent corruption scandals implicating Indonesia's judiciary and law and justice system, AusAID commissioned analysis in 2010 on the state of play of anti-corruption activities in the law and justice sector in Indonesia. The report's findings and recommendations will inform anti-corruption activities supported by the new justice program that starts in 2011.

A Public Financial Management Unit was established at post in mid 2010 to provide advice and support to programs in carrying out fiduciary risk assessments to determine the level of risk, including corruption, associated with channelling money through Indonesian Government systems. In 2010, the unit provided substantial support to the health design.

Management response: AusAID has (February 2011) new guidelines on using partner government systems for public financial management and procurement. An assessment of national-level partner government systems is required to assess fiduciary risks associated with national-level partner government systems for public financial management and procurement. This assessment will be undertaken in 2011, and where recommended, assessments will be undertaken at a sectoral level.



More broadly a reinvigorated Fraud and Risk Management Plan will be developed and a Risk Administrator role will be added to duties of the Chief of Operations.

Aid effectiveness agenda

Limited progress was made on the aid effectiveness agenda in 2010. The agenda is being driven by the Indonesian National Development Planning Agency (BAPPENAS) with little buy-in from other Indonesian Government agencies. Furthermore, there has been little progress on substantively engaging other partners, such as civil society, on aid effectiveness.

The Aid for Development Effectiveness Secretariat (A4DES), the body established to drive the Jakarta Commitment, Indonesia's roadmap for implementing the Paris Declaration and Accra Agenda for Action, has found it difficult to drive the programs under each of the six A4DES working groups. These working groups often do not involve donors. Therefore, they have not become forums for the Indonesian Government and donors to discuss the barriers and challenges in achieving aid effectiveness and using Indonesian Government systems as we had hoped.

The two areas that have made the most progress have been under the procurement working group and the monitoring & evaluation working group. The former has been developing a compliance and performance indicators study (with AusAID assistance) which will assist Indonesia assess the strength of its procurement systems. The study will be undertaken in 2011.

The monitoring & evaluation working group has established and trialed the Aid Information Management System, a database to capture all foreign loan and grant development activities in Indonesia. AusAID participated in the trial inputting data on \$347.6m worth of activities. This working group also undertakes the Paris Declaration Surveys and Evaluations being conducted in the lead up to the high level forum in Busan, South Korea in November 2011. Australia provided input into the Paris Declaration Evaluation (Phase 2) in 2010 and was a member of the national reference group for the study.

Public Financial Management/Working in Partner Systems

In 2010, Australia provided \$59.7 million in direct funding to the Indonesian Government. This is significantly less than in 2009 (\$121.6 million) and is less than the projected amount for 2011 (\$98.8 million). The reason for the lesser figure is that our largest program, education (that provides funds directly to Indonesia), was transitioning to a new long term program. In 2011 we expect to see the proportion of Australian direct funding to the Indonesian Government rise again.

In mid-2010, the Indonesian Program established a public financial management unit. The Indonesia Program has continued to focus internally on increasing its understanding of Indonesian Government systems and promoting reform through sectoral programs. In 2010 staff were given the opportunity to learn more about the planning and budgeting system in Indonesia with a series of workshops presented by GoI and leading Indonesian academics.

Faced with an aid for development effectiveness secretariat that is not functioning as hoped, In the absence of a government-led Public Financial Management (PFM) donor coordination committee, AusAID has been working informally with other donors to ensure a cohesive and consistent approach to donors support for PFM. In 2011, AusAID will continue this trend, working with donors on joint analytical pieces, undertaking joint missions, greater



engagement on policy lending instruments with the ADB and the World Bank, and producing joint fiduciary risk assessments with other donors.

Indonesia Review of Long-Term Adviser Positions

In the 2010/11 budget statement former Foreign Minister Smith announced a review of all long-term adviser positions funded by the Australian aid program. This review was undertaken in Indonesia from September to December 2010 and identified 156 positions across 26 programs, with over half of the positions (52 per cent) filled by Indonesians.

The proportion of long-term adviser costs to total annual program expenditure was found to be five per cent, a ratio that is expected to be maintained as the Indonesia Program expands in coming years. The evidence reflects a relatively modest use of long-term advisers by the Indonesia Program compared to similar-sized AusAID programs and high use of local capacity where it exists.

Consultations undertaken with a range of Indonesian Government agencies that manage or have oversight of long-term AusAID-funded advisers did not reveal any concerns about how long-term advisers were being used or remunerated, nor identified any programs using long-term advisers indiscriminately. The consultations also affirmed that 91 per cent of the long-term adviser positions were rated as high priority by Indonesian counterparts and AusAID. It was agreed that the remaining nine per cent (14 positions) be either phased out or be reappraised and positions descriptions revised.

Indonesian counterparts consulted during the review consistently commented on the high value Indonesia places on technical assistance provided by Australia and its strong wish to see this assistance continue. For example, the Indonesian Trade Minister, Dr Pangestu, noted in a letter in June 2010 about long-term advisers supporting her ministry that “AusAID’s assistance is highly valued by the ministry and is a major contributor to further strengthening the bilateral Australia-Indonesia relationship”. She noted, like other counterparts, the impressive and helpful role played by Australian long-term advisers in providing high level advice on strategic and policy issues.

The review confirmed that the Indonesian Government exerts strong ownership and is active in monitoring the role and performance of long-term advisers. Indonesia’s own rules require that annual visa extension requests of international advisers be accompanied by a performance assessment of the adviser.

The review also recommended that a remuneration framework be developed to guide the program when recruiting national (Indonesian) advisers and ensure AusAID pays fair rates but does not distort the market. It was also noted that programs should involve Indonesian Government counterparts more in the recruitment of advisers and develop exit strategies from the outset (particularly for those programs with in-line national adviser positions). The Indonesia program will also seek to ensure Indonesian counterparts are more aware of adviser costs, at least the order of cost. The overall number and costs of advisers will continue to be monitored through the biannual adviser stock take, reporting via the annual Senior Officials’ Meeting and the Annual Program Performance Report.

Performance and Quality

During 2010 the Indonesia program initiated its Evaluation Capacity Building Program (ECBP), which is designed to build staff skills in monitoring and evaluation (M&E). This

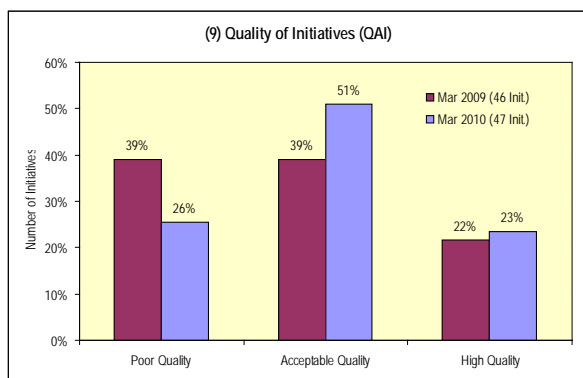


initiative is aimed at equipping staff with the means to be results-focused and able to derive information and evidence on program performance and impact.

A set of standards with minimum requirements of M&E products²¹ was developed over the course of 2010 and issued to staff. The tools developed serve as the core material for training staff, including learning by doing applications. The services of an evaluation and performance specialist formed part of the Performance and Quality Unit (PQU) that supported staff in the conduct of evaluations and designs. Design capacity support is expected to be enhanced in 2011.

In November, the Performance and Quality Unit (PQU) held a workshop for managing contractors and M&E practitioners to introduce the M&E standards developed by the Indonesia program. The purpose was to ensure that industry was aware of the standards that staff would be requiring and generate buy-in. The approach of the Indonesia program and M&E products produced has drawn both corporate interest in Canberra and other country programs such as the Philippines and PNG.

Baseline assessments of the state of the program's M&E systems were commenced in 2010. Unsurprisingly, early findings indicated that, benchmarked against our standards for M&E systems, most of our programs were found wanting. There is considerable work to be done and improvements will be monitored over the life of the ECBP effort. Some of the areas identified for improvement were: many initiatives under-resourced attention to M&E at the design step; M&E specialists often did not have adequate methodological training or experience; and program objectives were pitched too high to be achievable in the time frame or with the resources allowed (weak program logic).



The Sector Performance Assessment Frameworks²² (PAFs) were further evolved in 2010. Annual key deliverables were identified at the sectoral level, performance indicators were tested in terms of whether data could be collected, validated and linkages to the Quality at Implementation (QAI) reporting at the initiative level strengthened.

PQU aims to complete the PAF with the development of the country level Apex PAF in 2011. The Apex PAF will be used to

capture cross program performance elements such Partnerships. Additional tools such as an enhanced Program Management Plan will be developed in 2011 to better capture, align and assist in planning for and management of evaluations, design and strategies.

Note: high quality is an average of 5.0 and above, nothing below a 4; acceptable is an average of 4.0 and above, nothing below a 3; and poor is the remainder. (In this assessment only one initiative was "moved" – it was downgraded from acceptable to poor due to two ratings below a 3).

²² Note that this figure is approximate owing to the difficulty in reconciling figures from national and sub-national parliament



Disaster Response Indonesia is one of the world's most disaster prone countries, with 1 946 people killed and 2 876 919 people affected by natural disasters in 2009²³. While the Australia-Indonesia Facility for Disaster Reduction (AIFDR) continues to build Indonesia's capacity to mitigate against and prepare for disasters, the Indonesian Government can still request international assistance to deal with major or complex natural disasters. In such an event AusAID Jakarta's Disaster Response Unit stands ready to coordinate the Australian Government's humanitarian assistance.

In 2010 AusAID Jakarta deployed staff to four natural disasters in Indonesia: Simeulue Island Earthquake (Aceh) in April 2010; the eruption of Mt Sinabung (North Sumatra) in August 2010; the earthquake and subsequent tsunami in the Mentawai Islands on 25 October 2010; and the eruptions of Mt Merapi in October-November 2010. This is a significant increase from the one (albeit large) deployment in 2009 to the Padang earthquake.

Australia assisted the Government of Indonesia (GoI) to meet humanitarian needs during both the Mentawai and Merapi events. Australia's initial disaster response assistance of \$1m contributed to sheltering and feeding over 3000 families in the Mentawai Islands and up to 100 000 people in the Mt Merapi area. In addition, Australia has provided early recovery assistance which has benefited over 1500 villagers in the Mentawai Islands to date. Further early recovery assistance is being implemented in 2011 and it is anticipated this will reach at least 196 communities in the Mt Merapi area.

The Disaster Response Unit is committed to further improving AusAID's capacity to respond to natural disasters in Indonesia. In 2010 the Unit, supported by Canberra's Humanitarian and Emergencies Section, trained 50 AusAID and whole-of-government staff to be members of Jakarta's Emergency Response Team. This team can be deployed to respond to a natural disaster in Indonesia at short notice.

The Disaster Response Unit is updating the Indonesia Program's disaster response procedures. As this revision will take some time the Unit has developed interim guidelines which were used during the Mentawai and Merapi events. A flood contingency plan to prepare for Indonesia's wet season (December – February), when the risk of flooding is high, was also produced. In addition, the Disaster Response Unit convened whole-of-Embassy 'lessons learnt' exercises after each disaster response to identify strengths and weaknesses in our response system.

Looking towards the future, GoI's capacity to plan for and respond to natural disasters continues to grow. At the same time, the number and impact of natural disasters in Indonesia is set to increase due to urbanisation and climate change. This situation will see Indonesia enhance its capacity against an ever-changing and increasingly complex response environment. As such, if Australia is able to adapt its humanitarian assistance to Indonesia and provide innovative partnership-based response support, it will continue to be a valued and important partner for Indonesia during times of natural disasters

As a result it appears Australia will be less likely to be called upon to provide humanitarian assistance during small to medium scale natural disasters. The Disaster Response Unit will continue to focus on finalising new disaster response procedures, assisting the national disaster management agency BNPB to develop emergency response protocols and developing



innovative means to rapidly assist the GoI in a way which respects their increased capacity in the sector.

Quality of Aid Activities

A mid-term review of the program was undertaken in 2010 and initially looked at the program's progress in executing the 2008-13 Indonesia Country Strategy. The review quickly determined that the program was on the right course and therefore looked at AusAID's business processes for delivering the strategy and readiness for possible future program scale-up. The review found that on balance the program was heading in the right direction in terms of the key areas of focus such as infrastructure, education, social protection, scholarships, disaster management and decentralisation. However the review also identified a number of constraints on staff effectiveness, morale and ability to deliver a high-quality program. The review made seven major recommendations, which were all agreed by the management team and formed the basis of the management consequences to be taken up in 2011 and beyond.

In 2010 the program conducted eight Independent Completion Reviews (ICRs). In six of the reviews the findings were positive while in the remaining two some concerns were raised about performance. In a majority of cases the recommendations in the ICRs have been taken up in the successor programs now being implemented. Other broader observations included a need for the program to strengthen designs and have better monitoring and evaluation systems to facilitate stronger evidence-based assessments. The ECB program for staff now underway aims to address this and there are plans to introduce in-house design expertise.

Progress was made in consolidating the program and reducing fragmentation. The number of initiatives in the AusAID portfolio was reduced from 110 to 95, despite modest increases in expenditure.

Australia's aid program strengthened partnerships with other key donors in 2010, in particular with the World Bank and USAID. A 'model of cooperation' was developed with the World Bank which provides for the two Jakarta based management teams to meet at least twice yearly and close collaborative engagement in those sectors where there is strong mutual interest. For example, in Infrastructure AusAID can mobilise high level technical assistance which, in combination with the World Bank's policy level leverage and potential loan financing, engages GoI on reforms and investment in sectors such as transport, ports, and shipping. USAID entered into its first delegated cooperation in Indonesia with \$5 million dollars provided to AusAID to reconstruct schools damaged during the 2009 earthquakes in West Java and West Sumatra. AusAID took the lead in donor coordination in the Education Sector resurrecting the Education Sector Working Group which it co-chairs with the Vice Minister for Education. Australia also chaired the informal donor working group on Decentralisation.

Other key challenges faced during the year included:

- Supporting the GoI to improve its contract supervision of national roads contracts to better manage poor performance by contractors
- Establishing strong relationships with senior people in the Ministry of Finance given substantial changes in leadership during 2010
- Expanding support for HIV/AIDS prevention in the Papuan provinces including assisting the Clinton Health Access Initiative establish an effective presence in the region



- Situating Australian support for climate change in Indonesia in the context of a rapidly evolving domestic context including a new \$1 billion program of support from Norway
- Dealing with the complexity of decentralisation and lack of capacity of districts in delivering key services to the poor. Key lessons include the need to find better feedback loops between lessons learned on the ground and national policy reform and the need for stronger policy coherence between various AusAID programs operating at the district level, at least in priority provinces.

Management Consequences

Key priorities for management in 2011 include:

- Commencing new programs in education, elections, justice, decentralisation, and emerging infectious diseases.
- Finalising designs for health system support, women's leadership, rural livelihoods and the knowledge sector.
- Commencing analytics and designs on disaster risk mitigation, infrastructure, a second climate change REDD pilot, support for the Fiscal Policy Office and scholarships.
- Commencing detailed planning on the potential expansion of the program including analysis of where further AusAID investments are likely to deliver the greatest returns in poverty alleviation and begin work on a new Country Situation Analysis.
- Establishing a Policy and Analytical Unit under the Lead Economist that will strengthen the program's analytical and research capacity and ability to engage in high level policy dialogue with GoI on reform.
- Implementing Mid Term Review recommendations including in: acquiring and using knowledge to engage in policy reform, including better understanding the gender impacts of our program; improving people management and leadership so AusAID can continue to attract and retain high calibre staff; and improving AusAID Jakarta's capacity to monitor and review the quality of the portfolio to improve its effectiveness.
- Strengthening portfolio risk management and fraud mitigation approaches; establishing more robust management information tools to drive program coherence, consolidation and growth; and restructuring part of the Jakarta operation to strengthen our quality assurance and design capacity.



Annex 1: Indonesia's progress against the Millennium Development Goals in 2010

Goal 1: Eradicate extreme hunger and poverty

At the national level Indonesia has reached the MDG 1 target of halving the proportion of people with an income of less than the international US\$1 per day poverty line from 20.6 percent in 1990 to 5.9 percent in 2008. However, around 13.4 per cent of Indonesia's 240 million people (approximately 31.0 million) live under the national poverty line of US\$1.55 per day and approx 49 percent still live on less than US\$2 per day²⁴.

The poverty rate in rural areas of Indonesia was 16.6 percent in 2010 compared to only 9.9 percent in urban areas.

Goal 2: Achieve universal primary education

At 98 per cent, Indonesia is close to enrolling almost all children in primary school, though this national rate varies from 98.5 per cent in Central Kalimantan to 76 per cent in Papua²⁵. Nationally, the number of students who go on to complete primary school increased from 88.7 percent in 1992 to 95.2 percent in 2009 and at the junior secondary level the percentage of students enrolled increased from 42 percent in 1992 to 74.5 percent in 2009²⁶.

Goal 3: Promote gender equality and empower women

Indonesia has almost achieved this target, with ratios of 99.7 percent at primary school, 102 percent in junior secondary school, 96.2 per cent at senior secondary school and 103 percent in tertiary/higher education²⁷. However, much remains to be done to address gender stereotyping in school curricula and teacher training.

The total share of women in wage employment in both agricultural and non-agricultural sectors also increased from 29.6 percent in 2004 to 33.5 percent in 2009. The total number of women employees increased from 7.8 million to 10.5 million from 2004 to 2009²⁸.

The quota for women legislative candidates as mandated by law was met by all political parties in the 2009 general election. Eight parties nominated women to more than 40 percent of legislative candidate's positions²⁹.

Goal 4: Reduce child mortality

Indonesia is on track to reduce infant mortality to 19 deaths per thousand live births in 2015, having already reduced this figure from 68 in 1991 to 34 in 2007³⁰. Similarly, good progress has been made to reduce the under-five mortality rate, with 44 deaths per thousand live



births in 2007, compared to 97 in 1990. The main direct causes of childhood death relate to peri natal and neonatal problems, diarrhoea and pneumonia. In total, these four factors contribute to some 75 percent of infant mortality³¹. Frequent illness is a major risk, especially among the poor population where prevalence of infectious diseases is highest.

The proportion of one-year-old children immunised against measles increased from 44.5 percent in 1991 to 97 percent in 2007.

Goal 5: Improve maternal health

Although at the national level Indonesia has reduced maternal mortality from 390 deaths per 100 000 live births in 1995 to around 228 deaths in 2007, progress is lagging.

In Indonesia, about 80 percent of maternal deaths are caused by direct obstetric complications, primarily haemorrhage, sepsis, unsafe abortion, pre-eclampsia and eclampsia, and prolonged or obstructed labour.

Key areas of intervention that influence the maternal mortality ratio involve appropriate antenatal care, births attended by skilled health personnel and programs aimed at behaviour change (raising awareness) among women of reproductive age. The proportion of births assisted by skilled health personnel increased from 40.7 percent in 1992 to 77.3 percent in 2009.

Nationally, the contraceptive prevalence rate for 2007 was 61.4 percent compared to 49.7 percent in 1991³².

Goal 6: Combat HIV/AIDS, malaria and other diseases

The number of new HIV infections has been increasing in Indonesia. The total number of HIV-infected individuals in Indonesia is still relatively low at 0.2 percent of the population, but the rate of increase is relatively high.

During the period 1996 to 2006, the number of HIV cases increased by 17.5 percent and it is estimated that 193 000 people are currently living with HIV in Indonesia.

Cumulatively, the number of AIDS cases is increasing, which in 2009 with 19 973 cases, more than doubled compared with 8194 cases in 2006.

Only 20 percent of patients with symptomatic malaria seek treatment at public health facilities, making it difficult to estimate the actual malaria incidence among the population.

The highest prevalence malaria rates are in eastern Indonesia, the highest being West Papua (26.1 percent), Papua (18.4 percent) and Nusa Tenggara Timur (12.0 percent). Provinces in Java and Bali have the lowest (clinical) prevalence, at around 0.5 percent³³.

Tuberculosis prevalence in 2009 was approximately 212 per 100 000³⁴ which decreased from 443 per 100 000 in 1990. The proportion of Tuberculosis cases successfully treated under



directly observed treatment short course (DOTS) increased from 87 percent in 2000 to 91 percent in 2008³⁵.

Goal 7: Ensure environmental sustainability

Indonesia faces significant barriers to achieving the MDG for environment and climate change. This is demonstrated through decreases in forest cover (from 60 percent in 1990 to 52.5 percent in 2008) and slowly increasing carbon dioxide emissions (1.77 per capita in 2007)³⁶. Although 47.7 percent of the population had access to improved water sources (2009), variations range from 42.9 percent in West Sulawesi to 34.8 percent in Jakarta. The percentage of households with access to improved sanitation facilities has doubled since 1993, but in 2009 only 51.2 percent of the national population had access to improved sanitation, while the MDG target for access to basic sanitation is 62.4 percent of the population by 2015³⁷.


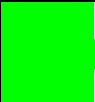
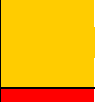

Goal 8: Develop a global partnership for development

Development funding, in the form of foreign loans and grants, has been available to Indonesia since the 1960s. The Indonesian economy recovered from the economic crisis of 1997-98 and dependence on external funding has declined significantly since then, demonstrated by the decreasing rate of international debt to GDP (at 39.5 percent in 2009 from 41.6 percent in 1990). Management of foreign debt could be significantly improved, including through the development of a strategy and regulations on borrowing. On trade, Indonesia has implemented a number of internal bureaucratic reforms and adopted several new policies aimed at promoting a more open, rules based trading system.

On 2 November 2010, President of the Republic of Indonesia Susilo Bambang Yudhoyono and the Prime Minister of Australia Julia Gillard agreed to commence negotiation of an Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). A comprehensive economic partnership covering economic cooperation, trade and investment issues would contribute to building a higher-level and mutually beneficial economic partnership between Indonesia and Australia.



Annex 2: Basis for ratings against sub-sector outcomes

Progress towards sub-sector outcomes		The extent to which sub-sector outcomes are likely to be achieved by the end of the Australia Indonesia Partnership Country Strategy 2008-13 (in reference to indicators)
On track		A high proportion of the sub-sector outcome indicators have been achieved or are judged as likely to be achieved (based on current trajectory) by the end of the Strategy period
Partially off track		At least half of the sub-sector outcome indicators have been achieved or are likely to be achieved by the end of the Strategy period
Significantly off track		A small proportion of the sub-sector outcome indicators have been achieved or are likely to be achieved by the end of the Strategy period
Unable to make a judgement	-	There are inadequate data and/ or no firm indicators available.

Annex 3: Quality at Implementation – Indonesia (2010-11)

No	Initiative	Approved FMA Reg.9 All Time	Relevance	Effectiveness	Efficiency	Monitoring & Evaluation	Sustainability	Gender Equality
Education, Scholarships, and Knowledge Sector								
1	ING529 Basic Education Program	\$90,568,089.68	6	5	5	4	5	5
2	INJ648 Australia's Education Partnership	\$500,000,000.00	Not yet requiring a QAI					
3	INF817 LAPIS	\$35,632,998.97	5	5	5	4	5	6
4	INH436 Papua Education Sector Development	\$6,939,760.86	5	3	3	4	3	4
5	INH361 Aceh Education Sector Development	\$8,465,541.40	5	5	5	5	5	5
6	INJ121 School Reconstruction in W. Sumatra and W. Java	\$16,360,438.66	5	5	5	5	5	5
7	INF867 Kang Guru Indonesia (formerly known as KGRE)	\$4,385,565.01	4	5	5	5	3	4
8	INH899 ADS In-Indonesia Management Program Phase III	\$19,937,633.52	5	5	5	5	5	5
9	INI157 ADS (In-Australia Cost)	\$109,515,697.79	5	5	5	5	5	5
10	INJ247 Scholarships Jakarta ADS - Intake 2011	\$80,000,000.00	5	5	5	5	5	5
11	INE114 SMERU	\$8,609,558.39	5	5	5	4	3	5
12	INI787 Revitalising Indonesia's Knowledge Sector	\$4,611,451.60	Not yet requiring a QAI					
Health								
13	INH469 AIP for Health Systems Strengthening (AIP HSS)	\$10,385,202.57	6	4	3	3	5	3
14	ING821 AIP MNH Program	\$48,595,435.45	6	5	4	4	5	4
15	INH251 Australia-Indonesia Partnership for HIV	\$100,000,000.00	5	5	5	5	4	5
16	INH024 Pandemic Influenza & EID Prevention & Preparedness	\$19,132,241.66	5	5	4	4	4	4
17	INJ509 AIP for Emerging Infectious Diseases Program	\$22,000,000.00	Not yet requiring a QAI					
18	INJ124 Health Facilities Reconstruction in West Sumatra	\$5,000,000.00	5	5	5	5	5	3
Water and Sanitation								



No	Initiative		Approved FMA Reg.9 All Time	Relevance	Effectiveness	Efficiency	Monitoring & Evaluation	Sustainability	Gender Equality
19	INE608	WB WS&S for Low Income Communities Ph II	\$11,159,787.33	5	5	4	4	4	5
20	INI390	WASPOLA Facility	\$10,100,078.20	5	3	3	3	4	4
21	INI391	PAMSIMAS	\$32,513,068.74	5	4	3	4	4	4
22	INJ149	Water Hibah and Urban Sanitation Support	\$25,500,000.00	5	6	5	4	4	5
23	INJ150	Support for Sewerage Investment Plan	\$9,030,848.43	6	4	4	4	5	4
Transport and Connectivity									
24	INH582	Indonesia Infrastructure Initiative (IndII)	\$73,857,364.00	6	5	5	4	5	4
25	ING406	AIPRD: EINRIP - Impl. Planning & Support Facility	\$30,988,706.84	5	3	3	5	4	4
26	ING633	EINRIP (AIPRD Loans)	\$291,822,071.00	5	3	3	5	4	4
Decentralisation									
27	INJ122	Australia Indonesia Partnership Decentralization	\$70,000,000.00	5	4	4	5	5	5
28	INF548	ANTARA	\$30,908,000.00	6	4	4	4	4	4
29	ING429	ACCESS Phase 2	\$26,925,000.48	5	5	5	5	5	5
30	INI355	LOGICA 2	\$18,000,000.00	6	4	4	5	5	5
31	INI472	Public Expenditure Analysis Capacity Harmonisation	\$3,999,111.38	6	4	3	3	4	4
32	ING811	Eastern Indonesia Programming	\$8,000,000.00	Completed. Final QAI produced in 2009/2010					
33	INI021	Papua and West Papua Development Support	\$4,000,000.00	Completed. Final QAI produced in 2009/2010					
34	ING646	AIPRD Yogya Reconstruction Program	\$30,579,601.59	Completed. Final QAI produced in 2009/2010					
Poverty Reduction									
35	INI506	Australia Support to PNPM	\$215,000,000.00	6	4	4	5	4	4
36	INJ244	Poverty Reduction and Social Protection Support	\$57,000,000.00	6	5	5	5	5	5
Economic Governance									
37	INH848	AIP for Economic Governance (AIPEG)	\$31,328,480.49	4	4	4	4	4	3
38	ING126	AIPRD Government Partnerships Fund	\$49,324,385.36	4	3	4	3	3	3
39	INJ689	Government Partnership Fund Phase (GPF) II	\$50,000,000.00	4	3	4	3	3	3
40	INH521	Indonesia Strengthening Public Procurement Program	\$10,459,375.01	5	4	3	5	4	4
Disaster Risk Management									
41	INI422	AUST-INDON FACILITY FOR DISASTER REDUCTION	\$60,600,000.00	5	3	4	3	3	2
Climate Change									
42	INH445	Indonesia Forests & Climate	\$41,405,442.34	5	4	4	5	4	4
Rural Livelihoods and Agribusiness									
43	ING234	AIPRD Smallholder Agribusiness (SADI)	\$38,000,000.00	Completed. Final QAI recorded in 2009/2010					
44	ING363	AIPRD: Aceh PEP (Aceh/Nias)	\$6,520,000.00	5	4	3	4	4	4
Law and Justice									
45	INJ137	Australia Indonesia Partnership for Justice	\$50,000,000.00	5	5	4	5	5	5
Election									
46	INI231	AIP for Electoral Support 2010	\$4,987,117.25	6	5	4	5	5	5
Humanitarian									



No	Initiative		Approved FMA Reg.9 All Time	Relevance	Effectiveness	Efficiency	Monitoring & Evaluation	Sustainability	Gender Equality
47	INI576	Building Resilience in Eastern Indonesia	\$4,085,368.00	5	4	4	4	4	4
48	INH545	Enhanced Australian Response	\$1,068,268.40	No QAI					
49	INI975	West Sumatra Emergency Response	\$3,318,283.38	Completed. No QAI					
50	INJ001	Australia-Bali Memorial Eye Centre	\$3,000,000.00	5	5	4	4	5	4
<i>Other</i>									
51	INJ274	Counter-Terrorism Cooperation Indonesia	\$7,100,000.00	4	3	3	3	3	3
52	INC791	Public Sector Linkages Program (PSLP) - Indonesia	\$28,229,452.63	Completed. Final QAI produced in 2009/2010					

2009 APPR recommendations	Action to be taken in 2010	Status	Status/ Timeframe
Strategy for up scaling the Indonesia Program	Developing a manageable portfolio of initiatives.	Ongoing	The total number of initiatives was reduced as shown in the Indonesia Program health check data and remains a priority for 2011
	Maximising its impact on poverty, by ensuring its benefits reach the poorest people in Indonesia.	Ongoing	Tested during concept and design reviews processes and quality assurance processes applied through the life of an initiative.
	Strengthening our engagement with civil society.	Ongoing	A Civil Society Engagement Working Group was established in February 2011 and is drafting a set of principles/guidelines that addresses why and how we should engage with civil society organizations more consistently across the program.
	Clarifying what value the Australian aid program adds to development in Indonesia.	Ongoing	Articulated in new delivery strategies and sectoral performance assessment frameworks.
Strengthening the evidence base for decision making	Improving the quality of evaluations and using a forward evaluation plan to ensure timeliness of evaluations for feeding into design processes.	Ongoing	Evaluation baseline assessment completed and evaluation plan applied
	Improving the use of program monitoring and QAIs as a performance management tool	Ongoing	Staff capacity building delivered and applied
	Improving the quality of designs, the efficiency of design processes and the analysis underpinning the decision to move forward to design.	Ongoing	Design plan in place, a panel of experts to oversee design process is considered
	Ensuring performance assessment frameworks are finalised and used as the basis for strategic discussions on sector performance and to inform decision-making.	Ongoing	Sector Performance Review conducted regularly and informs APPR
	Building a performance-based culture, including by building staff capacity in performance management, providing space for strategic thinking, developing supporting systems and tools and improving cross-program learning.	Ongoing	Evaluation Capacity Building Program delivered M&E baselines, standards, and capacity buildings.
Retaining and attracting high quality staff	Creating a work-friendly environment and manageable workloads for staff, including more time for analytical and strategic work, and less time spent on administrative and management tasks.	Ongoing	There is increased engagement by staff on analytics and greater involvement in field visits and M and E processes. Management and leadership have been a major focus for staff over 2010. Centralisation of some components of travel and increased procurement support will reduce time spent by staff on admin tasks.
	"Talent management", by ensuring a strong pipe-line of experienced and well-informed staff.	Ongoing	Identification of high potential staff and their development Mapping of performance by level and by section to be completed in June 2011.
	Matching people's skills to their positions.	Ongoing	Skill mapping process to be completed by June 2011 and to be followed up and recorded in real time.



2009 APPR recommendations	Action to be taken in 2010	Status	Status/ Timeframe
	Ensuring sufficient resources to do what is expected of us.	Ongoing	Recruitment exercises continue to attract skills and expertise we require. Volume of applications highlight the interest nationally and internationally of working with AusAID.
	Maximising the use of Post and Desk resources, by continuing to ensure these work as one team.	Ongoing	Post/Desk continue to work as one team with the evidence of this being in the well informed briefs and program reputation with partners and AusAID Executive.
Education (including Knowledge sector)	Improve monitoring and evaluation system to track and communicate results in education sector.	Ongoing	On track for completion once the Education Partnership is fully mobilised.
	Increase use of Government of Indonesia's system, including through up-scaling of staff capacity.	Ongoing	In progress: The Education Partnership will increase the use of government systems and staff capacity is being increased through on-the-job training, targeted formal training, and recruitment. This will require ongoing attention throughout the implementation of the Partnership.
	Increase program management resources, improve knowledge sector inter-sectoral linkages, and use new program governance to strengthen dialogues with Government of Indonesia.	Ongoing/completed	On going: Improve knowledge sector inter-sectoral linkages; Use program governance to strengthen dialogue with GoI. Completed: Increase in program management resources.
Health (including gender)	Development of a health delivery strategy	Completed by 30 June 2010	Draft agreed by reference group finalisation by 30 June 2010 following HSS design completion.
	More concerted efforts to address gender equality in health and HIV implementation	Completed	
	Maternal and neonatal health (MNH) evaluation (note: availability of quality data will receive attention)	Completed	
	Actively involve Ministry of Health in design of new health system strengthening program (note: availability of quality data will receive attention)	Ongoing	Ministry of Health actively involved and program logframe will identify potential data sources for monitoring implementation
	Strengthen links with Health and HIV thematic group to contribute to MNH policy development and sharpen AusAID's engagement strategy with the Global Fund	Ongoing	Participation in quarterly Asia regional health leads meeting. Close involvement of Principal Health Adviser in MNH review and HSS design.
Water and Sanitation	Ascertain future source of funding and resources for the program to ensure smooth implementation of InDII	Completed	.
	Lesson learned from Hibah documented and disseminated.	Completed by April 2011	A review of the Water and Sanitation Initiative, including the hibah, will be underway in April 2011.
Transport and Connectivity	Significant staff time will continue to be dedicated for EINRIP and its follow up pipeline.	Completed by April 2011	Additional staff resources to be mobilised for the Infrastructure Unit, commencing April 2011.
	InDII prepares to engage more meaningfully in pursuing contributions to the sub-sector outcome of "Coherence and integration of connectivity policy"	Completed by June 2011	InDII extension into Phase II following interventions will be rolled out by June 2011
Decentralisation	Recruit new Director for Decentralisation and Poverty Reduction Section	Completed	
	Development of common results frameworks for all decentralised projects	Ongoing	Common Results Framework is drafted and now being tested in the regions. First regional workshop to produce Implementation Plan has been organised in NTT. The second workshop will be held in Aceh at the end of March. Other regions will follow.
	An incentive system needs to be designed and aligned to AIPD in order to maintain traction towards PFM reform.	Ongoing	Decentralisation Unit is working with partners to explore effective methods for financial incentive mechanisms for highly-performing sub-national governments, with Gorontalo as pilot area. This will be further explored when AIPD is operational, particularly in Papua, utilizing the Special Autonomy Funds.
Poverty Reduction	Assess PNPM Support Facility implementation arrangement	Completed	



2009 APPR recommendations	Action to be taken in 2010	Status	Status/ Timeframe
	PNPM Support Facility to provide comprehensive staffing plan to ensure effective program planning and implementation	Ongoing	PSF will organise a workshop with GOI/donors to present their staffing plan.
	Minister Counsellor to engage with BAPPENAS and Vice President Office regarding National Team's linkages and coordination.	No longer required	
Economic Governance	Second Phase of GPF – concentrate on supporting Government's reform priorities and other donors will be approached to contribute	Completed	
	AIPEG – links to sub-national activities, particularly in the area of public financing.	Ongoing	The focus of AIPEG's future work on public financing will initially be on rolling out Medium Term Expenditure Framework and Performance Based Budgeting models to Min. of Health, Education and Works which involves extensive financing to sub-national governments.
Disaster Management	Clarify the roles and responsibilities between the Facility and the Disaster Management Unit		Completed: Community based programs have been transferred from the Disaster Response Unit to the AIFDR
	Additional human resources are needed to capitalise on opportunities and minimise risks around emergency response	Completed	
Climate Change	Scoping mission to formulate the support to the Government around adaptation, mitigation and low carbon growth.	Completed by March 2011	Mission will take place in the context of a Delivery Strategy preparation process that is kicking off in March 2011.
	Review the approach to the roadmap for Forest Carbon Market	No longer a priority	Dropped in priority as other processes such as the Norway-Indo partnership on REDD+ have come to the fore.
	Strengthen policy dialogue	Ongoing	Through REDD+; ICCTF steering committee, and soon BAPPENAS' climate change consultative forum
	Recruit climate change advisor;	Not actioned	A dedicated Counsellor appointed to lead the climate change and environment team
	Contribute to donor coordination	On going	Formally and informally
Rural Livelihood and Agribusiness	Independent Completion Review of SADI and ANTARA (note: it among others addresses AusAID's continuing role)	Completed	
	SADI's review recommendation: intensive intervention in the area of value chain approach in marginalised community should be done under Australia Indonesia Partnership for Decentralisation (AIPD) that recognises sub-national policy instruments	Ongoing	A major new rural economic development program has been designed. Delivery arrangements are integrated into the AIPD, and the new program will be called AIPD-Rural. Implementation will begin in 2012.
	Ensure program links with AIP decentralisation and infrastructure to support one another's objectives.	Ongoing	AIPD-Rural will be delivered under the supervision of an AIPD Deputy Program Director for Rural Development, reporting to the AIPD Program Director. The activities will be implemented using AusAID's 'one program approach'.
Law and Justice	Further analysis is needed prior to further interventions particularly in the area of anti-corruption	Completed by April 2011	Completed: Two pieces of analytical work in the area of disability and anti-corruption. Completed by April 2011: Two pieces in juvenile justice and the harmonisation of local laws and regulations. These analyses will inform initial programming decisions for AIPJ.
	Strengthen partnership with civil society organisations and national commissions	Ongoing	Some key partnerships have been strengthened under the transition program (e.g., <i>Komnas Perempuan</i> and the reform teams in the Supreme Court and Attorney-General's Office comprised of civil society members). Partnerships will be broadened and deepened once the new program mobilises.
Elections and Parliament	Develop a democratic governance strategy which involve staffing, planning and partnership	Ongoing	A situational analysis is being finalised following cross-program consultations in February and the proposed approach for the operational part of the delivery strategy. The next reference group meeting will be held before June 2011.



2009 APPR recommendations	Action to be taken in 2010	Status	Status/ Timeframe
	Develop elections program	Completed by end of March 2011	The elections design has been approved by ADG and pending implementation arrangement. Discussions between post, desk with PAS and ASPP have been held to find a solution. Proposed FMA9/10 and procurement minute for DG approval is in progress - intended completion is end of March
	Engage more local staff with strong analytical background.	Completed	