OECD

OECD DAC Network on Governance – Anti-Corruption Task Team

Working towards common donor responses to corruption

Donor Responses to a Government-led Anti-Corruption Programme

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INDONESIA

In 2006, OECD Development Assistance Committee (DAC) Ministers of Development expressed a desire to move towards more effective collective responses to governance issues, particularly corruption. In 2007 the OECD Policy Paper on Anti-Corruption "Setting an Agenda for Collective Action" proposed development of a voluntary code of conduct for co-ordinated donor responses to deteriorating corruption contexts. The DAC Network on Governance (GOVNET) was tasked with producing a framework for joint responses. As a necessary first step, the Anti-Corruption Task Team (ACTT) of GOVNET commissioned a retrospective study by independent consultants of how donors have responded to corruption in practice, in order to understand better the opportunities, constraints and incentives for more effective collective responses.

Three case study locations were selected by the ACTT – Afghanistan, Indonesia and Mozambique. These countries were selected to ensure coverage of a range of corruption "situations", different donor architectures, different aid delivery mechanisms, varying degrees of donor harmonisation and a geographical spread of countries in Africa and Asia, including one conflict or post-conflict state. The case studies were carried out by independent consultants between June and August 2008 and included a short country visit, interviews with a range of key stakeholders, and desk-based review of relevant documents. Each case study led to a set of recommendations that are intended to be of use beyond the specific country context and inform development of a code of conduct for collective donor responses. Recommendations are therefore not addressed specifically to the case study country.

This report presents the findings on the Indonesian case study, and is the executive summary of the full report. The case study of Indonesia evaluates donor responses to the anti-corruption initiatives undertaken during the reformasi period following the fall of the Soeharto regime. It focuses on donor responses to the explicit Anti-Corruption Strategy adopted by the Yudhoyono Administration when it came to office in 2004. This study looks at "a regime/policy change in country" situation "which may provide new opportunities for anti-corruption reform" (OECD DAC GOVNET, 2008, p. 3) in a country that is middle income and not aid dependent.

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This report has been prepared by a consultant commissioned by GOVNET, and will inform the development of DAC guidance on joint responses to corruption.

Country Context

Indonesia's transition to democracy was initially marked by considerable turbulence. The June 1999 elections, the first genuinely democratic elections since 1955, brought to power inexperienced leaders with fragmented political support. The new government inherited a weak and corrupt civil service, captured regulatory bodies, and entrenched corruption in the justice sector. Powerful vested interests that dominated the polity under Soeharto maintained their position. Increased openness brought to the surface long-suppressed and deep divisions within Indonesia. The bombings in Bali (2002) and Jakarta (2003) contributed to a loss of investor confidence even as the country recovered from the Asian financial crisis.

Despite the unpropitious beginning, that initial period saw the groundwork being laid for enhanced public accountability. A handful of technocrats and reformers conspired with a growing and vociferous civil society to change the rules of the game. Constitutional reforms included direct election to the presidency, the establishment of checks and balances, decentralisation of power to the lowest level of government, independence of the Election Commission and the establishment of a Constitutional Court and a Judicial Commission. Parliament passed laws establishing the legal and institutional framework to fight corruption.

The stakes for donors were high: South East Asia's most populous, stable and well-performing country had been plunged overnight into low-income status. Popular sentiment in Indonesia linked the international financial institutions (IFIs) and the major donors to the failed policies of the corrupt Soeharto regime. Corruption in donor-funded projects raised concerns about corrupt debt and donor tolerance of corruption. Indonesia was not aid dependent (USD 8 per capita). Three institutions – the Asian Development Bank, the Japan Bank for International Cooperation and the World Bank – accounted for the bulk of the country's official flows and outstanding public debt. From the new government's perspective, donor support was needed to restore investor confidence – the perceived key to a return to high growth. For donors (particularly Australia, Japan, the United States and the EC), Indonesia was and remains a key ally in strategic, economic and commercial terms. It is the largest Islamic country located strategically between the Pacific and Indian Oceans in a post 9/11 world, rich in natural resources that include oil and gas.

The IFIs and donors responded in three ways to the governance and corruption challenge posed by Indonesia. First, at the request of the new government, they reinvigorated the World Bank-led Consultative Group for Indonesia (CGI) and the aid co-ordination process. Second, a significant number of donors[1] supported a government-civil society-donor Partnership for Governance Reform in Indonesia (PGRI); this provided an Indonesian-led vehicle for a national dialogue on governance and anti-corruption, and support to governance reforms and a burgeoning civil society. Third, the IFIs and a few key donors stepped up support for good governance, developed strategies to address corruption more systematically in their projects and programmes, and brought in governance advisors to support their field missions.

The initial years under reformasi, or period of political reform, saw fundamental change in the rules of the game. "Indonesia's reform period began with nationwide popular demands to unshackle the political system, ensure freedom of speech and other basic democratic rights, and devolve power from Jakarta" (MacIntyre and Ramage, 2008). Four amendments to the Constitution and related legislation (Ellis, 2005) led to direct elections to the presidency; establishment of clear checks and balances between the three branches of government; regional autonomy through significant decentralisation of power to the lowest level of government; and the introduction of direct elections of heads of provincial, district and city governments. Unofficial centres of power, such as the military, saw an erosion of their voice in Parliament while the police force was made independent. A number of key constitutional bodies were established, including an independent Election Commission, a Constitutional Court, and an independent Judicial Commission to oversee the integrity of the judicial system. The new laws also created organisations to fight corruption.

1 By 2004, donor funds committed to the Partnership had reached USD 54 million from Australia, Canada, Denmark, the EU, Finland, Japan, Korea, Netherlands, Norway, New Zealand, Spain, Sweden, Switzerland, the UK, and UNDP. In addition, the Partnership received technical assistance from the Asian Development Bank and the World Bank

By 2004 Indonesia's accountability framework was remarkably changed, but challenges remained. The formal rules defining relations between citizens and elected representatives had been revamped. But political parties lacked internal democracy and transparency in funding. The Election Commission's capacity to enforce its new authority was limited. Parliament was a weak link in the chain, vulnerable to vested interests and corruption. The judiciary remained both corrupt and incompetent. Civil society was poorly funded and ill-equipped to shift emphasis from basic rights to monitoring the many new institutions coming into being. Frivolous libel suits and police harassment constrained an increasingly free media.

The formal rules governing accountability of service providers to elected officials/policy makers were also strengthened, but informal rules remained the same. Decentralisation laws passed in 1999 devolved most service delivery and many economic functions to local governments and sharpened those bodies' political accountability. Three new laws strengthened the legal regime for public finances at the national level. And other laws established a national Corruption Eradication Commission (KPK), an Anti-Corruption Court and a Centre for Financial Transactions Reporting and Analysis (PPATK) aimed at curbing money laundering. Nevertheless, corruption remained entrenched in the bureaucracy, protected by regulatory capture, lack of clarity of functions (particularly for local governments), poor budget management, an opaque compensation system, and impunity. Decentralisation was criticised by the Jakarta élite for opening the door to corruption, but evidence from early surveys on its impact does not provide clear evidence that the public perceived corruption to be much worse at local level than it was before decentralisation.

Government and Donor Responses to Corruption

President Yudhoyono's pledge to fight corruption is widely believed to have been a significant factor in his successful election in 2004. His administration moved aggressively to deliver on election promises, launching a National Action Plan for Eradicating Corruption (RAN-PK). The plan emphasised i) prevention: improved service delivery, better fiduciary management and supervision, strengthened public financial management, strengthened human resource management and increased public awareness; ii) enforcement: "acceleration of the handling and execution of corruption cases in… priority sectors" (Indrawati, 2005) and strengthening the law enforcement agencies; and iii) *monitoring:* entrusted to Menpan (the ministry for administrative reforms) and Bappenas, the National Planning Agency.

Although RAN-PK was viewed as too vague in terms of outcomes, outputs and accountabilities, there has been impressive progress on the anti-corruption agenda. The Corruption Eradication Commission (KPK) and the Special Corruption Court performed far better than expected. Using its sweeping powers of investigation and prosecution, KPK vigorously pursued cases in key agencies needing reforms, and used its investigations to elaborate and agree corruption prevention reform programmes with agencies. Prosecution and successful conviction of high-profile individuals has resulted in both increased numbers of complaints and other agencies being forced to play catch-up. There has been progress in other areas too. Witness protection and freedom of information laws have been enacted. The government has launched comprehensive public financial management reforms and established a National Procurement Office. Five government agencies[2] are piloting civil service reforms. Tax and customs agencies are being reformed through large taxpayer units, tax modernisation and simplification, client orientation and improved information technology. A new Financial Transactions Report and Analysis Centre (PPATK) monitors suspicious transactions and reports cases to the Attorney General's Office (AGO), the police and KPK. Reform programmes are being implemented for the judiciary and for the AGO, albeit more slowly. The Judicial Commission, the Police Commission and the AGO's commission have begun to function. Indonesia is attempting to align its laws with the UN Convention against Corruption, which it has ratified. Indonesia is also accessing the World Bank/United Nations Stolen Assets Recovery Initiative.

Joint donor responses to the government's programmes were affected by the gradual breakdown of the formal donor co-ordination mechanism. The closure of the CGI on 24 January 2007 was not resisted by donors. Finance Minister Sri Mulyani explained that the CGI was no longer needed, as Indonesia's financing needs were met largely from three

2 The Ministry of Finance, the Supreme Court, the State Audit Agency, Menpan and the Corruption Eradication Commission.

principal creditors (the Asian Development Bank, the Japan Bank for International Cooperation and the World Bank) and that Indonesia's dependence on aid was declining. Underlying this decision was a concern that donors treat Indonesia as "a partner, as a peer. Let government lead, evaluate government initiatives and decide" (Indrawati, 2006).

Donor "co-ordination" for anti-corruption is now ostensibly managed by the relevant government agencies. The most prominent and effective co-ordination has been provided by KPK, which identifies its needs for finance and technical assistance and meets regularly with donors to indicate how its needs are evolving and to permit donors to share information about their activities. Donors have supported KPK strongly and played an important capacity-building role. There is less formal donor co-ordination by other agencies in the forefront of anti-corruption activities, such as the Supreme Court and the Attorney General's office.

Donors also worked with government to protect the funds provided for rehabilitation and reconstruction in Aceh following the 2004 tsunami. An anti-corruption unit, in a special vehicle BRR, to manage the USD 600 million multi-donor trust fund successfully ran a public education programme and a unit that receives complaints and forwards those involving corruption to a special office of KPK established in Aceh.

Public financial management, customs and tax reforms led by the Ministry of Finance have been supported by the IMF, the Asian Development Bank, the Japan Bank for International Cooperation and the World Bank through development policy loans/credits. These draw on World Bank, Asian Development Bank, IMF and donor funds that support analytical work to set benchmarks, build capacity in these agencies, and help co-ordinate support to government. An effort meant to measure progress through a World Bank/Asian Development Bank Public Expenditure and Financial Accountability (PEFA) Assessment came to nought in 2006; the government did not wish the findings to be made public and had not been persuaded in advance to use the scores generated to measure performance of reforms over time.

A Decentralisation Support Facility has been established between the government of Indonesia and nine development partners[3] to support Indonesia's decentralisation programme. The Facility focuses on improving the fiscal and administrative intergovernmental framework; enhancing government effectiveness at provincial and local level; and strengthening the capacity of communities to hold governments accountable. While the Facility does not explicitly focus on anti-corruption, its activities are clearly relevant to the anti-corruption agenda. This initiative takes forward the strong support donors had provided to the government's decentralization programme in the initial *reformasi* period.

While donors have provided long-term support to a number of governance-related NGOs, in the early 2000s the Partnership for Governance Reform became a significant source of donor support to civil society for governance-related activities. This gave donors a seat at the table in the national dialogue on governance and provided them with a mechanism for joined-up approaches to the governance and anti-corruption challenges, both through the Partnership and independently. But support for the Partnership has weakened sharply as a result of weak internal management, donor perceptions of a lack of focus in its agenda; and the change in guard in key donor agencies which had provided significant support in the Partnership's early period, with the new personnel wishing to support governance activities directly in government agencies. The Netherlands and Norway will continue to support the Partnership following the ending of its formal relationship with UNDP at the end of 2008. However, it is the author's opinion that the general lack of support jeopardises the survival of an institution that in the past provided donors with a valuable opportunity for a joined-up approach to supporting Indonesian-led governance reforms. To now, the country has accumulated relatively little intellectual and social capital in the governance area. The Partnership could still provide donors with a vehicle for supporting civil society activities at arm's-length.

Donors continue to support civil society directly, although anti-corruption NGOs the author met complained that donors appeared to be more interested in funding government directly and that the Partnership, strapped for funds, is now competing with NGOs instead of facilitating NGO growth. Direct support by donors to NGOs also carries costs, because the

3 Asian Development Bank, AusAID, Canadian International Development Agency, the UK Department for International Development, Germany, the Netherlands, UNDP, USAID and the World Bank.

nature of donor involvement can distort priorities and may cause NGOs to adopt practices that can lead them into corruption. The answer, in the author's view, lies in donor support to reinvigorate the Partnership and strengthen civil society.

Donors also work together, through KPK, to support Indonesia's access to global anti-corruption initiatives. Following Indonesia's ratification of UNCAC, donors assisted in preparing the second UNCAC meeting in Bali. The Partnership funded a gap analysis of Indonesian corruption laws, and a working group in Bappenas has embarked on aligning Indonesia's laws to model laws under UNCAC. The World Bank and DFID are also working on a scoping study to help the government decide if it wants to join the global, multi-stakeholder Extractive Industries Transparency Initiative. Indonesia is seeking assistance under the World Bank/UN Stolen Assets Recovery Programme.

In addition to these joined-up approaches, donors pursue bilateral anti-corruption support to Indonesia based on their own diagnostic analysis. The RAN-PK provides some broad guidance on priorities, and the Supreme Court and Attorney General's Office have blueprints for their reform programmes. But while donors are responsive to these priorities, overall allocation of donor funds is shaped by their own diagnostic tools and priorities.

Impact

The jury is still out on whether Indonesia is making sustainable progress in the fight against corruption. Indonesia's absolute scores in perception-based surveys have improved, but it was not possible to say with certainty[4] through 2007 whether corruption had lessened. Indonesia's CPIA ratings for corruption remain low, just above the IDA borrowers' average. Transparency International's Corruption Perception Index, which is used by governments to assess progress, shows Indonesia improving its score considerably in 2008 over 2003 levels. Investment climate surveys show significant improvement in local firms' perceptions of the degree of severity of corruption and a substantial decline in the cost of bribes as a share of production costs. But TI's 2007 Corruption Barometer shows that Indonesians are considerably less optimistic than in 2005 about the prospects of corruption declining.

Corruption is no longer a risk-free activity. Confidence about impunity is being eroded by successful prosecution of senior politicians and officials. Sceptics had expected the appointment of new commissioners at the KPK to slow this progress down. In fact the opposite seems to be happening, reflecting an underlying momentum driven by public demand. KPK is also not being used to drive the government's political agenda, rather, the bureaucracy is facing mounting resistance on corruption and the judiciary is making full use of the mandate and powers of the Anti-Corruption Court and Judicial Commission, suggesting that anti-corruption is biting.

There has been progress in a number of other areas. KPK's success has spawned imitators in other agencies responsible for battling corruption. Large taxpayers report increased satisfaction with reforms at the tax agency. Government's revenue mobilisation efforts have improved, giving it more fiscal space. There appears to be progress in public financial management, although better measures are needed. Regulatory agencies are showing modest progress and are subject to greater transparency. Regional governments are getting onto the anti-corruption bandwagon as voters throw out corrupt politicians. While KPK has unearthed a number of major corruption scandals, for the most part they appear to relate to the pre-Yudhoyono period. The judiciary has been more circumspect in its judgements. The management of donor funds for tsunami rehabilitation and reconstruction is regarded as a success.

The reason for this relatively good performance lies in the commitment of a handful of reformers who have been supported by the President. The initial set of commissioners at the KPK helped create a strong, professionally run institution that is benefiting from sweeping powers, freedom from political interference, and an attractive pay package for employees. Heightened transparency resulting from a vigilant media has helped. Civil society has effectively partnered with reformers in the system and has been good at raising its voice whenever the government's political will appears to weaken.

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4 At a 90% confidence level. Improvement in Indonesia *is* discernible, at a 75% confidence level.

But these gains in strengthening formal accountability and reducing impunity need to be matched by greater progress in implementation. There are many key areas where progress has been slow or nonexistent. Reforms in the justice sector appear to be moving at a glacial pace, suggesting that it is easier to push reforms with new institutions and more difficult to tackle entrenched corruption. Many other agencies, like the PPATK, lack sufficient powers to pursue their agenda in an aggressive way. The anti-corruption agenda is too often viewed from the narrow prism of punishing the corrupt. Progress has been slow on the broader governance agenda, and in particular on civil service reform outside the Ministry of Finance and KPK. Efforts to control revenue leakage from the petroleum sector or deforestation remain in their infancy. Anti-corruption efforts outside Jakarta are also at best at an embryonic stage. This is despite the fact that a significant share of the government budget is now devolved. KPK's activities are centralised (with the exception of its office in Aceh) and its functions are delegated to police and the AGO offices at local level, which are much more prone to élite capture. Parliament remains a weak link in the chain of public accountability. Reform of election finance, political parties and the security sector are crucial to addressing corruption.

Indonesia's achievements need to be seen in the context of the government's limited reform capacity, its institutions struggling to adjust to the new context in which they operate, and continued strong vested interests. While Indonesia's achievements have been impressive, there are large uncertainties going forward. The global economic crisis and double-digit inflation have lowered support for President Yudhoyono. Vested interests await missteps on the part of government or KPK. But those interests are inhibited by an increasingly open society that is all too aware of its rights. Sustaining anti-corruption beyond 2009 will require the sequencing, deepening and broadening of reforms; extending anti-corruption efforts beyond Jakarta by helping citizens demand corruption-free services from their local governments; and building a stronger national coalition.

Incentives, Constraints and Opportunities Facing Donors

Donor incentives for co-ordinated responses to governance and anti-corruption are shaped by Indonesia's size and importance. For Indonesia's major development partners, Indonesia's stability and prosperity has enormous geopolitical and strategic consequences – especially in a post-9/11 world where what happens in the world's largest Muslim country has enormous significance, particularly for the "war on terror". Indonesia today is also a USD 100 billion market; a significant source of minerals and metals, including oil and natural gas; and, next only to China, the largest economy in the developing East Asia and Pacific region. Donors clearly recognise the importance of good governance to a successful democratic transition and to restoring growth and investment.

Donor incentives are also shaped by a government that has shown strong commitment to reducing corruption. The reformers in the administration, particularly the economic team, recognise that restoring Indonesia to a growth path that would enable a quicker transition to higher middle-income status requires strong confidence among foreign and domestic investors. Equally, they know that this confidence is closely linked to progress in reducing the cost of doing business and improving the investment climate. The recovery of the economy after the 1990 financial crisis has reduced the government's incentives to actively seek concessional development assistance, and the signalling effect that a joint donor approach brought in the early days of *reformasi* is no longer felt needed. Still, the government remains aware that capacity building to strengthen governance institutions remains an absolute requirement going forward.

However, co-ordinated responses are severely constrained by Indonesia's successful recovery from the last financial crisis and its return to middle-income status. Donor policies to concentrate resources on low-income countries, pressures to emphasise climate change, and the government's own clear signal de-emphasising donor co-ordination at a broader level have all served to push most bilateral donors (other than Australia, Japan and the United States) to lower their involvement in terms of both staff and resources in Indonesia. Lack of field-based governance staff is a critical constraint for joined-up donor responses. Most bilateral donors are also reluctant to use country systems, which also limits opportunities for joined-up approaches.

Co-ordinated approaches are also constrained by the government's apparent reluctance to engage with the larger donor community on the broader governance agenda. Government has delegated donor co-ordination to implementing agencies – principally the KPK, with its relatively narrow focus on corruption. KPK is required to co-ordinate with other agencies of government, but because of its enforcement role it does not enjoy the kind of relationship with other a gencies that would enable it to perform a wider governance aid co-ordination role. Nor is it staffed to perform such a function. Donors therefore lack an interlocutor who has an overview of the entire governance programme and is able to signal needs and priorities across the three branches of government. Bappenas is aware of the absence of an overall aid co-ordination function and is (as discussed below) beginning to take steps to fill this void, but it currently lacks staff, resources and political clout to do so.

The one exception to that reluctance is the recent government initiative to "take forward the Accra Agenda for Action" through what is called the "Jakarta Commitment: Aid for Development Effectiveness – Indonesia's Road Map to 2014". The non-legally binding Jakarta Commitment, signed in Jakarta on 12 January 2009 with 22 countries and multilateral agencies, is intended to strengthen implementation of the Paris Declaration on Aid Effectiveness by strengthening country ownership and building more effective and inclusive partnerships. The government proposes to articulate its capacity development objectives within sector plans and thematic strategies, and its development partners are expected to support these strategies. They are also expected to align themselves with government programmes and systems or "transparently state their rationale for not using government systems and indicate how they will work with the Government (including through capacity development) to align in the future".

The Jakarta Commitment calls for a new partnership paradigm in which development partners will help find "creative solutions to Indonesia's development challenges, making new knowledge and international best practices accessible". The Jakarta Commitment requires development partners to base all development assistance on country demands, reviewing implementation modalities and ensuring that the current preference for multi-donor trust funds is made consistent with the goals of strengthening and using country systems. Donors have moreover committed to reducing the number of *ad hoc* freestanding trust funds. The Commitment also calls for expanding dialogue with development partners to include the many new actors relevant to Indonesia as a middle-income country, including public private partnerships, corporate social responsibility programmes, and global funds and foundations.

The Jakarta Commitment endorses a regular dialogue mechanism to discuss the development agenda for implementing both the multilateral development goals and the specific commitments contained in the document. Regular and *ad hoc* meetings are envisaged, to take stock of progress and challenges faced, including progress on implementing the Declaration on Aid Effectiveness. While it does not mention governance or corruption, the document is important given donor unwillingness to work through country systems – for implicit in the willingness to articulate thematic strategies and seek donor support for implementation is the dium-term development plan (2009-13) there could be an opportunity for donors to urge the government to be more proactive in managing its leadership role in the governance and anti-corruption area. This would involve supporting a joint government-civil society-donor governance assessment. The evaluation would take stock of progress to date and inform donors and civil society of the government's next medium-term development strategy. It would also help the next government set benchmarks, develop governance strategies for the regions and key sectors, and strengthen country systems that will be critical to breaking down donor resistance to providing budget support.

Effectiveness

Donors have provided valuable support during the 2004-08 period for the establishment and effective launch of the KPK and for bringing some momentum to reforms in public financial management. Donors have come together under government leadership in both endeavours. They have drawn from the social capital and the knowledge base they helped create between 1999 and 2005. But it would be a stretch to describe the current donor response as an effective partnership to support local coalitions of reform.

The lack of formal and informal mechanisms for co-ordinated donor responses has imposed significant costs. The basic discipline that goes into such co-ordination is now missing. There is thus no shared understanding of the issues and agenda priorities, or analytical work to inform the dialogue. Also lacking is indeed the dialogue itself, based on a consensus among donors and government on the issues to be pursued, and a commitment by government to follow through on these and by donors to assist with implementation. A structured policy dialogue with donors at both political and technical level would benefit government's plans and programmes. In the absence of such a dialogue, valuable donor resources go into analytical work that is driven more by donors' corporate requirements than by the country's needs. Donors also lack advance agreement on how to handle a major corruption scandal. It is to be hoped that the Jakarta Commitment creates opportunities for resuming dialogue and ensuring strong government co-ordination of donor efforts to help strengthen governance and support anti-corruption.

An important joined-up donor activity is the issuing of annual development policy loans provided by Indonesia's three large creditors – its preferred partners (the Asian Development Bank, the Japan Bank for International Cooperation and the World Bank), which focus on strengthening the country's financial management and budget implementation systems. Some bilateral donors support these activities through World Bank – or Asian Development Bank – executed donor trust funds. Such a joined-up approach tends to pursue governance issues that lie within the comfort zones of the three major creditors, and therefore does not address some of the root causes of corruption that lie in the sphere of political governance. Nevertheless, there is evidence of some progress in a number of areas of public financial management under the strong leadership of Sri Mulyani at the Ministry of Finance. In helping to strengthen country systems, these development policy loans will make it easier for bilateral donors to provide budget support. Currently most bilaterals (with the exception of Japan) stay away from budget support because of concerns about fiduciary risk. In addition, government and nine donors have established a Decentralisation Support Facility (DSF) to assist Indonesia's decentralisation programme. Although such a programme clearly has the potential to improve transparency and accountability at sub-national levels, the DSF is still in early stages of implementation; it was not possible for the author to evaluate its work.

Donor support to strengthen demand for good governance also lacks coherence. Under the first set of *reformasi* governments, donors invested heavily in the Partnership for Governance Reform. This provided a window for helping to build and strengthen civil society engagement in issues of governance and anti-corruption. Donor support was on an arm's-length basis in what was a unique joined-up approach. The Partnership also allowed the donors collectively a seat at the table for what was largely an internal dialogue between government, civil society and the private sector. Donors have lost patience with the Partnership because of its management difficulties and because government's new commitment to fight corruption has opened up opportunities to directly fund government programmes. But this could mean losing an instrument that donors helped create, one that has provided them in the past with a coherent joined-up approach to support governance and anti-corruption. Direct support to NGOs also carries risks. Donor practices such as onerous reporting requirements and funding specific activities rather than overheads can create perverse incentives for NGOs that can lead them down the slippery slope to corruption. In the longer run, there is no substitute for putting NGO funding in Indonesia on a sound footing; working through organisations such as the Partnership to provide core funding for NGOs rather than project funding; and, even more importantly, helping NGOs progressively raise more funding from the Indonesian private sector and so reduce dependence on donors.

Lessons Learned and Recommendations[5]

Although Indonesia is a middle-income country with relatively low aid dependence, it still offers a number of lessons for other countries. Four sets of lessons emerge.

First, what should donors do when governments take charge of the aid co-ordination process and then do not deliver? Donors in Indonesia have chosen to live without such overall co-ordination. As seen above, they pay a heavy price for it in terms of the effectiveness of their assistance. It is therefore important that donors encourage governments to assume responsibility and provide an overall co-ordination mechanism. Such a mechanism needs to be informed by a plan that has full government ownership but is prepared in close consultation with civil society and academia. Donors should support plans that have broad country ownership and not those that are technically sound but lack such ownership. If governments fail to co-ordinate donors, it is important that donors develop and maintain informal consultation mechanisms that help them respond to a changing governance environment in a coherent and joined-up way. In Indonesia, the initiatives relatingto public financial management and decentralisation fill this void at the level of specific issues, but consultation on the broader governance agenda and how different initiatives fit into an overall approach requires consultations around a broader analytical framework.

Second, what should donors do with respect to their support for governance and anti-corruption when low-income countries graduate to middle-income status? In Indonesia, donors other than those who view their relations with Indonesia in geopolitical terms have seen their support for good governance diminish as resources are shifted to low-income countries. Graduation to MIC status is not a measure of improvements in the level of institutional development. For countries where institutions remain weak and corruption high, it makes sense for donors to retain a strong presence and effort in capacity- and institution building. That is especially true in sensitive areas like political governance and security sector reforms, which are crucial to sustainable transitions to middle-income status, and which fall outside the mandate and comfort zones of the MDBs. Moreover, graduation strengthens the case for co-ordinated donor responses, since in its absence the influence of those donors who remain engaged weakens.

Third, how do donors ensure that the support they are providing is resulting in sustained improvements in governance? Instruments like PEFA now provide donors with ways of measuring outcomes over time. Donors need to encourage their use by governments to set targets for reducing fiduciary risk in budget support programmes. Donors also need to sensitise partner governments to the need for greater transparency in the use of these indicators so that the latter more openly recognise areas of weakness and put pressure on civil servants to improve ratings over time. Moreover, donors need to accelerate efforts to develop similar tools in other key areas such as justice sector reforms, civil service reforms and security sector reforms.

Finally, how do donors provide sustainable support for strengthening demand for good governance? The decision of many donors to withdraw support to the Partnership for Governance Reforms raises some important issues. Donors need to recognise that just as in the public sector, civil society institutions will take time to develop sound internal management and governance practices, and donors should not practice stop-go approaches to assistance for such institutions. Sustained support for these institutions is important, as is helping them address their internal management and governance problems. It is also important that donors develop coherent joint strategies, particularly in middle-income countries, to support demand for better governance through civil society; in doing so they should take into account the need of civil society to gradually reduce dependence on donors and build on local private sources of funding.

5 Each case study led to a set of recommendations that are intended to be of use beyond the specific country context, and to inform development of a code of conduct for collective donor responses. Recommendations are therefore not addressed specifically to the case study country.