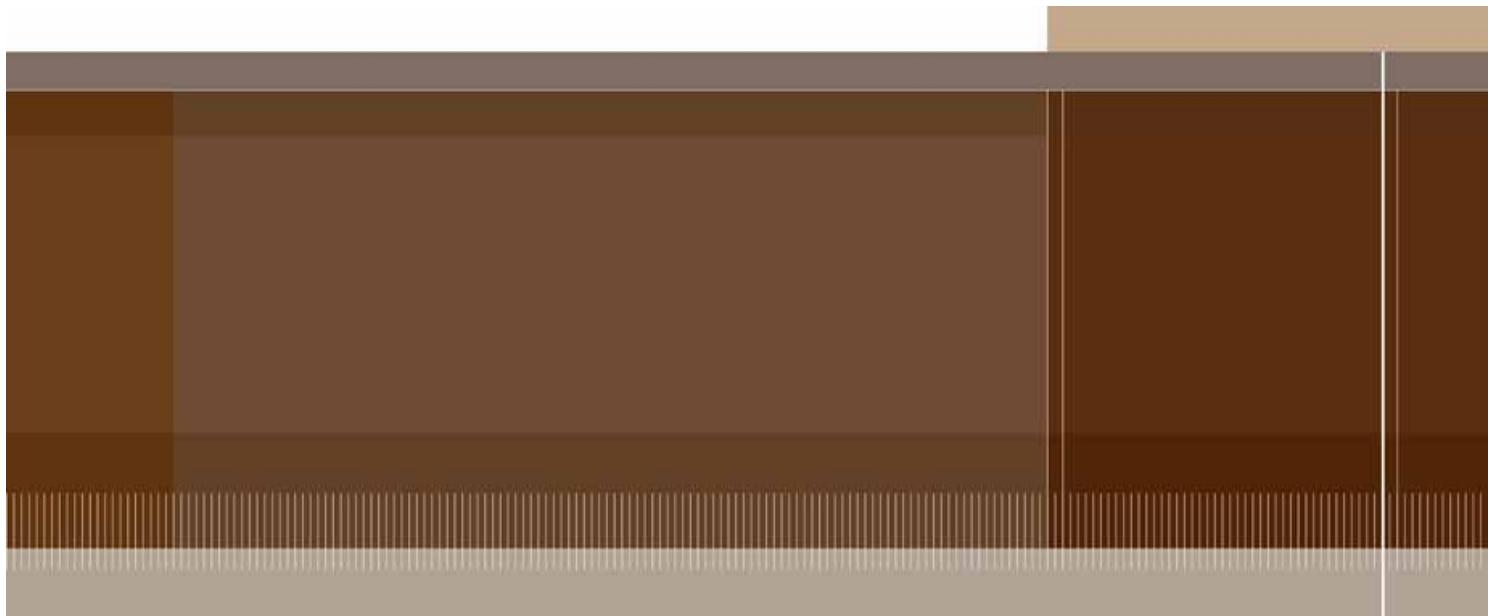


Indonesia

Annual program performance update 2006–07



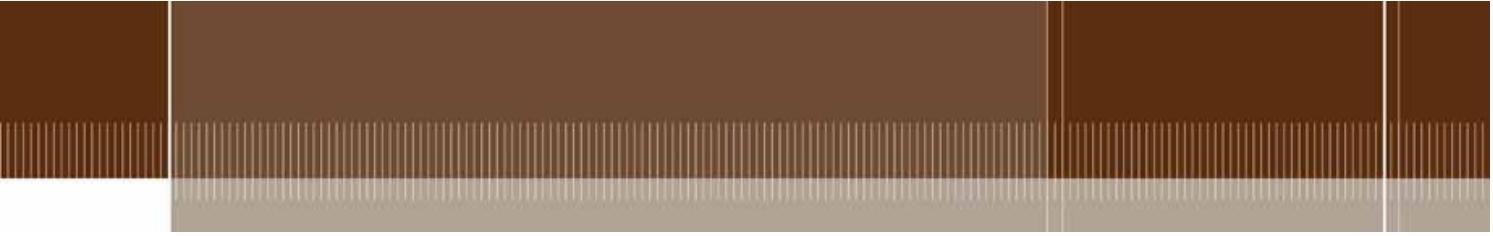
Australian Government

AusAID

Office of Development Effectiveness



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ISBN 978 1 921285 13 4

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The views in this publication are those of the authors and not necessarily those of the Office of Development Effectiveness.

Preface

This annual program performance update for Indonesia covers the 2006 calendar year and major developments in early 2007.

Measuring performance for 2006 was challenging, as it fell between the completion of the 2003–2006 Australia–Indonesia Country Strategy and the approval of the 2008–2013 country strategy.

As the program has changed significantly since the earlier country strategy, the update reports against the Aceh performance framework and the draft performance assessment framework that is being developed alongside the new country strategy. As part of the development of the Indonesia performance framework, key indicators will be determined for each country strategy objective, providing greater rigour to reporting in future years. The new country strategy will also align the program more closely with Indonesia's Medium-Term Development Plan.

Summary

Overall, the Australia–Indonesia Program is achieving its objectives and is on track. The program is strongly positioned to deliver a large and expanding program in a challenging environment, including:

- > implementing the Australian Government's White Paper on aid, *Australian aid: promoting growth and stability*
- > working closely in partnership with the Indonesian Government to meet its development priorities in line with Millennium Development Goals
- > increasingly coordinating with other donors, in line with the *Paris Declaration on Aid Effectiveness*.

The Indonesia Program is responding effectively to significant challenges, including:

- > ensuring a strategic impact given the relative size of Australia's aid in comparison with Indonesia's gross domestic product
- > Indonesia's decentralisation, which increases the number of sub-national governments we work with
- > constraints on governance reform and anti-corruption initiatives
- > the complex interconnection of Australian national interest demands and the aid program goal of sustainable poverty reduction in Indonesia
- > Indonesia's ageing infrastructure, which needs significant updating and maintenance.

The major achievements of the program against the country strategy objectives were:

- > *Emergency and humanitarian response* – effectively responding to the Yogyakarta earthquake, strengthening Indonesia's national disaster management board and implementing groundbreaking community-based disaster risk reduction initiatives.
- > *Transnational crime* – assisting the Indonesian Government to strengthen capacity in the areas of maritime, aviation and border security, anti-money-laundering and legislative arrangements to combat transnational crime.
- > *Governance* – strengthening government-to-government partnerships, progressing legal reform measures with Indonesia's Supreme Court, supporting Ministry of Finance reforms, and building demand for better governance by improving the capacity of civil society organisations and communities.
- > *Economic growth* – developing delivery arrangements for the construction and improvement of roads, the implementation of national policies in water and sanitation, and the strengthening of agricultural and small and medium enterprise productivity in eastern Indonesia.
- > *Regional economic engagement* – strengthening Indonesia's engagement with key regional organisations that promote regional economic integration.
- > *Health* – strengthening the delivery of maternal and child health services across 19 districts in eastern Indonesia.
- > *HIV and avian influenza* – helping the Indonesian Government to implement a comprehensive medium-term assistance plan for HIV patients; promoting awareness and prevention messages about HIV; and supporting the development and rollout of the national avian influenza strategy.
- > *Education and scholarships* – financing construction of 380 schools and awarding more than 600 scholarships to Indonesians to study in Australia

- > *Aceh and Nias* – enabling communities and local government to take control of reconstruction and work together to meet community needs; reconstructing critical community infrastructure; helping key partners to complete temporary shelters, and provide water and sanitation; supporting the completion of the first provincial strategic plans for health and education in Aceh; and providing extensive training to health professionals and allied health professionals.

Gender is integrated well into some parts of the program, but there is still much work to be done to integrate it across the whole program.

Australia had a small but significant role in support of Indonesia's drive to eliminate corruption, but there are concerns about the sustainability of anti-corruption reforms. The Indonesia Program is finalising its anti-corruption plan, which will emphasise support for Indonesia to implement its plan and outline how we will ensure that Australian funds are protected.

The program has made increasing use of Indonesian Government systems to deliver the aid program over the past year. The two major infrastructure programs building schools and roads are both providing most of their funds through Indonesian Government systems.

Chapter 1: Context and program environment

1.1 Context

After a slowdown during the first half of 2006, Indonesia's economy has regained momentum and the macroeconomic environment is generally improving, with almost 6 per cent growth during the last half of 2006. Overall, growth in 2007 is expected to be around 6–6.5 per cent. However, high levels of poverty, unemployment, poor infrastructure, corruption and unequal resource distribution across the country remain serious challenges.

Despite steady growth, the proportion of the population living in poverty increased from 16 per cent in 2005 to 17.8 per cent in 2006 (mainly due to an increase in rice prices¹), and the open unemployment rate is above 9 per cent (see Table 1). Indonesia's poor lack access to quality health and education services. Investment in human capital and infrastructure is currently inadequate to maintain growth levels. Conflict still affects a number of regions and, despite effective action by the Indonesian police, the threat of terrorism remains.

Decentralisation began in earnest in 2001, and sub-national governments now handle around 40 per cent of total public funds each year. While this has strengthened the demand for better governance and services in the country, there is a wide disparity in the capacity of local government officials to plan, implement and manage the delivery of those services.

International surveys rate Indonesia as having high levels of corruption, and this has constrained foreign investment. Pockets of reform have emerged in recent years, but efforts to fight corruption appear to have slowed down government decision-making.

Indonesia's location in a region of geothermal instability means that it will continue to be vulnerable to earthquakes, volcanic eruptions and tsunamis. Aceh and Nias continue to work to recover from the destruction caused by the December 2004 Indian Ocean tsunami and earthquake. On 27 May 2006, 6000 people were killed when Java was hit by an earthquake in Yogyakarta. Two days later a gas well exploded in eastern Java, causing hot mudflows. Total damage and losses from these two incidents is estimated at up to \$7 billion.

HIV is an increasing concern, causing an estimated 16,099 deaths per year². The country is also thought to have the highest avian influenza risk in the world and one of the lowest capacities to respond.

Table 1. Indonesia's key development indicators

	GNI per capita (US\$)	Infant mortality rate (per 1000 live births)	Life expectancy (years) total (M,F)	Adult literacy (%) total (M,F)	Corruption Perceptions Index
Indonesia	1250	31	66 (65,69)	90.4 (94.0, 86.8)	
East Asia and Pacific	1280	32	70 (68,71)	92 (95,88)	
Indonesia world rank	113/172	–	108/177	55/128	130/163

Sources: GNI per capita – UNAIDS; infant mortality and life expectancy – World Bank (latest years for which comparable data are available); adult literacy – Global Education Digest 2006 (2004 data); Indonesia world rank – Human Development Index 2006 (2004 data), except for CPI from Transparency International.

¹ World Bank, Asian Development Bank. Other sources show 7% of the population living below the US\$1/day poverty level.

² *Impact of HIV/AIDS 2005-2025 in PNG, Indonesia and East Timor – final report of HIV epidemiological modelling and impact study*, AusAID, February 2006.

1.2 Program environment

1.2.1 Breadth and strength of Australia's engagement

With the addition of new environmental initiatives in mid-2007, Australia's program will cover all major development sectors in Indonesia. Although 89 per cent of the program's funding focuses on four major sectors (infrastructure, governance, education and health), the review of the Indonesia 2003–2006 Country Strategy by the Office of Development Effectiveness noted the broad focus and the number of initiatives and partner organisations engaged across the program.

The breadth of the Australian Government's development engagement in Indonesia reflects the breadth of bilateral and diplomatic priorities that the aid program helps to address. These priorities include areas as diverse as avian influenza, counter-radicalisation, regional economic integration and illegal fishing. The increasing involvement of a range of Australian Government agencies in the aid program has resulted in stronger relationships with their Indonesian counterparts, and greater understanding at a government-to-government level. The policy and technical expertise of the Australian agencies has increased our capacity to help the Indonesian Government implement policy. The ability of the aid program to be on the ground and engaged at the sub-national level is also an enabling factor for cooperation in areas of mutual interest to Indonesia and Australia.

While the extent of assistance to Indonesia remains important, Australia's ability to provide specialised technical expertise and capacity building that meets the needs of the Indonesian Government is increasing Australia's leverage as a donor. The breadth and depth of Australia's engagement, both in financial contributions and in technical expertise, has built strong relationships and has meant that the Australian Government is increasingly well positioned to work in the evolving donor environment and engage at senior levels on issues of highest policy interest.

However, this engagement also presents challenges for AusAID. We must ensure that:

- > these relationships continue to be focused on the development priorities of the new country program strategy
- > effective monitoring of the impact of this assistance occurs across all Australian agencies
- > the breadth of development assistance continues to be managed effectively while meeting Australia's national interest demands.

1.2.2 Decentralisation

The rapid decentralisation of previously national-level government functions is a major development in Indonesia, with significant implications for Australia's aid program. These include rapid changes at the local level, increasing community demands for better delivery of services, and the need to work with officials and politicians with widely differing capacities and technical expertise. Decentralisation creates greater opportunities for the aid program to work selectively with reform-minded sub-national governments, but also creates challenges in expanding and replicating effective models of service delivery and implementing national strategies, such as for avian influenza.

Australia has responded effectively to these challenges, including by:

- > supporting a comprehensive study, which has shaped our engagement and will inform the new country program strategy, of the implications of decentralisation³
- > supporting the multi-donor Decentralisation Support Facility

³ *Stocktaking on Indonesia's recent decentralization reforms*, USAID Democratic Reform Support Program for the Donor Working Group on Decentralization, August 2006.

- > increasingly engaging directly at the sub-national level (for example, locating AusAID staff in Aceh, Makassar and Kupang, and putting implementing teams into provincial government health and education offices in Aceh)
- > focusing on assisting the poorer provinces in Indonesia – in eastern Indonesia and Aceh – including expanding engagement in Papua while remaining sensitive to political complexities.

1.2.3 Governance reform

The slow progress of governance reform has impacts on all aspects of Indonesia's development, from discouraging foreign investment to inhibiting the effective delivery of government services. Australia has strategically positioned itself to support reform by identifying and supporting key figures and areas of government, and establishing strong government-to-government links to support reform and use opportunities as they arise. Partnerships take time to build, but have the potential to provide strong support for reform in the longer term if they are managed strategically and effectively.

1.2.4 New modes of delivery

The Indonesia Program is near the forefront of AusAID's move to reformed operations by 2010. Although there are still some changes to be made, the management of the program has been significantly devolved to Indonesia. The number of AusAID staff in Indonesia has grown in order to:

- > deliver a growing Australian aid budget to Indonesia
- > meet the demands of work with a larger number of decentralised government partners
- > deliver more flexible and more closely managed forms of assistance
- > liaise effectively with whole-of-government partners.

We have begun to meet the need for greater skills and expertise by hiring specialist technical advisers to work in-country and by establishing a quality and impact team in Canberra to work on aid effectiveness.

The Indonesia Program has made greater use of more flexible and innovative forms of aid. Key examples include:

- > AusAID's first bilateral loans
- > rolling designs to respond to the fluid implementation environment in Aceh
- > flexible funding facilities to respond rapidly in the governance sector, strengthen Islamic education, and support small and medium enterprise development.

Our use of in-country partners, such as non-government, community-based and faith-based organisations, has not only allowed us to deliver the program effectively at the sub-national level, but also built the capacity of local organisations to operate without donor assistance in the future. In areas such as Aceh, our flexibility has gained Australia a positive reputation for getting things done on the ground.

AusAID is well placed to respond to the delivery challenges of 2010 through more flexible and innovative approaches.

Chapter 2: Results

2.1 Community vulnerabilities

Objective 1: Respond to, and reduce the vulnerability of communities to, disasters, conflict, acute humanitarian needs and complex emergencies.

The Australia–Indonesia Partnership for Reconstruction and Development (AIPRD) commitment helped to establish Australia as a lead donor and a reliable, effective partner in the emergency and humanitarian sector. Throughout 2006, the size, effectiveness and appropriateness of Australia’s support, and our strong collaboration with key Indonesian and international partners, continued to strengthen this position.

Keys to this success have been:

- > enhancing our partnerships with local community and faith-based organisations
- > substantially strengthening our partnership with BAKORNAS (Indonesia’s national disaster management board) through increased policy and program liaison and capacity building
- > remaining the major donor to core international humanitarian organisations in Indonesia
- > successfully leading the development of the first United Nations joint programming pilot in Indonesia, aimed at improving the impact of nutrition-related assistance in Nusa Tenggara Timur.

During 2006, AusAID Jakarta’s emergency response capacities were increased through staff training and improved rapid-response systems to ensure that we can support Indonesian Government and local implementation partners more effectively. Indonesia experienced one major event (the Yogyakarta earthquake) and a string of small- to medium-scale disasters, and Australia responded to seven of these events. Our responses took into account the scale of events, requests from Indonesia, gaps in assistance that needed to be filled, and areas where we could make the most significant impact. An internal review judged our response to the Yogyakarta earthquake as timely and effective. A further \$30 million is being provided in recovery and reconstruction assistance in Yogyakarta.

AusAID has begun implementing innovative programs at the community level to build local capacities to address disaster risk and vulnerability. In the longer term, these partnerships have the potential for highly sustainable outcomes. The poorly performing program to strengthen BAKORNAS, involving Emergency Management Australia, has been redesigned. After slight delays, the new Australia Bali Memorial Eye Clinic was opened in July 2007 by Australia’s Prime Minister and Indonesian President Susilo Bambang Yudhoyono.

2.2 Transnational crime

Objective 2: Strengthen the capacity of the Government of Indonesia to combat transnational crime.

Reporting against the transnational crime objective is limited due to availability of relevant information in this area. The available information focuses on inputs and outputs rather than outcomes and impact, which has limited AusAID’s ability to determine the extent to which Australia’s work has strengthened the Indonesian Government’s capacity to combat transnational crime.

Major achievements

- Providing \$7.5 million in timely, effective, emergency assistance, primarily as medical assistance, to the victims of the Yogyakarta earthquake.
- Strengthening Australia’s partnership with key international and Indonesian partners, including Indonesia’s national disaster management board.
- Implementing groundbreaking community-based disaster risk reduction and response initiatives with key local implementing organisations, including Muhammadiyah and Nahdlatul Ulama.

Progress against this objective has been achieved through the combined interventions of a number of Australian Government agencies, including the Australian Federal Police, the Australian Transaction Reports and Analysis Centre, the Australian Customs Service, the Department of Immigration and Citizenship, the Department of Transport and Regional Services and the Department of Foreign Affairs and Trade. These agencies have provided technical assistance, and support for and upgrading of Indonesian Government information and management systems and training in their use.

Major achievements in maritime and aviation security, border management and anti-money-laundering measures have also enhanced the Indonesian Government's capacity to counter potential terrorist threats.

2.3 Governance

Governance objectives 3, 4 and 6:

- > *Improve the efficiency and accountability of public sector and judicial institutions in delivering their mandate.*
- > *Strengthen the oversight of, and demand for, good governance.*
- > *Improve economic (and financial) governance at the national and sub-national level.*

Progress against these three governance objectives is reported together, as they are closely related and face similar constraints.

While the Indonesian economic and political climates were relatively stable in 2006, lack of transparency, accountability and efficiency in the public sector remained significant concerns for investors, businesses and individual recipients of government services.¹ As yet there is no broad-scale public sector reform in Indonesia, but a number of reform-minded ministries are undertaking ambitious change programs that could catalyse wider reform.

Australia is a small donor in this area, which is well serviced by multilateral and bilateral donors. The sensitive nature of governance reform poses particular challenges for a bilateral donor.

Australia's approach has been to ensure that it is consistently well positioned to respond to Indonesian Government requests for assistance and to provide flexible, timely, expert advice and support in carefully targeted areas. The largest proportion of the governance budget at the central level is delivered through flexible facility

Major achievements

Assisting Indonesian Government agencies to

- maintain better maritime and aviation security measures
- implement more effective border management alert systems
- strengthen Indonesia's anti-money-laundering regime
- strengthen legislation and prosecution in relation to transnational crime.

Major achievements

- Strengthening government-to-government partnership between around 20 Australian and 35 Indonesian agencies.
- Progressing legal reform by helping Indonesia's Supreme Court to improve its systems, management and transparency.
- Expediting the Ministry of Finance's reform in the following areas:
 - The modernisation of the Directorate General of Tax, contributing to increased annual growth in tax revenue of 45.6 per cent and 35.9 per cent in two key economic regions.
 - Transformation of the Directorate of Government Securities Management into a model for similar units in heavily indebted countries.
 - Conducting an auction of 3G radio spectrum bands, which will bring in revenues of around \$600 million over the next 10 years.
 - Helping the Monitoring and Governance Unit implement management contracts that will improve state bank and financial sector governance and may enable the further divestment of state assets, reducing Indonesian Government liabilities and increasing fiscal space for development spending.
 - Building demand for better governance through strengthening civil society, and building community capacity by training more than 2900 village facilitators and change agents to improve community planning and service delivery in more than 500 villages.

¹ M Chatib Basri and Arianto A Patunru, 'Survey of recent developments', *Bulletin of Indonesian Economic Studies*, 42:3, p. 314.

mechanisms, through training for officials in targeted organisations and increasingly through partnerships between Australian and Indonesian government agencies.

Assistance in legal reform is focused on the Legal Development Facility. The mid-term review of this program described it as ‘among the most strategic and influential donor programs with the Indonesian central state legal institutions.’² The program has enabled Indonesia’s Supreme Court to develop accurate data on its current caseload and trends in case administration performance, and to formulate and apply strategies to reduce its case backlog and improve transparency in the court system. The program also supported the production of the first comprehensive guide to legal aid in Indonesia.

Assistance in financial reform has included policy-level engagement and support for public sector reforms. Our work has enabled the delivery of complementary and increasingly integrated assistance and has led to significant gains in the partnerships between Australian and Indonesian government counterparts. Australia’s program has assisted the Ministry of Finance, which is the Indonesian Government agency spearheading public sector and anti-corruption reform.

Assistance to areas such as the ministry’s tax directorate is now being used by the Minister of Finance as an example to promote reform in other ministries.

Overall, the Australian approach has been strongly endorsed by the Indonesian Government and is frequently held up as a model for consideration by other donors. Individual activities are performing well against their own objectives, but they operate in a challenging environment where change occurs slowly and over the long term. The success of our work in this area has also generated significant additional demand for Australian assistance. Finite Australian resources will need to be well targeted and delivered in an integrated manner to maximise effectiveness and efficiency.

An important part of Australia’s engagement in 2006 was in fostering greater participation by communities and civil society organisations in democratic decision-making. This work included engagement with mainstream Islam and electoral assistance through the People’s Voter Education Network. The assessment of the Indonesia Country Strategy 2003–2006 considered that these engagements had all met or exceeded expectations.

The past 10 years has seen an enormous strengthening of the role of Indonesian civil society organisations. They have become an important mechanism for holding government, particularly at the local level, accountable for its performance. We have built the capacity of civil society organisations in eastern Indonesia and empowered communities in Aceh to better articulate their needs and improve service delivery from local government. This has led to measurable improvements in the quality of life, skills, confidence and gender relations. The value of the participatory approach used in the program has been recognised by the Indonesian Government, leading to its adoption by local government officials in four provinces in eastern Indonesia.

2.4 Economic growth

Objective 5: Enhance opportunities for economic growth through addressing market, regulatory and infrastructure constraints in targeted groups.

Australia has focused on improving infrastructure and economic production in eastern Indonesia as important steps to broaden opportunities for economic growth.

A public works official announced in early 2007 that 40 per cent of Indonesia’s national roads were in disrepair.³ AusAID has developed arrangements for road improvements in eastern Indonesia through the use of loan instruments using government systems that are closely harmonised with those of the World Bank. The loan agreements were signed in September 2007.

2 Legal Development Facility mid-term review, p. 4.

3 Ken Ward, *Dealing with a democratic Indonesia: the Yudhoyono years*, Lowy Institute for International Policy, March 2007.

The provision of water and sanitation is a key to achieving good development outcomes in Indonesia.⁴ The water supply and sanitation programs implemented by the World Bank with AusAID financing have exceeded expectations. A relatively small investment by Australia has helped set the agenda for this sector by leveraging other donors' involvement, and Australia has had an important role to play in donor harmonisation and effective implementation. BAPPENAS (the National Development Planning Agency) recognises AusAID as an active partner at the policy level in this area.

The need to increase agricultural productivity has been identified as the most serious challenge for eastern Indonesia. Increased productivity is critical to efforts to reduce poverty and inequality.

Australia's strategy to promote improvements in production includes the development of strategic alliances with Indonesian Government programs and key multilaterals. Such alliances have the potential for high collective returns and have been very well received by partners. The strategy also includes:

- > efforts to link local producers effectively to markets in such areas as the forestry and furniture industries
- > work by the Australian Centre for International Agricultural Research (ACIAR) to disseminate and utilise research information from fisheries and soil management projects in Aceh to address such problems as acid sulfate soils
- > initiation of ACIAR's major agribusiness projects for the beef, fish and vegetable industries, addressing issues such as pest and disease problems.

A significant flexible initiative in eastern Indonesia, encompassing a range of activities to improve governance, increase incomes and access to basic services, encountered setbacks over the past year because of problems with design and management. After nearly two years of operation, the initiative had not achieved its expected results and lacked a clear operational strategy. These deficiencies highlighted the challenges involved in implementing an integrated regional development approach. The concept behind the initiative remains sound, and remedial action has been taken.

2.5 Economic integration

Objective 7: Strengthen Indonesia's engagement with key regional institutions to enhance economic integration and trade liberalisation.⁵

Through engagement with APEC, ASEAN and the East Asia Summit, Australia has helped Indonesia lead on key issues and benefit from networking and capacity-building opportunities. For example, over the past year Australia supported Indonesian participation in 37 APEC working group projects and 13 other APEC activities. As co-chairs of the APEC Task Force on

Major achievements

- Development of effective delivery arrangements for the improvement of 1500 kilometres of roads and replacement of approximately 4500 metres of essential bridging in eastern Indonesia.
- Assisting the Indonesian Government in developing, trialling and implementing national policies in community-based and institution-based water supply and sanitation.
- Strengthening agricultural and small and medium enterprise productivity in eastern Indonesia in the longer term by addressing information needs, linking local producers to markets and minimising market constraints.

Major achievements

- At the policy level and through support for specific activities, Australia has strengthened Indonesia's engagement with key regional organisations that promote regional economic integration, such as APEC, ASEAN and the East Asia Summit.

4 Inadequate sanitation services cause estimated economic losses of US\$6.8 billion per year. *Indonesia – averting an infrastructure crisis: a framework for policy action*, World Bank, 2004.

5 AusAID's regional programs are not yet designed to report specifically on their benefit to individual countries in the region. Therefore, performance information on the benefits to Indonesia of its participation in key regional institutions, and its progress in enhancing economic integration and trade liberalisation, is limited.

Emergency Preparedness, Indonesia and Australia worked closely to enhance regional coordination in emergency management. In 2007 the two countries co-hosted a workshop, partly funded through the aid program, for heads of APEC emergency management agencies. Australia and Indonesia are also working together to lead regional financial cooperation and integration initiatives funded by Australia through its support for the East Asia Summit.

Indonesia has played a strong leadership role in the Australian-funded East ASEAN Initiative, which aims to promote growth and security in the East ASEAN sub-region. In early 2007, Indonesia co-hosted regional stakeholder workshops on private investment and infrastructure for economic growth. Indonesian experts prepared over half the project concepts presented at the workshops – this is evidence of strong engagement in regional efforts to support growth and security.

Significant assistance has been provided to Indonesia through the ASEAN–Australia Development Cooperation Program, which is currently supporting 30 activities to a total value of over \$21.3 million. Involvement under the program in a regional quality assurance initiative for fruit and vegetables has enabled Indonesia to align its national policy with the regional policy and develop appropriate implementation initiatives. Through ASEAN, Indonesia has also taken the lead in the ‘Emerging and Resurging Infectious Diseases, Surveillance and Response’ initiative, alerting member countries to outbreaks of communicable diseases and other events in the region and elsewhere – events with potentially extremely damaging economic and human impacts.

To better reflect Australia’s aims for regional integration generally, the economic integration objective will be adjusted to match the performance framework being developed by AusAID’s East Asia Regional Section.

2.6 Health

Objective 8: Improve health systems, focusing on enhancing maternal and child health.

AusAID’s health programs target those provinces performing most poorly in health. Our two major health initiatives focus on strengthening the delivery of health services by district centres, and on increasing demand for health care. They work in close collaboration with district governments in provinces with the highest rates of maternal and child mortality in Nusa Tenggara Timur and Papua.

Pilots of innovative designs for strengthening the supply side of maternal and neonatal health care have been undertaken through these initiatives. The most successful has been the pilot of an adolescent reproductive health care service module, which has become the basis for Indonesian national policy in this field.

Both activities work closely with key health donors in the target areas, such as UNICEF, the German aid agency Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), and the United Kingdom Department for International Development (DFID).

AusAID is working to strengthen the data to measure impact in these areas by establishing an independent multiprogram monitoring and evaluation (M&E) team through a delegated cooperation agreement with DFID. The team will monitor the performance of DFID- and AusAID-funded maternal and child health initiatives being implemented by UNICEF and GTZ.

Major achievements

- Strengthening the delivery of health services in district centres for maternal and child health across 19 districts in four provinces in eastern Indonesia and improving demand for health care by collaborating closely with district governments and other key donors.
 - Over the last two years, around 5 per cent of midwives in Nusa Tenggara Timur and Papua have been trained in basic delivery, with 86 per cent demonstrating proficiency in those functions three months later.
 - Three hospital sites are now providing high-quality and affordable training for around 75 midwives per year.

2.7 Pandemics and epidemics

Objective 9: Improve the capacity of communities, state and civil institutions to prevent, mitigate and respond to pandemics and epidemics.

The Indonesia Program has focused effectively on improving the capacity of communities and state and civil institutions in Indonesia to manage two health issues of great concern: the HIV epidemic and the potential for an avian influenza pandemic.

HIV/AIDS

There are three distinct components in the rise in HIV infections in Indonesia: cases among intravenous drug users (IDUs); cases among sex workers and their clients; and a generalised epidemic in Papua and West Papua.]

AusAID's HIV/AIDS prevention and care initiative is tracking well to meet its objectives and has made many contributions in the response to HIV in Indonesia. The initiative is directly interconnected with the Indonesian Government's HIV policies and national strategies, and works at both the strategic policy level and on the ground.

This work has:

- > enhanced the capacity of the national and provincial AIDS commissions
- > provided technical assistance to strengthen policy, legislation, strategic planning, coordination and M&E
- > helped the Ministry of Health strengthen its systems and capacity to deliver services to people with HIV, resulting in 2006 in the first comprehensive medium-term plan for the care, support and treatment of HIV patients in Indonesia.

The program draws upon areas of the Australian Government's comparative advantage, particularly focusing on harm reduction and increased support for IDUs. It expanded a model for delivering HIV prevention and care services to IDUs in public health facilities in West Java and Jakarta, with local political and financial support. The program promoted awareness and spread prevention messages through a range of media and groups. A new eight-year program of assistance, taking into account lessons learned from the earlier program, is expected to commence in February 2008.

Australia has led donor coordination in this area through the establishment of the multi-donor Indonesia Partnership Fund for HIV. Australia has also worked actively with other donors to provide a unified policy message to the Indonesian Government.

Avian influenza

The Indonesia Program has made good progress in improving the Indonesian Government's capacity to implement avian influenza surveillance and control programs. Australian support to the Participatory Disease Surveillance and Response Program has enabled the Ministry of Agriculture to expand the program further to South Sulawesi and Papua provinces. CSIRO and Australian Quarantine and Inspection Service work to strengthen animal health laboratory capability and inter-island quarantine protocols has made positive and vital contributions to implementation of the national avian influenza control strategy.

Major achievements

- Working at the policy level to assist the Indonesian Government's development and implementation of a comprehensive medium-term plan for the care, support and treatment of HIV patients.
- Promoting awareness and prevention messages about HIV, with 65 community health centres now actively promoting these approaches.
- Collaborating closely with USAID and the World Bank (the two other major donors in this sector) to directly support the development and rollout of the Indonesian Government's national avian influenza strategy at the national and sub-national levels.

2.8 Education

Objective 10: Improve the quality of, access to and governance in basic education.

For AusAID's education program, 2006 was a transition year. Smaller, localised initiatives, while well regarded and appropriately sized at their inception, are being phased out as we scale up in this sector. They are being replaced by a program with strong coherence and a strategic focus, closely aligned with AusAID's Education Policy and the Indonesian Government's goals for education. This approach is articulated in our Indonesia Education Program Strategy 2007–2012.

Basic education

The Basic Education Program, financed mainly by AIPRD grants and loans totalling \$355 million, is central to this approach. The program will build 2000 schools in the poorest parts of the country and create places for 330 000 students over the next five years. Technical assistance has helped the Indonesian Government to review and develop strategies for teacher quality assurance and to progress the development of national education standards. A whole-of-school and whole-of-district development program has been prepared and will commence soon in these schools. This will help district governments implement the national education standards and assist schools to improve school planning and management.

The program is being delivered substantially through government systems, with \$57 million channelled through the Indonesian Treasury this year to targeted communities building the schools. This is a fundamentally new delivery mechanism for AusAID in Indonesia, and has presented challenges in ensuring that the money is delivered effectively in a high-risk procurement environment.

The Basic Education Program will more than double in 2007–08 – from 380 schools in 2006–07 to 845 schools (including 275 Islamic madrasahs) in 2007–08 – and the risks for effective implementation of the program will increase commensurately. Appropriate resourcing and capacity for government, implementing contractors and AusAID will be essential.

Many schools in the poorest areas in the country, particularly serving the education of girls are madrasahs. A program focusing on innovative activities in madrasahs was redesigned in 2006 to improve the quality of teacher and English language training in these schools. This may present some challenges in scaling up because of weak absorptive capacity in this area.

Scholarships

In 2006 there was a substantial increase in the number of scholarships offered to students in Indonesia to study in Australia.⁶ Over the past year, targets for the selection of candidates have largely been met. Most alumni (97 per cent of whom were on Australian Development Scholarships) have successfully completed their courses and returned to their home organisations. Alumni surveys indicate that most returned scholars had a positive experience of study in Australia, which helps to build positive and constructive relationships between Indonesia and Australia.

AusAID has collaborated with Australia's Department of Education, Science and Training to manage Australian scholarships through a whole-of-government approach. The department will now promote all Australian scholarships. Given the increasing complexity in the delivery of the

Major achievements

- Financing the construction 380 schools (including 46 Islamic schools), which were operational in time for the start of the Indonesian school year in July 2007.
- Developing a procedural manual which, through regular iterations, is strengthening the Indonesian Government's financial management and regulatory and monitoring frameworks in education.

Major achievements

- Awarding over 600 scholarships to Indonesians to study in Australia.

⁶ This report covers Australian Development Scholarships and Australian Partnership Scholarships delivered through the Indonesia Group in 2006. Australian Leadership Awards and Fellowships are reported on separately by the Australian Scholarships Group.

scholarships program, an Indonesia Scholarship Strategy for 2007–2012 is being developed to articulate clearly measurable objectives for the program and incorporate more flexible delivery mechanisms.

2.9 Aceh and Nias

Aceh Performance Framework goal: To contribute to the recovery and development of Aceh and Nias in ways that meet the needs and aspirations of people and communities.

Significant success was been achieved in the difficult reconstruction environment of Aceh over 2006, with all major post-tsunami activities underway. Some key activities will be completed in 2007–08, after which Australia will maintain an ongoing targeted engagement in the province.

AusAID's broad sectoral coverage across Aceh in the aftermath of the tsunami includes activities in health, education, governance, infrastructure and livelihoods. Across all sectors, the program was based on the principles of responsiveness to priorities identified by Indonesian counterparts and flexibility. This included the use of rolling designs to enable adaptation in a rapidly changing environment, and flexible contracting to ensure rapid implementation of initiatives.⁷

Partner government agencies at subdistrict, district and provincial level and the Aceh and Nias Reconstruction and Rehabilitation Agency view the Australian program positively. They consider it to be responsive, flexible and focused on priority needs. Australia gained a 'can do' reputation during the emergency phase, and has maintained it during the reconstruction phase in a complex and difficult development environment.

After a significant amount of reconstruction work over the past two years, Australia has progressed strongly in the health and education sectors. The program has worked effectively in training health and education professionals, and supported better health and education management by working closely with the provincial government to plan and budget for improved service delivery.

In community governance, Australia's assistance has targeted the village and subdistrict government levels, where the impact of the tsunami and 30 years of conflict has been particularly acute. This work, which includes a community capacity-building initiative, has mentored village leaders to develop more than 200 village reconstruction action plans identifying priority infrastructure needs. A review of this work identified it as a model for best practice in community engagement, particularly women's involvement.

Assistance in the housing sector is particularly well regarded. Australia's approach has been to fill gaps and assist key partners in housing reconstruction. AusAID's roving construction teams have helped our partners build quality temporary housing for displaced Acehnese.

Major achievements

- Empowering and enabling communities and local government to take control of reconstruction and work together to meet community needs, which has led to the spatial planning of over 88 000 parcels of land (a necessary step in rebuilding homes) and the development of 203 village action plans, through which communities identify priority housing, infrastructure and sectoral needs.
- Reconstruction in Aceh of:
 - the provincial public health office, two pharmaceutical warehouses, and the midwifery academy
 - four schools, a teaching facility and a district education office
 - 39 village halls or offices supporting local-level governance
 - Banda Aceh's main port (in cooperation with the United Nations Development Programme).
- Assisting the Reconstruction and Rehabilitation Agency and other donors and NGOs to overcome delays in housing reconstruction by filling labour supply gaps, helping to complete over 1250 temporary shelters, and providing water and sanitation to over 4000 people while upskilling the local labour force.
- Supporting the completion of the first provincial strategic plans for health and education in Aceh.
- Supporting ongoing training / professional development for over 350 hospital staff, including 40 new doctors.
- Offering 3371 scholarships for nursing, midwifery and allied health courses.

7 As reported by the Aceh Program Monitoring and Support Group, January 2007.

Chapter 3: Program quality

3.1 Performance information

To measure the performance of the Indonesia Program more effectively, the assessment framework for the country strategy and the initiative M&E frameworks need to be strengthened. A dedicated quality and impact team within the Indonesia Branch will help to make initiative and program monitoring more systematic.

AusAID does not currently use Indonesian Government data to monitor activities. We are making efforts to utilise the Indonesian Government's performance information where possible, including by investing resources to improve data collection. Resources will be dedicated within the Indonesia Branch's sectoral teams and initiatives to collect, collate and synthesise that information.

AusAID will continue to harmonise with other donors to strengthen Indonesian Government information systems, use those systems, and collaborate in joint evaluations. For example, a joint donor M&E team is investigating a number of maternal and child health activities across donors and provinces. The team is a valuable resource for analysing health initiatives and sharing lessons among donors.

3.2 Resourcing

AusAID has faced some challenges in meeting staffing requirements associated with the rapid enlargement of the Indonesia Program after the introduction of AIPRD funding. AusAID is making greater use of overseas-based staff and advisers to address this issue and a review of overseas-based staff's terms and conditions of employment is planned, in order to ensure attraction and retention of appropriate personnel.

Budget limitations and constraints on how funds can be used have restricted AusAID's ability to respond to some Indonesian Government requests for assistance. Concerns about ongoing funding in some sectors also raise questions about sustainability and the maintenance of achievements. This is particularly the case in the governance sector and the humanitarian and emergencies sector. In many areas of the Indonesia Program there is substantial 'lock-in' of bilateral funds due to ongoing initiatives, limitations in the use of AIPRD funds and the implementation of new White Paper policy proposals.

AusAID works very effectively with other donors, but that work is done at an ongoing cost in human resources. It is necessary to dedicate adequate human resources to ensure better coordination and harmonisation in such areas as:

- > joint monitoring missions and implementation (in maternal and child health, with UNICEF and DFID)
- > policy development (for avian influenza, with USAID)
- > delivery of infrastructure (for roads, with the World Bank).

Chapter 4: White Paper implementation

4.1 Gender

The Gender Thematic Group's February 2007 country strategy gender analysis concluded that:

gender is integrated quite well into parts of the Indonesia program, in some areas better than others ... the program should be congratulated on some of the work that it is already doing and on the flexibility of program staff to facilitate good work.

Successes include:

- > ACCESS, a civil society strengthening initiative focusing on eastern Indonesia that incorporated gender consideration throughout all aspects of the program and was evaluated as the best in dealing with gender issues of all reviewed community-driven development programs across a number of donors
- > LOGICA, a community empowerment activity in Aceh that includes a focus on gender issues, which has become a widely regarded best practice model for engaging women to drive development change in villages
- > a short-term training initiative for government officials, which has been assessed as best practice for integrating gender equality into mainstream training programming
- > several activities that address gender imbalance in the legal system and are assisting the Indonesian National Commission on Violence Against Women to develop an integrated criminal justice system for handling cases of violence against women
- > health sector initiatives that focus on the status of women because one cause of high maternal and infant mortality rates is the low priority given to the health of women in villages.

While AusAID has made progress in some areas, there is still much work to be done to integrate gender across the program. Three key suggested improvements were:

- > targeting the focus on gender issues strategically in specific sectors
- > ensuring that gender analysis is undertaken during the design of all new initiatives
- > improving the measurement, monitoring and evaluation of the engagement of and impact on men and women, within initiatives and across the program.

Gender is being incorporated as a cross-cutting factor in the new country program strategy and performance assessment framework and in sector strategies for education, health and governance. The Indonesia Program is also investigating the placement of a gender adviser in Jakarta to assist with staff capacity-building and strengthening the integration of gender principles across the program.

4.2 Anti-corruption

In April 2007 the Office of Development Effectiveness conducted an assessment of Australia's involvement in anti-corruption measures in Indonesia and found that Australia had a small but strategically significant role in support of the Indonesian Government's drive to eliminate corruption. There are concerns about the sustainability of anti-corruption reforms in a difficult environment, and there is a risk that increased emphasis on corruption will result in the perception that it is 'on the rise'.

The Indonesia Program is finalising its anti-corruption plan as it develops the new country strategy. The plan will emphasise that a long-term commitment is required to achieve substantial

change. Specific targets and baselines are being developed. So far, the program has demonstrated substantial achievements against each of the three pillars of AusAID's anti-corruption policy.

The Indonesia Program has been building constituencies and demand for the reduction of corruption through support to monitor national, provincial and local elections and people's perceptions of corruption. There is a strong focus on empowering people, particularly women and the poor, to hold local governments accountable for appropriate service delivery in eastern Indonesia and Aceh (through the ACCESS and LOGICA initiatives).

The program has reduced opportunities for corruption by supporting the Indonesian Financial Intelligence Agency and building the capacity of other financial institutions to identify, analyse and report on suspicious transactions and money-laundering crimes. In February 2006 Indonesia was removed from the Financial Action Task Force's non-cooperative countries watch list. Other important achievements include:

- > assisting the Indonesian Government to implement its risk framework for infrastructure, to ensure that only economically worthwhile projects receive government funding
- > attaching anti-corruption plans to significant new AusAID investments working through government systems (education, infrastructure and health initiatives being rolled out in 2007 include measures to ensure transparency of project information, community-level monitoring, improved auditing and local budgeting capacity, and the use of procurement specialists).

The Indonesia Program has assisted efforts to change incentives for corrupt behaviour by:

- > working with the International Finance Corporation to level the playing field for small and medium enterprises in eastern Indonesia, Aceh and Nias
- > assisting the Tax Department in the Ministry of Finance to develop a code of conduct for the Large Taxpayer Office that continues to be used as a template for broader reforms in the ministry
- > providing assistance to Indonesia's *Komisi Pemberantasan Korupsi* (Corruption Eradication Commission), including training of investigators and completion of a training needs assessment.

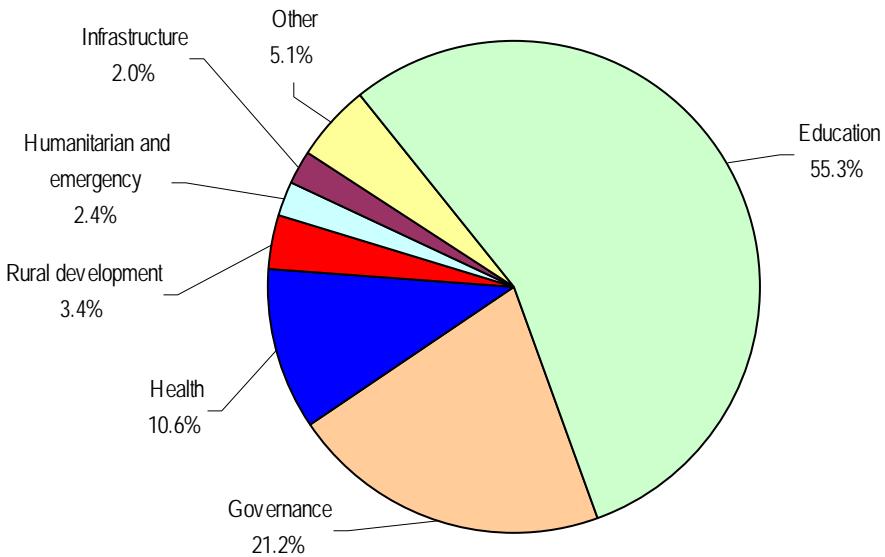
4.3 Spending

Figures 1 and 2 show the breakdown of spending across the Indonesia Program by sector and form of aid, respectively.

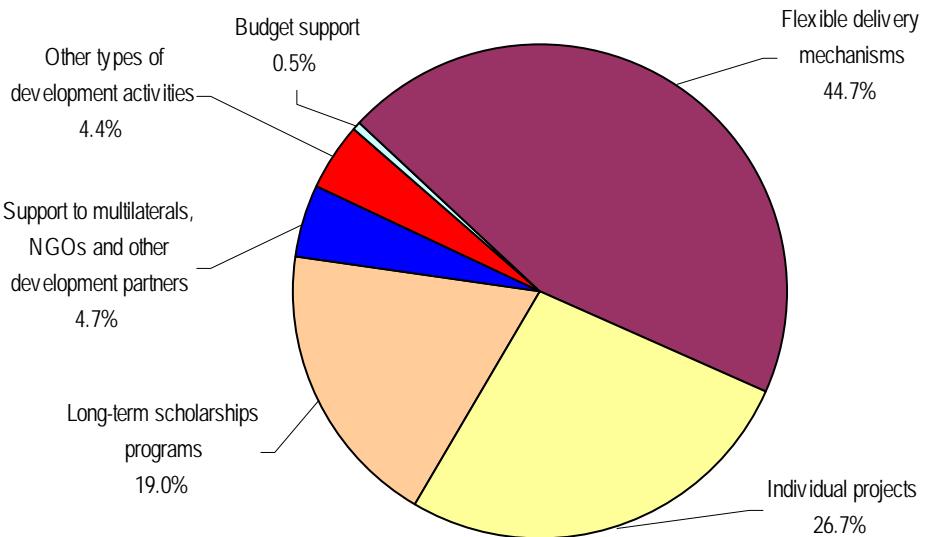
4.4 Joint donor missions

In 2006, AusAID conducted 21 joint donor missions to the field, and conducted six pieces of analysis with other donors in Indonesia. Most of these activities were in the governance, regional development and health sectors. This work was only a small proportion of our coordination and alignment with other donors.

Australia is now the major bilateral donor pursuing the harmonisation agenda. Our position is supported through our leadership role in the sectors of water and sanitation, maternal and child health, HIV, avian influenza and education. Australia also continues to channel funds through multilateral organisations such as the World Bank, the Asian Development Bank, United Nations agencies and the multi-donor decentralisation support facility where appropriate.

Figure 1. Estimated AusAID initiative expenditure in Indonesia 2006–07, by sector

Based on end of financial year forecasts from 12 June 2007.

Figure 2. Estimated AusAID initiative expenditure in Indonesia 2006–07, by form of aid

Based on end of financial year forecasts from 12 June 2007.

4.5 Technical assistance

Data on spending on technical assistance are not specifically captured for any program in AusAID and therefore must be tabulated manually from expenditure data for each activity. For the Indonesia Program, overall technical assistance expenditure was calculated by determining the spending for the top 10 initiatives by approval amounts, and those other initiatives for which the information was readily available. Technical assistance is defined in line with the Development Assistance Committee definition of 'technical cooperation' spending. This method resulted in coverage of 75 per cent of the program's spending. If the remaining 25 per cent of expenditure

were included in the total, this would likely see a small reduction in the overall proportion spent on technical assistance.

In the 2006–07 financial year, based on 75 per cent of the program, 27 per cent of funding was spent on technical assistance (not including scholarships). This figure rises to 46 per cent if scholarships are included as technical assistance.

4.6 Use of Indonesia's national systems

A significant feature of the Indonesia Program has been our increasing use of Indonesian Government systems to deliver the aid program over the past year. However, given the significant concerns about corruption highlighted in this update, we will continue to limit this practice to areas where adequate safeguards can be put in place to ensure that finances reach their intended destination.

The two major infrastructure programs building schools and roads are both providing most of their funds through the Indonesian Government. Overall, 71 per cent of school loans and grant funding is planned to go through Indonesian Government systems.

In 2006, some \$57 million of funding for building schools was disbursed through the Indonesian Treasury to finance community block grants. Key challenges in instituting this process have included:

- > lack of experience of contractors in working through government systems
- > lack of clarity within the Indonesian Government about the division of roles and responsibilities between different levels of government
- > the existing culture among public officials, with additional efforts required to ensure that funds reached their intended destination
- > lack of adherence to procedural guidelines, and lack of guidelines in some important areas.

All of the \$300 million loan funds for the building of roads is to be channelled through Indonesian Government systems.

The Indonesia Program aims to strengthen Indonesian Government performance measurement systems. We will use analytical studies to monitor the progress of the program and to ensure greater accountability and transparency.

Decentralisation and the budget process in general pose both challenges and opportunities to work through government systems. In Aceh, for example, the health team chose to base itself within the provincial health office, but not to place money through the budget. The program found that working this way enabled the partnership to focus on program objectives while enabling the rapid mobilisation of resources that would have been delayed using budget systems. In Aceh, where speed was of the essence, it was judged that placing funds 'on budget' would delay implementation, and dialogue would focus on funds management rather than development work and policy.

The Aceh experience highlighted the challenges in negotiating Australian initiatives' objectives and time frames, which are often different from the Indonesian Government's. In working with or through government systems, the Australian program has less control over implementation. This diminished control presents greater risks but substantially strengthens the sustainability of aid initiatives.

The new Nusa Tenggara Timur maternal and neonatal health program, which is currently being designed, is crafted to be implemented by Indonesian Government systems at the district and provincial level to help improve health budgeting and financial management at the sub-national and national levels.

Acronyms and abbreviations

AIPRD	Australia–Indonesia Partnership for Reconstruction and Development
DFID	Department for International Development (United Kingdom)
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German aid agency)
IDUs	intravenous drug users
M&E	monitoring and evaluation