INVESTMENT CONCEPT

Investment Concept Title: Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) Economic Cooperation Program (ECP)

Start date: Entry into force of IA-CEPA (estimated 1 July 2020)  End date: 30 June 2025

A. Development Context (What is the problem?)

Open economic settings are critical to the Indonesia’s future development and stability. Despite almost two decades of continuous growth, Indonesia’s economic outlook is uncertain, settling at a ‘new normal’ of 5 per cent growth per annum. This is neither fast nor inclusive enough to meet its job creation and economic modernisation goals.

Widespread reforms to Indonesia’s growth model are required to avoid stagnation, encourage inclusive growth and avoid being caught in a ‘middle-income country trap’. Few countries have successfully navigated the ‘middle-income country trap’ as they struggle to undertake structural reforms.

Indonesia’s economy is much less trade intensive than its peers — trade, as a percentage of GDP, is 43 per cent in Indonesia versus 123 per cent in Thailand and 132 per cent in Malaysia. Indonesia has the lowest level of participation in global value chain (GVC) trade in Asia, excluding commodities. Structural transformation of the economy is occurring at a slower pace in Indonesia than in Malaysia, Thailand or Vietnam.

President Joko Widodo has actively pursued trade agreements as a means to attract investment and promote economic reform. He has also pursued strategies such as ‘Making Indonesia 4.0’ (Industry 4.0) to help drive Indonesia’s export sectors and increase growth. But major obstacles to trade expansion exist, including low skilled labour and high trade costs — including customs and border procedures (‘at the border’), transport (‘between borders’) and product standards (‘behind the border’) and a restrictive Foreign Direct Investment (FDI) regime.

Indonesia’s protectionist trade and investment policies have resulted in less FDI and exports. OECD FDI restrictiveness Index, for example, ranked Indonesia the third most restrictive regime among 68 middle and high-income countries. Perhaps unsurprisingly then, FDI as a share of GDP is one of the lowest in the region. An infrastructure deficit, skills gap and weak business environment compound these policy deficits.

As Australia’s 13th largest two-way trading partner, the potential of Australian and Indonesian bilateral trade is not yet realised. IA-CEPA aims to remedy this. However, once ratified Australian businesses will still face a range of barriers that will continue to impact upon trade flows, including a volatile policy environment, lack of investor protections, and restrictions on foreign ownership and access to skilled labour.

In this environment, support for Indonesia to pursue open trade settings and structural reforms will be crucial to Indonesia achieving greater economic prosperity. Experience with the Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) and other trade agreements has shown that Indonesia will also likely face challenges in implementing IA-CEPA technical requirements, including rules of origin, tariff commitment

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3 Indonesia’s Economy: Between Growth and Stability. Roland Rajah, Lowy Institute, 15 August 2018.
4 2018 World Bank figures. This figure is the trade-to-GDP ratio. Although called a ratio it is usually expressed as a ratio. It is calculated by dividing the aggregate value of imports and exports over a period by the GDP for the same period.
5 OECD. 2018. FDI Regulatory Restrictiveness Index. 16 May 2018.
implementation, custom procedures, sanitary and phytosanitary (SPS) measures and technical regulations. Issues of cross-government coordination may also impede implementation, as well as poor industry awareness of how to benefit from the agreement.

This program of economic cooperation will support implementation of IA-CEPA in the Indonesian system, benefitting Australia, while also supporting Indonesia to achieve greater economic prosperity — by enabling higher productivity and export-oriented growth.

**B. Strategic Intent and Rationale (Why should Australia invest?)**

*Ensuring IA-CEPA delivers commercial and strategic benefits*

On 31 August 2018, Australia and Indonesia signed a comprehensive strategic partnership (CSP) agreement — the highest level of non-alliance relations between two countries. The first of five pillars of the CSP is enhanced economic and development partnership.

While Australia and Indonesia enjoy strong engagement on political and security issues, the trade and investment relationship is underdone. However, on 4 March 2019, Australia and Indonesia signed the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA). Australia’s commitment to securing IA-CEPA reflects Indonesia’s importance to Australia. **IA-CEPA will play an important role in advancing CSP pillar 1** — deepening the bilateral relationship with an important strategic partner.

IA-CEPA’s Economic Cooperation Chapter (see Annex A) commits Australia to providing support for implementation assistance and aid for trade to support economic reforms.

As the geostrategic bellwether for Southeast Asia, with a population over 260 million people, a growing middle-class, and strong economic growth tipped to make it a top-five economy by 2030, Indonesia will play an increasingly influential role in regional and global affairs. **IA-CEPA supports Australia’s interest** — as detailed in Foreign Policy White Paper — of promoting an open, rules based, trade and investment regional architecture, including supporting Indonesia’s economic growth and stability through development cooperation. It will provide Australian and Indonesian businesses an opportunity to expand and diversify the economic partnership and help Indonesia get the most out of the IA-CEPA — in particular, to demonstrate a commitment to trade liberalisation, better integrate into the global rules-based system, implement domestic reforms and lift living standards through economic growth.

By supporting Indonesia to implement and benefit from IA-CEPA, **ECP will help to elevate Australia’s and Indonesia’s trade and economic relationship to new levels.** In line with DFAT’s ‘Strategy for Australia’s Aid for Trade Investments’, it will promote the development of a predictable, transparent and consistent business environment that will improve economic efficiency and the growth of trade and investment. Australian exporters, investors and service providers will have better and more certain access to the growing Indonesian market.

**ECP provides an incentive for Indonesia to ratify and fully implement IA-CEPA.** ECP will form a core part of securing support in the Indonesian system for implementation of the trade agreement.

**Ushering in a second wave of commercial opportunities through IA-CEPA ECP**

A large proportion of Australia’s current trade with Indonesia is characterised by Indonesia importing Australian products and then transforming these inputs into products for export or domestic consumption – for example, live cattle into beef, wheat into noodles, and rolled steel into high-end manufactured products and infrastructure projects. ECP will support expanding traditional trade as well as deepening industry linkages to develop a second wave of commercial opportunities, including in cutting-edge areas such as the digital economy and research through stronger industry and institutional linkages.

The ECP will also support key areas of mutual interest for Australia and Indonesia and strengthen links between Australian exporters and Indonesian processors. It will help maximise the benefits of IA-CEPA’s outcomes in key

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1. PWC ‘The Long View: how will the global economic order change by 2050?’ February 2017. As measured by GDP PPP per capita.
2. DFAT. ‘Strategy for Australia’s Aid for Trade Investments: Supporting developing countries to trade and prosper’ July 2015.
service sectors such as education, health, mining-related services, as well as development of infrastructure, resources and tourism. It will bolster Australia’s strong market position as a reliable provider of quality and safe agricultural goods, including beef, live cattle, dairy and horticulture.

Reorienting development cooperation to support a strong economic partnership

While IA-CEPA provides an impetus for reform, it is not a panacea. Its implementation is expected to be patchy without additional support. IA-CEPA includes a built-in agenda to facilitate trade and investment and secure support in the Indonesian system. Successful implementation of IA-CEPA will help to create a more conducive business-enabling environment, which in turn will promote mutual prosperity.

As a relatively modest, targeted investment, ECP will compliment Australia’s existing, highly regarded and long-term bilateral development program. This includes its flagship Australia-Indonesia Partnership for Economic Development (Prospera) economic governance facility, which totals in around $30 million in funding per year. Alongside these broader economic reform programs, ECP positions Australia well to support the needs of middle-income Indonesia. It builds on Australia’s role as a policy advisor of choice on economic and social reform, supported by long-term engagement, through the development cooperation program. The ECP will boost prosperity by supporting sustainable and inclusive economic growth.

In line with the Office of Development Effectiveness’ evaluation on transitioning aid to middle-income countries in Asia, ECP will support Australia’s maturing economic partnership with Indonesia. It will align trade, broader strategic and development assistance objectives. Specifically, it will help Indonesia to ‘take advantage of new trading opportunities by improving their business regulations and addressing supply-side constraints’.

### C. Proposed Outcomes and Investment Options (What?)

President Widodo and senior reformist economic ministers value trade agreements to support their broader economic reform agendas. By supporting IA-CEPA’s implementation through the ECP, we aim to assist these reformers to develop and maintain more stable, open and transparent trade and investment regimes in Indonesia, which will be crucial to ensuring Indonesia remains an attractive trading partner and destination for foreign investment for Australian businesses. Helping to create such an environment will be essential to Indonesia’s ongoing economic growth.

The ECP uses a theory of change that assumes support for Indonesia’s effective implementation of trade agreements will contribute to economic reform. The goal, objective and indicative end-of-investment outcomes are outlined in turn below.

**Goal**

To support Indonesia to achieve economic development and benefit from IA-CEPA.

**Objective**

To help Indonesia increase its openness to trade and investment, including by strengthening human and institutional capacities.

**End-of-Investment-Outcomes**

1. **(1): Effective implementation in Indonesia of IA-CEPA commitments**

ECP will be successful if it is able to assist Indonesia to effectively implement the outcomes achieved under IA-CEPA. ECP activities will support both countries to meet their responsibilities. Unlike traditional development programs, there are a number of un-costed commitments made through trade negotiations that will guide the program’s initial focus. The design will refine these focus areas (including considering where some activities might be better implemented through the broader bilateral development program).

2. **(2): Open and better-integrated markets through improve trade facilitation and industry engagement**

For IA-CEPA to be a success, the two countries’ private sectors and markets will need to be more closely engaged and integrated. Building on the work of DFAT’s flagship economic governance program in Indonesia – Prospera – ECP will facilitate greater access to markets achieved through reduced tariff and non-tariff barriers, and
harmonisation of standards and processes. This includes support for better functioning markets by providing assistance on rules of origin, SPS, intellectual property, customs, and trade facilitation.

ECP will promote closer economic ties between the Australian and Indonesian private sectors, achieved through peer-to-peer exchange, new partnerships and deeper linkages. This should also assist with greater regulatory transparency and the smoothing of trade flows between the Parties in line with the commitments of the Agreement, as well as deeper relations between our respective agencies responsible for agriculture, tourism, e-commerce and health. For example, among others, the establishment of a system for administering Tariff Rate Quotas (TRQs) will deepen relationships between agriculture, trade, commerce and customs agencies.

(3): Strengthened Indonesian labour market through improved government and business linkages

Indonesia has highlighted the importance of human capital development to help its transition to middle-income country status and beyond. This includes the five sectors under ‘Making Indonesia 4.0’ — food and beverage, textiles and apparel, automotive, electronics and chemicals — as well as areas identified in negotiations: agriculture, tourism, e-commerce, health and vocational education and training (TVET).

ECP will seek to demonstrate improved skill development to strengthen the Indonesian labour market, by facilitating training and catalysing TVET sector reform and system strengthening. ECP will facilitate potential options for skill development through skills partnerships, occupational standards and/or pilots of new delivery models in niche areas. This may contribute to Indonesia delivering effective TVET in a sustainable and affordable way, with increased involvement from Australian providers – bringing mutual benefits to both parties.

ECP will consider supporting discreet activities that facilitate increased human and technical capacity in priority sectors, achieved through training, twinning, exchange and quality TVET. The ECP will support activities that identify the structural impediments to skill development, improve standards and potentially pilot vocational training in areas of mutual benefit. It may also identify modalities to provide more access for foreign TVET providers (particularly Australian providers), improve government-to-industry links; and ensure Indonesian TVET meets regional (ASEAN) and international standards.

D. Implementation Arrangements and Delivery Approach (How will DFAT deliver it and engage?)

**Possible delivery mechanisms**

The design will explore a range of possible mechanisms for the delivery of the ECP.10 This is necessary given the unique nature of ECP being tied to the IA-CEPA trade agreement and the existing commitments, namely:

- it will be governed by an Economic Cooperation Committee that will determine its activities;
- ECP will provide a mix of policy advice and program implementation across diverse technical areas under IA-CEPA;
- the ECP will provide a secretariat mechanism to coordinate and support implementation of IA-CEPA, through technical assistance, short courses, and other capacity development activities;
- IA-CEPA covers a range of sectors that intersect with existing bilateral development programs, such as economic governance, infrastructure, health, agriculture and education.

Once established, the delivery mechanism would provide advice to the Economic Cooperation Committee on how to operationalise these activities. This will then form the basis of annual work plans approved by the IA-CEPA FTA Joint Committee.

The following delivery options will be explored:

1. a stand-alone program or facility;
2. an integrated model with an existing program or facility such as Prospera. The design will consider the potential for overlap with the Prospera markets work stream which focuses on creating an enabling environment for robust private activity, investment and trade;11 or

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11 This includes work to support regulatory frameworks that are clear, stable and well designed; supporting reforms in targeted sectors to promote efficient markets; reducing barriers and costs to market entry and exit to enhance competition; and promoting global value chains.
3. **a hybrid, hub and spoke model** where a program or facility manages core administration and delivery of IA-CEPA implementation (e.g. a Secretariat); but relies on sector programs — such as Australia Awards, the agriculture, education, health and economic programs — to take forward activities that could be undertaken through existing programs.

For all options, the design will consider which activities could form part of ECP and what might be undertaken through other existing bilateral programs. Given the diverse range of priority sectors it will be very unlikely that one program or delivery model will be able to deliver the full suite of ECP activities.

**Under the hub and spoke model, particular attention will be paid to the scale of activities planned under each pillar, priorities for each sector, decisions over funding, coordination mechanisms, governance of activities, and reporting.**

The design will also **explore integrated DFAT-contractor models** such as the Regional Health Security Initiative and Governance for Growth Facility in Vanuatu, which include a mix of Australian Government and contractor staff to manage policy, program and contract management. The design will also seek to learn from best practice of multi-sector enabling arrangements such as the Fiji Program Support Facility. 12

Further, the **design will consider and build upon lessons from DFAT’s aid-for-trade economic cooperation programs.** In particular, the design will consider lessons from AANZFTA Economic Cooperation Support Program (AANZFTA AECSP) and PACER Plus economic cooperation. A major challenge for the ECP will be maintaining a strategic focus and limiting divergent, discrete and bespoke activities, and mandate creep. 13

There are pros and cons to the possible delivery options that need to be carefully assessed, as highlighted in **Figure 1.** For example:

- **the ECP’s scope of activities** — there is a high risk of over-extending an existing facility or program, such as Prospera, and diverting attention from its core focus on economic reform;
- **the number of stakeholders and interests** — there are a significant number of additional stakeholders involved across agriculture (Department of Agriculture, ACIAR, CSIRO, agricultural industries and private sector), health (Health Ministry and private sector), trade (Austrade, BKPM, and KADIN) and TVET (TAFEs, Skills Australia and private sector);
- **the countervailing objectives of ECP** — it is partly to encourage ratification and implementation of a trade agreement, support for aid for trade and trade facilitation, and is also intended to support Indonesia’s ambitious economic reform agenda. Consequently, it will need to be able to effectively administer a program which contains both official development assistance (ODA) and non-ODA funds; and
- **the complexity of ECP governance** — the ECP will have complex governance mechanisms.

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Other alternatives considered include:

- **Multilateral organisation**: Multilateral Development Banks such as the World Bank Group and Asian Development Bank have extensive technical expertise, which could support the investment’s objectives. However, free-trade agreements, such as IA-CEPA, are inherently bilateral in nature and ECP activities are intended to provide mutual benefit for both Indonesia and Australia. This would be difficult for a multilateral organisation to accommodate. The governance arrangements for economic cooperation are relatively fixed and leave little room for an independent third party. Not all of the activities conducted under ECP are likely to be ODA eligible, which would be difficult for a multilateral organisation to accommodate.

- **DFAT-managed program**: DFAT could manage individual support to whole of government counterparts and implementing agencies. While DFAT could manage a program of support providing more direct control and oversight over the funding and activities, the likely large size of the program and complexity of managing this in-house makes this option untenable.

**Modalities**

The following aid modalities are proposed to provide a flexible approach to deliver a high quality ECP that supports Australia’s commercial and economic diplomacy agenda and economic reform outcomes:

- **knowledge sharing and information exchanges**: capacity building through workshops, conferences, exchange of information, exchange of expertise and training and trade promotion, including through facilitating exchange visits of researchers, experts, specialists and private sector representatives;

- **grants**: provide grant funding to build industry association linkages, and support industry stakeholders and other profit and not for profit organisations to prosecute IA-CEPA outcomes and capacity building objectives;

- **analytics fund**: support sector level assessments and joint studies and research projects concerning issues relating to IA-CEPA;

- **technical advisory panel**: include a Government Partnerships Fund or industry linkages fund focused to support peer-to-peer technical advice to assist Australia’s IA-CEPA objectives. This could be through long-term embedding of Australian officials into partner country ministries, short-term fly-in, fly-out partnership arrangements on specific reform initiatives, two-way twinning and/or exchange programs.
Governance

In broad terms, the IA-CEPA Economic Cooperation Committee will oversee ECP activities. The Economic Cooperation Committee sits under the IA-CEPA Joint Committee. The design of ECP will need to be informed by, and align with, the governance arrangements set out in IA-CEPA treaty. The design will need to clarify the roles of the Economic Cooperation and Joint Committees in providing strategic guidance and vetting key problems that emerge. It will need to set out clearly the relationship between the ECP and other IA-CEPA committees.

The design will consider how to operationalise ECP governance arrangements, including the structure of the facility, core personnel and the necessary level of quality assurance support (such as a technical advisory group).

ECP will need to retain high levels of flexibility and adaptability to be able to incorporate new and emerging priorities set by the Joint Committee. There will be more activities than funds to support them and opportunity costs will need to be carefully considered when developing the first annual work plan activities. It will also need to manage stakeholder expectations and clearly communicate activity selection to stakeholders.

ECP will be responsible for managing the assessment, design and implementation of activities approved by the Economic Cooperation Committee. The design team will look at ways to ensure that the ECP has the necessary technical capacities to understand the Indonesian bureaucracy and manage a range of stakeholders in line with Australian and Indonesian mutual interests.

Framework for activity selection

As outlined in Figure 2 below, an indicative framework of activities across three sectors of the economy: (1) agriculture; (2) manufacturing; and (3) services is proposed, which cuts across the three-program outcome areas. Figure 2 captures activities proposed during negotiations with GoI. The design will test whether this framework applies and final activities will be further informed by analysis of the constraints to trade and investment in relevant sectors, which will be subject to agreement of the Economic Cooperation Committee.

Figure 2

<table>
<thead>
<tr>
<th>Activities proposed across sectors</th>
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<tr>
<td><strong>IA-CEPA commitments are implemented</strong></td>
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<tr>
<td><strong>Agriculture</strong></td>
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<tr>
<td>• Enhanced Red Meat and Cattle partnership</td>
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<td>• New grains partnership</td>
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<tr>
<td>• Sharing lessons in horticulture etc</td>
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<tr>
<td><strong>Open and better integrated markets</strong></td>
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<tr>
<td><strong>Agriculture</strong></td>
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<tr>
<td>• Development of Tariff Rate Quota (TRQ) system, incl automatic issuance of import licences</td>
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<tr>
<td>• Removing tariffs and non-tariff measures (NTMs) on ag inputs and products</td>
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<tr>
<td>• Harmonising standards in food, fertiliser, etc</td>
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<tr>
<td><strong>Strengthened Indonesian labour market</strong></td>
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<tr>
<td><strong>Agriculture</strong></td>
</tr>
<tr>
<td>• Sharing expertise &amp; facilitating technical vocational education and training (TVET) in areas like pest control</td>
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<tr>
<td>• Promotion/marketing of ag products</td>
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</tbody>
</table>

*Note: This table is intended to show how activities proposed during discussions with GoI might fit within the framework and, as such, are indicative only. Activities will be informed by further analysis of the constraints to trade and investment in relevant sectors and are subject to the agreement of the IA-CEPA EC Joint Committee.

The design will consider best practice for activity selection from other trade facilitation programs (for example, AANZFTA Economic Cooperation) to propose a mechanism and criteria for activity selection by Australia and Indonesia. The following indicative criteria for activity selection are proposed:

1. **aligned to IA-CEPA objectives and mutual benefit**: mutually prioritised to meet IA-CEPA outcomes in trade in goods, services or investment;
2. **politically feasible and practical**: activities will be chosen that are feasible (budget and time) and are supported by relevant government and private sector counterparts;
(3) **reflects Australia’s comparative advantage**: activities will be chosen that align and build-on with Australian capabilities and expertise (compared to what others, such as Japan, the European Free Trade Association, European Union, might do as part of their economic cooperation activities); and

(4) **aligned to bilateral or regional interests**: aligned with Australia’s existing bilateral or regional development, trade and economic objectives, and any commitments of third-party donors that also align with the objectives of the program.

### E. Budget and Resources (What will it cost?)

Annual funding will be sourced from the Indonesia bilateral program fund. The design will articulate an indicative allocation for priority areas, which will help inform the first annual work plan to be prepared by the Economic Cooperation Committee and approved by the Joint Committee. The design will also provide a framework for activity selection and funding allocations to ensure a demand-driven and flexible approach. The design will consider the resource implications for DFAT for each modality presented.

The design phase will **consider mechanisms for non-ODA funding and ODA eligibility for activities** involving the Australian private sector partners and issues around tied aid, as well as blurring ODA and non-ODA elements. This includes options for how the ECP could partner with other agencies, such as Austrade, to lead on non-ODA eligible activities involving promotion of Australia’s commercial interests. The design will explore how this is undertaken under AANZFTA and PACER Plus economic cooperation packages.

The design team will **assess the possibility of co-contributions and possible mechanisms for receiving funds from the Indonesian Government and private industry**. Indonesian government officials (from the National Planning Ministry (Bappenas)) have signalled their intention to co-contribute into ECP and there may also be opportunities for co-investment from the Indonesian and Australian private sectors.

### F. Risks

Overall, the ECP has been assessed as a medium risk investment. DFAT assesses that it can manage the five overarching risks to the ECP outlined below through careful design and review during implementation.

1. **Political economy risks** in each country will affect the success or failure of policy reforms. Public sensitivity over trade agreements could delay ratification by either Party. This would impact commencement of ECP. Many reforms in Indonesia will be politically difficult and resisted by powerful actors who benefit from the status quo.

2. **Strategic focus and resourcing of the ECP is spread too thin** could impact ECP’s ability to have a lasting impact. It could also impact ECP’s ability to meaningfully influence outcomes. The multi-sector nature of the program brings complexity to the initiative and could lead to lack of focus and coherence amongst activities. ECP’s close link to ensuring short-term trade facilitation outcomes under IA-CEPA could also detract from longer-term economic reform and development results. In a tight budget environment, there may not be resources available to support the range of activities proposed.

3. **Weak institutional and regulatory environments** may limit the ability of the activities to have lasting impact. Identified risks include inadequate legal and regulatory frameworks, transparency and corruption, cost of doing business and partner capacity.

4. **Poor coordination** with bilateral and other donor investments will compromise value-for-money for the ECP. DFAT has a number of programs operating in the sectors planned for this investment: economic governance, agriculture, health, and education. The economic and trade facilitation space could also potentially become a very crowded, with the Indonesian Government committing to finalise a series of trade deals that contain economic cooperation arrangements.\(^{14}\) The ECP may not have the systems to collaborate efficiently with

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\(^{14}\) Indonesia has eight trade deals (two bilateral: Japan, Pakistan and seven regional - the ASEAN free trade area, AFTA; ASEAN-Australia and New Zealand, ASEAN-China, ASEAN-India, ASEAN-Japan, ASEAN-Korea FTAs and EFTA-Indonesia CEPA) completed and hopes to complete an additional 12 trade agreements in 2019. EFTA-Indonesia CEPA contains an economic cooperation chapter, and it could be included in the EU-Indonesia CEPA.
partners. The broad nature of the program might also mean that the right Indonesian Government and industry stakeholders are not engaged.

(1) **Access to quality technical advice** will shape influence and impact on reforms. Adviser Remuneration Framework (ARF) limits may make it difficult to attract the right technical expertise. Government agencies may not agree to release staff within Average Staffing Levels (ASL) cap restrictions.

**G. Next steps (What is the design process?)**

A DFAT (Jakarta)-managed, contractor-led design is proposed. Jakarta Post will assemble an independent design team contracted through Prospera reporting directly to DFAT with expertise in: (i) design; (ii) economic governance; (iii) trade facilitation and promotion; (iv) private sector engagement; (v) gender and social inclusion; and (vi) monitoring and evaluation. Design team members will have demonstrated experience working in trade and economic diplomacy activities in Australia and Indonesia.

**DFAT will work with Prospera and existing bilateral programs to ensure relevant technical inputs are sourced** on indicative areas proposed for cooperation through the trade negotiations, in the event the design team members do not have expertise in these areas e.g.: (i) TVET; (ii) agriculture; (iii) health; and (iv) tourism.

The **design consultations will need to include extensive consultations with Australian and Indonesian government stakeholders and industry stakeholders**. This will include stakeholders in the health, TVET, agriculture, and trade and economic sectors.

The design team will **present options to DFAT** on the possible delivery mechanism for the program and **DFAT will decide which option the design team should further develop**. A number of key stakeholders from across DFAT will be involved in this decision, including from Southeast Asia Division, Regional Trade Agreements Division and Jakarta Post. This process will be detailed further in the Terms of Reference (TORs) for the design team (Annex B). The TORs will also include guidance to ensure the probity of the design and procurement process.

**DFAT’s Indonesian Government counterpart for the economic cooperation program is Bappenas.** DFAT will regularly update and engage Bappenas throughout the design process. The design team will also present to Bappenas on the outcome of the design prior to procurement. Bappenas will be responsible for facilitating consultation with and approvals from Indonesian government stakeholders.

The investment design document will be independently appraised by relevant specialists to ensure it meets quality standards. It will also be considered and approved by the DFAT Aid Governance Board in the event that a new facility is chosen as the delivery mechanism. This approach has been agreed with the Aid Governance Board Secretariat.

As noted above, the IA-CEPA Economic Cooperation Chapter also stipulates that the **first annual work program will be developed in parallel to treaty ratification** and will prioritise activities that can enhance Indonesia’s implementation capacity and boost economic integration between Australia and Indonesia. Indonesia and Australia’s main interests (focus areas) were determined through the negotiations, but will need to be reconfirmed during the design process.

The **design team will provide recommendations on potential activities for the first annual work program** in consultation with DFAT and other stakeholders, including the scope, cost and focus areas of proposed activities. This may require staged consultations — first with DFAT and whole-of-government partner agencies to identify priorities, and then consultations with industry. It will also be important to bring together different stakeholders on one topic to reach agreement (e.g. on TVET). Relevant agencies will also be partners on activity design — particularly where they hold close relationships with industry stakeholders and may be the eventual deliverer of activities (e.g. Department of Agriculture).

**H. Annexes**

Annexes to Concept Note as follows:

- Annex A: Economic Cooperation Chapter and Side Letter text
• Annex B: Terms of Reference for the Design Team