Indonesian Infrastructure Initiative

Program Design Document

PART 1: CHAPTERS

Final draft

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AusAID Indonesia Program

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## Acronyms

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<th>Acronym</th>
<th>Description</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<td>APBD</td>
<td>Pemda budgets</td>
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<td>APCR</td>
<td>Activity progress and completion reports</td>
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<td>BAPPENAS</td>
<td>National Development Planning Agency (Indonesian)</td>
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<td>BEP</td>
<td>Basic education program</td>
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<td>BUMN</td>
<td>State owned enterprises (Indonesian)</td>
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<td>CMEA</td>
<td>Coordinating Ministry for Economic Affairs</td>
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<td>CPPF</td>
<td>Country program performance framework</td>
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<td>CPS</td>
<td>Country Program Strategy</td>
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<td>DAK</td>
<td>Special purpose grants</td>
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<td>DG</td>
<td>Directorate General</td>
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<td>DG Postel</td>
<td>Directorate General of Posts and Telecommunication</td>
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<td>DoTARs</td>
<td>Australian Department of Transport and Regional Affairs</td>
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<td>EINRIP</td>
<td>Eastern Indonesian National Road Improvement Project</td>
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<td>FED</td>
<td>Final engineering design</td>
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<td>IEG</td>
<td>Infrastructure Enhancement Grants</td>
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<td>ILGRP</td>
<td>Indonesia Local Governance Reform Program</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GoI</td>
<td>Government of Indonesia</td>
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<td>GPF</td>
<td>Government Partnership Fund</td>
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<td>GTZ</td>
<td>German Technical Cooperation (German)</td>
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<td>IAT</td>
<td>Impact Assessment Team</td>
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<td>IDR</td>
<td>Indonesian Rupiah</td>
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<td>IEI</td>
<td>Immediate and emerging issues</td>
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<td>IFGI</td>
<td>Infrastructure for Growth Initiative</td>
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<td>IIF</td>
<td>Indonesia Infrastructure Facility</td>
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<td>IndII</td>
<td>The Indonesian Infrastructure Initiative</td>
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<td>IPM</td>
<td>Infrastructure Project Management</td>
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<td>JBIC</td>
<td>Japan Bank for International Cooperation</td>
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<td>JICA</td>
<td>Japanese International Coordination Agency</td>
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<td>KKPPI</td>
<td>Komite Kebijakan Percepatan Penyediaan Infrastructure</td>
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<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<td>MC</td>
<td>Managing Contractor</td>
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<td>MDBs</td>
<td>Multi-lateral development banks</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MoCIT</td>
<td>Ministry of Communications and Information Technology</td>
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<td>MoF</td>
<td>Ministry of Finance</td>
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<td>MT</td>
<td>Management Team</td>
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<td>NTT</td>
<td>Nusa Tenggara Timur</td>
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<td>NPP</td>
<td>New policy proposal</td>
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<td>ODE</td>
<td>Office of Development Effectiveness</td>
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<td>P&amp;R</td>
<td>Policy and regulatory</td>
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<tr>
<td>PAMSIMAS</td>
<td>World Bank’s Third Water Supply and Sanitation for Low Income Communities Project</td>
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<td>PDD</td>
<td>Program Design Document</td>
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<td>Pemdas</td>
<td>Provincial, kota and kabupaten governments</td>
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<td>PPPs</td>
<td>Public private partnerships</td>
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<td>PSOs</td>
<td>Public service obligations</td>
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<td>RAN-PAK</td>
<td>National Action Plan on the Eradication of Corruption 2004-09</td>
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<td>RMU</td>
<td>Risk Management Unit - Pusat Pengelola Resiko</td>
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<td>SER</td>
<td>Strategic Engagement Report</td>
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<td>SOEI</td>
<td>Support Office for Development of Initiatives in Eastern Indonesia</td>
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<td>SPA</td>
<td>Special Purpose Account</td>
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<td>SPS</td>
<td>Strategic partnership support</td>
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<td>TAMF</td>
<td>Technical Assistance Management Facility</td>
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<td>TOR</td>
<td>Terms of Reference</td>
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<td>WASPOFA</td>
<td>Water and Sanitation Policy Facility</td>
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<td>WASPOLA II</td>
<td>Water and Sanitation Policy Formulation and Action Planning Phase II Project</td>
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<td>WINRIP</td>
<td>Western Indonesia National Road Improvement Program</td>
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<td>WSES</td>
<td>Water supply and environmental sanitation</td>
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<td>WSLIC II</td>
<td>Water and Sanitation for Low Income Communities Phase II Project</td>
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<td>WSP-EAP</td>
<td>Water and Sanitation Program-East Asia Pacific</td>
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Summary

Background to the Indonesia Infrastructure Initiative

The White Paper on the Australian Government’s Overseas Aid Program identified economic growth as being critical to poverty reduction and making progress towards the Millennium Development Goals (MDGs). Infrastructure investment is one of the key drivers of economic growth. In response, the Australian Government launched the Infrastructure for Growth Initiative (IFGI) in 2007 to help regional partners address their pressing infrastructure needs. IFGI is directed towards helping regional partner governments improve their infrastructure policies and finance high-priority infrastructure in conjunction with the World Bank, the Asian Development Bank (ADB) and other multilateral interventions, and bilaterally for projects with strong economic and social benefits. The Indonesian Infrastructure Initiative (IndII) has been developed within the IFGI framework and is supported by funding under IFGI. Accordingly, the development goal of IndII is to promote economic growth in Indonesia by enhancing the relevance, quality and quantum of infrastructure investment in Indonesia.

Low investment in infrastructure in Indonesia since the Asian financial crisis has seen a substantial deterioration in infrastructure services to the economy with consequent impacts on the rate of economic growth. Shortfalls are particularly evident in access to electricity, water and sanitation, with the poor most affected. Road congestion is a critical constraint on economic activity, while road access is an issue for less developed regions. Rail, which is best placed on Java for efficient movement of people and goods, is severely underdeveloped. Maintenance is a major problem, notably for the district road network, which is generally in poor state of repair.

Government investment in infrastructure has largely recovered, but private investment has remained low. The state owned utilities raise capital for investment, but capital markets remain underdeveloped, and investor exposure to compensation for public service obligations (PSOs) is hampering their investment. Uncertainty in the regulatory and policy environment is a major constraint on private investment. Government loan financed projects are slowed by lack of resources to fund quality project preparation. Lack of capacity, and sometimes uncertain commitment to transparent and participatory processes, constrain the efficiency and effectiveness of project development, contracting and management. Under the decentralisation laws sub-national governments (Pemdas) have considerable autonomy over their investment. This transfer of responsibility is increasingly matched by additional special purpose grants from the national government. Pemdas are also developing their own local sources of funding for infrastructure. Pemdas’ limited experience and
skills in project identification (prioritisation), planning and management hampers the efficient and effective utilisation of these resources.

The Indonesia Infrastructure Initiative (IndII)

The IndII, building on the success of other AusAID programs, aims to support the national and sub-national governments in addressing these constraints on infrastructure investment and its efficient and effective delivery. Recognising budget constraints, and to provide an incentive for good management, the IndII also plans to provide grant funds to enhance the economic and social impact of selected infrastructure projects.

The IndII is an A$64.8 million initiative over four years. It is hoped that, if the IndII proves an effective mechanism for development, it will be the central vehicle for long term investment in infrastructure by AusAID.

The goal and objectives

The facility goal of IndII is to reduce policy, regulatory, capacity and financing constraints on infrastructure investment at national and sub-national levels.

To achieve the objectives IndII has been structured into three components:

- Infrastructure Project Management (IPM) — which will support national and sub-national government agencies to develop, design and implement priority infrastructure projects, including those funded through the multi-lateral development banks (MDBs);
- Policy and regulatory (P&R) — which will support national government agencies to develop the policies and regulations that will provide a more supportive environment for infrastructure investment and management; and
- Infrastructure Enhancement Grants (IEG) — which will provide grants for adding features that enhance, or overcome a financing barrier that would obstruct, the economic and social impact of infrastructure projects.

The IPM component aims to address the technical and capacity constraints faced by national and sub-national government agencies in delivering infrastructure projects. The component will support any requirement in the project development cycle from prioritisation and design to implementation and monitoring of infrastructure projects, with an emphasis on projects that are already in the pipeline with funding approval. Support can be provided to one element or a range of elements across the project management cycle. The immediate and emerging issues (IEI) sub-component will support one-off activities that fill a clearly identified gap, or provide an initial scoping exercise to explore how the IndII could best provide support. The strategic partnership support (SPS) sub-component will seek to form partnerships with agencies tasked with managing an infrastructure project, with the IndII providing a
package of services to be structured according to needs. These will include capacity building for the agency staff as well as technical advice, and the contracting of technical services such as final engineering designs.

The policy and regulatory (P&R) component will support the Government of Indonesia’s (GoI) objectives of improving the policy and regulatory environment for infrastructure investment. This requires the capacity to act quickly as needs arise and the ability to engage in longer term partnerships providing the support for bringing about system change. Accordingly, there are two sub-components: an IEI sub-component and an SPS component. The SPS engagements will follow the model of the TAMF in forming partnerships with a number of GoI agencies to support these agencies in their commitments to bringing about regulatory and policy change. Shorter term IEI activities may develop into longer term SPS activities.

The Infrastructure Enhancement Grants (IEG) component aims to enhance the economic and social impact of infrastructure projects through providing financial support to infrastructure projects. The grants will be competitive and structured to reward agencies that have demonstrated a commitment to good project management as well as a clear link to improved economic and social impact. They are available to any project that can meet the criteria and have sufficient systems in place to monitor delivery of the add-on.

The management structure

The IndII Board, comprising senior AusAID and GoI officials from BAPPENAS and the Coordinating Ministry of Economic Affairs (CMEA), is the major decision making body. All proposed SPS engagements, strategies and workplans must be approved by the Board. The Board will also approve all IEI activities and rank the applications for infrastructure enhancement grants. AusAID retains final approval power over all expenditure. A Managing Contractor (MC) will be contracted by AusAID to provide the technical services for developing, designing, monitoring and undertaking formative evaluation of IndII engagements and activities. The MC will provide the management services for all financial, administrative, contracting out, reporting and logistical requirements. The MC will sub-contract the activity implementation and manage all the support services associated with this sub-contracting. The MC is allowed to deliver activities of a value less than $100,001, where it can demonstrate value for money in delivering the activity.

AusAID, in consultation with the Board, will assess the performance of the MC on a six monthly basis against agreed performance measures. These will be determined on an annual basis by AusAID in consultation with the MC. The MC will undertake formative evaluation of all strategies and activities and advise the Board on IndII achievements and their contribution to IFGI and Country Program Strategy (CPS) objectives on a six monthly basis. They will ensure that lessons from these evaluations will be utilised to ensure continuous improvement in IndII performance.
An Impact Assessment Team, will be engaged by AusAID to assess the development effectiveness of the strategies and investments made by the IndII and the appropriateness of the facility model and design in meeting the objectives of IFGI and the Indonesia Country Program Strategy.

The IndII will be demand driven and responsive to the national and sub-national governments and to other donors engaged in infrastructure investment, notably the MDBs. In doing so, it will seek to engage in strategic partnerships where IndII provides support to the agency to help it achieve its clearly articulated goals. The IndII will provide technical assistance in the form of long and short term advisors, technical services, and capacity building for agency staff.

In view of the time required for tendering and contracting, the MC is not expected to commence until March-April 2008. Nevertheless the IndII will commence immediately as an AusAID engaged Project Preparation Facility managed by an interim Lead Infrastructure Adviser. AusAID will form the IndII Board and establish a Trust Fund Mechanism that can be used to fund projects through the World Bank and Asian Development Bank.
1 Introduction

1.1 Development of the initiative

The Indonesian Infrastructure Initiative (IndII) has been developed in response to Infrastructure for Growth Initiative (IFGI). The White Paper (AusAID 2006a) identified infrastructure as critical to support economic growth, which in turn underpins poverty alleviation. IFGI is directed towards helping regional partner governments improve their infrastructure policies and finance high-priority infrastructure in conjunction with the World Bank, ADB and other multilateral interventions, and bilaterally for projects with strong economic and social benefits. The IndII is supported by funding under IFGI. The IndII was developed in consultation with the GoI, following AusAID processes. Details and persons met are given in annex A.

The writing instructions for the team were to develop a design for a flexible, yet focused and sustainable program of assistance to Indonesia that will support economic growth and improve delivery of infrastructure at national and sub-national levels through:

- developing GoI’s institutional capacities in infrastructure policy formulation and regulation; and
- providing technical assistance and advice to enable and promote efficient and effective development of needed infrastructure.

To meet the IFGI requirements the initiative should also support investment in hard infrastructure and where possible work with multilateral donors.

The indicative budget over 4 years is A$64.8 million with approximately A$50 million to be disbursed through a special purpose account (SPA). Annual funding allocations are estimated at A$9.5 million, A$19 million, A$13.3 million and A$23 million. Years 3 and 4 allocations will be subject to a new policy proposal (NPP) process in the 2007-08 financial year. Given the funding commenced in 2007-08, AusAID is engaged in preparatory work and will commence some activities in anticipation of the Managing Contractor (MC) establishing a facility office in March-April 2008.
1.2 Situation analysis

1.2.1 Infrastructure in Indonesia

Investment in infrastructure in Indonesia has yet to recover to pre-Asian financial crisis levels. In 2006 infrastructure investment was 3.4 per cent of GDP, well below the pre-crisis norm of 5 to 6 per cent, but a significant recovery from below 2 per cent in 2000 (World Bank 2007). Government investment has largely recovered, but private investment has remained low and what there is has been concentrated (90 per cent) in telecoms. This lack of investment has seen a substantial deterioration in infrastructure services to the economy with consequent impacts on the rate of economic growth relative to potential. In 2004 the World Bank estimated that additional infrastructure investments of 2 per cent of GDP were required annually to reach a 6 per cent of GDP medium-term growth target (World Bank 2004). While Indonesia has recently experienced stronger growth rates (3 quarters at 6 per cent and recently 4.5 per cent — CMEA 2007), infrastructure investment needs to improve to support continued strong economic growth.

From an economic perspective, road congestion is perhaps the most critical constraint, while road access is an issue for less developed regions. Rail, which must form part of the solution on Java for movement of both people and goods, is severely underdeveloped. Maintenance is a major problem with roads, notably for the district network which is generally in poor state of repair. Shortfalls in infrastructure are particularly evident in access to electricity, water and sanitation, with the poor most affected. A study by the ADB estimated that the annual social and economic cost of sanitation related health impacts was 2.4 per cent of GDP (World Bank 2004). These sanitation problems are also contributing to environmental degradation.

Problem analysis

Infrastructure investment is undertaken by the national government, the state owned utilities, sub-national governments, which under decentralisation have assumed much greater responsibility for infrastructure, and the private sector. The constraints affecting the relevance, quality and quantum of infrastructure investment, including maintenance, vary across these investors.

In 2004 the national government’s share of investment was 14 per cent of the 62.18 trillion IDR total investment in infrastructure (World Bank 2007). Central government funding of infrastructure is through allocations to sector ministries with coordination by BAPPENAS. The provincial level arms of the sector ministries only have a mandate for national infrastructure located in the provinces and have limited influence in sub-national governments and are not part of the machinery of sub-national government. Constraints on national government funded infrastructure include:
the need for coordination across a range of agencies on infrastructure projects;

- for some agencies, lack of capacity in project management and resources for project preparation;

- government’s anti-corruption efforts, placing greater requirements on transparency, participation and accountability, which requires new or revised processes and systems; and

- reluctance to increase debt, particularly foreign debt, given the major efforts to reduce debt to GDP, although both international capital markets and the multilateral banks have indicated willingness to lend for infrastructure investment.

Most electricity generation and much of the transport infrastructure are owned by state owned enterprises (BUMN). Investment by the BUMN is currently the most important source of infrastructure (70 per cent in 2004). The BUMN (notably PLN (power), Pelindo (sea ports), Angkasa Pura (airports), Kereta Api Indonesia (railways)) have first right of refusal for the PPP infrastructure projects. They have shown an interest in taking up good projects, but are being slow to implement them. They have the ability to raise their own funds through bond issues and commercial borrowings as well as access to on-lent funds from donors. The major constraints on investment by the BUMN are:

- uncertainty in regards to tariffs and the regulatory environment;

- concerns about adequacy of public service obligations (PSOs) compensation;

- limited capacity to prepare project design and tenders (with some exceptions); and

- access to land, particularly for land corridors, which is also an issue for national toll and other roads.

Under decentralisation the provincial, kota and kabupaten governments (Pemdas) have considerable autonomy for infrastructure investment via their own budgets (APBD). Concerns have been raised that many sub-national governments are not spending all their allocations under their APBD and much of the spending that is occurring is on current expenditures rather than infrastructure (World Bank 2007). Special purpose grants (DAK) made by the national government have risen in the last two years and are an important source of finance for infrastructure investment. Pemdas undertook 10 per cent of infrastructure investment in 2004. Their level of investment is expected to rise significantly as they adjust to their new responsibilities and the rise in DAK funds. Lack of investment in maintenance has been identified as a major problem at sub-national level. Major constraints are:

- failure to build maintenance into public expenditure budgeting and consideration of on-going financing of maintenance requirements at the design phase;

- lack of capacity to prioritise, design, tender and manage infrastructure projects (skills and resources);
government anti-corruption efforts requiring greater accountability, particularly associated with on-lent and on-granted funding; and

for some Pemdas access to finance. This varies by Pemda with some having good resources from local revenues and resource rent sharing. They have the right to raise capital directly, but limited access to any national government guarantee. On-lending to sub-national government of multilateral bank loans is a relatively complex and slow process (Lewis 2007).

Privately funded infrastructure (5 per cent of investment in 2004) is constrained by uncertainties in the:

- investment environment – notably the microeconomic environment;
- legal system and protection of property rights;
- for some investments, access to land;
- regulatory environment, including tariff setting for sectors traditionally dominated by the government (power, water, roads, ports);
- treatment of PSOs, which could lead to requirements to underprice services for social or political reasons; and
- lack of a government strategy for investment guarantees and contingent liabilities.

A more detailed analysis of infrastructure constraints at the sectoral level is provided in annex B.

1.2.2 Government of Indonesia response

In recognition of the importance of infrastructure and these constraints, the GoI conducted an Infrastructure Summit in January 2005 to initiate action to address the crisis in infrastructure. The Summit invited the private sector to invest US$22.5 billion of investment in 91 projects. As at September 2007 only one had reached financial closure. Ten projects have been selected as ‘model projects’ attracting support from the ADB and World Bank, but advancement has been slow.

In 2005, the GoI established the National Committee for the Acceleration of Infrastructure (Komite Kebijakan Percepatan Penyediaan Infrastructure - KKPPI) to coordinate the national agencies involved in national infrastructure projects. An Infrastructure Policy Package was developed by the CMEA to address the technical, capacity and policy impediments in early 2006. A list of actions and timetable is set out in the Medium-Term Agenda for Infrastructure Reforms (KKPPI 2006). A press release by CMEA (12 June 2007) reports progress in regulations such as finalization of the Railway bill and Maritime bill, land transportation traffic bill and the bill concerning aviation in transportation and an electricity bill. Regulation related to land has been stipulated in PerPres No. 65/2006.
Public funding is being directed to infrastructure investments that satisfy economic return criteria, but are not commercially viable. Where investments can provide a commercial rate of return the national government is encouraging public private partnerships (PPPs). The regulatory framework for PPP has been established. PerPres No. 67/2004 specifies the conditions that PPP projects must meet to be approved for government support. The Risk Management Unit (Pusat Pengelola Resiko - RMU) in the Ministry of Finance (MoF) is tasked with assessing the risk of proposed PPP projects and whether these projects qualify for government support. MoF has authority to approve projects that are compliant with the regulation. The Minister can submit non-compliant projects to the President for approval, and the Vice President has guided several projects down this pathway. As soon as a project is approved with government support this creates contingent liabilities for the government. A MoF regulation (Permenkeu No. 38/2006) addresses implementation and risk management of infrastructure provision.

The government continues to push for infrastructure investment and has increased allocations to sub-national governments and for national development spending. The Government’s National Action Plan on the Eradication of Corruption 2004-09 (RAN-PAK) places a strong emphasis on improving public financial management and procurement, with flow-on effects for financing and managing infrastructure projects.

BAPPENAS and CMEA have indicated strong support for IndII, approving the general focus on policy reform and building capacity in project management. Both ministries are familiar with the Technical Assistance Management Facility (TAMF) modality and have endorsed the planned progressive engagement approach utilised by IndII.

1.2.3 Other donor support for infrastructure development

Consistency and coordination with other donor programs is required to prevent duplication and maximise synergies. Donors are providing support for policy and regulatory reform as well as for infrastructure projects. The Asian Development Bank (ADB) has a US$400 million program loan to support the regulatory framework for PPPs, and has 15 people engaged in BAPPENAS on this task. The World Bank (US$17.1 million) and ADB (US$25 million, which includes a grant from the Netherlands) have technical assistance loans under CMEA and BAPPENAS, respectively, with a focus on the implementation of the Infrastructure Reform Package. The World Bank and the ADB are providing support to the RMU on estimation of public service obligations and assessing the risk of government support for infrastructure. The World Bank is also exploring the potential for establishing a Guarantee Fund and an Infrastructure Investment Fund.

The World Bank and ADB are both funding infrastructure through project loans. They reported that their capacity to offer technical assistance at the preparation stage...
is limited and largely has to come from the loan funding. This is a major constraint on the development of projects and they welcomed the concept of IndII support for building capacity in project management and financing necessary external design elements. The World Bank has a major program in water supply and sanitation, with several aspects in partnership with AusAID (see below). They support transport and communication infrastructure investments and are working on the policy and regulatory environment in energy.

The Japan Bank for International Cooperation (JBIC) is also a major source of loan funding for infrastructure. Japanese International Coordination Agency (JICA) is able to offer grant assistance for the technical support in the development and implementation of these JBIC funded projects so are less in need of the services that IndII will offer. JBIC is investing in energy, transport and communications and water supply and sanitation infrastructure.

Other donors working in infrastructure include Germany (German Technical Cooperation – GTZ) with a focus on passenger transport (shipping) and rail transport in Jakarta, and the Netherlands in water resources management and irrigation. Water supply and sanitation is a major focal area for a large number of donors. Annex C sets out the major donor activities in infrastructure.

1.2.4 Australian commitment to support infrastructure

The commitment to supporting infrastructure is guided by the contribution of infrastructure to the major theme of supporting economic growth in the Aid Program’s White Paper (AusAID 2006a). Infrastructure has become a priority area for AusAID and IFGI the main agency-wide initiative. IFGI is a four year program providing a major expansion in funding for infrastructure, with 80 per cent channelled through country programs, and 20 per cent retained by the Thematic Group for global partnerships. These will be going to multi-donor funds for World Bank and ADB initiatives, which may have an arm in Indonesia. IFGI has a mandate to provide assistance to:

- strengthen the infrastructure policy and regulatory environment;
- strengthen, improve or expedite delivery of priority infrastructure services; and
- strengthen management of infrastructure.

The IndII will be the major program in Indonesia under the IFGI.

Current initiatives in infrastructure

While AusAID involvement in infrastructure in Indonesia has been relatively small in the past, this has been changing with infrastructure taking on a higher profile. This is expected to be confirmed in the new Country Program Strategy (CPS) currently in development. Current initiatives include:
• Eastern Indonesian National Road Improvement Project (EINRIP) is an A$328 million project made up of A$28 million in grants for technical assistance and training and a loan of A$300 million to improve the condition of national roads and bridges.

• Water and Sanitation for Low Income Communities Phase II (WSLIC II) Project (A$12.5 million, 2000–2008) aims to improve the health behaviour and health services related to water borne diseases in under-served rural villages in the project provinces of West and East Java, West Nusa Tenggara, West and South Sumatra, and Bangka Belitung and South Sulawesi. It provides safe, adequate, cost-effective, and easily accessible water supply and sanitation services and ensures sustainability and effectiveness through community participation. The Indonesian Ministry of Health is the executing agency.

• Water and Sanitation Policy Formulation and Action Planning Project Phase II (WASPOLA II) (A$8.5 million, 2004–2008) focuses on an expanded policy reform process for a National Policy on Community-Based Water Supply and Environmental Sanitation (WSES) and formalisation of a National Policy on the Development of Institutionally Based Water Supply and Environmental Sanitation. There has been a strong focus on policy implementation at the district level. BAPPENAS is the counterpart agency.

Both WSLIC II and WASPOLA II are implemented by the Water and Sanitation Program-East Asia Pacific (WSP-EAP) through a partnership agreement with the World Bank. AusAID is committed to continuing assistance in the water sector and plans to fund two separate new key initiatives over the next four years — establishment of a WASPOLA Facility and assistance to World Bank’s Third Water Supply and Sanitation for Low Income Communities Project (PAMSIMAS). Details are provided in the WASPOFA (now WASPOLA Facility) PDD (Rol 2007). A scoping study on the sector was undertaken in 2006 (AusAID 2006b).

Other related AusAID initiatives include rehabilitation and reconstruction programs in Aceh and Yogyakarta and social infrastructure programs including the Basic Education Program (BEP) (A$355 million in loans and grants, 2006-2010). TAMF had established an infrastructure sub-facility, which supported the auction of the 3G spectrum, scoping studies on railways as background to legislative changes, and capacity building for the RMU. TAMF engagement in infrastructure will be transferred to IndII.

Other new AusAID initiatives being developed under the White Paper may intersect with the IndII. The precise nature of these activities is still to be confirmed. AusAID will ensure that where feasible, synergies between existing programs are developed, particularly during the first year. Programs under development are:

• Strengthening public procurement program — to assist the Government of Indonesia at the national level to rationalize and draft procurement regulations, and at the sub-national level to strengthen public procurement systems, practice
and information in targeted provinces (in Aceh and potentially Papua and Gorontalo). At both levels the program will research improvements in access to financial management data and analysis and its dissemination. IndII should seek to co-locate activities, where possible, due to the strong synergies in public procurement and infrastructure project management.

- Incentives Program — this may work through the World Bank Incentives for Local Governance Reform Program (ILGRP) and focus on pilot programs in the provincial governments of Papua and Gorontalo. The purpose is improving the transparency, accountability and effectiveness of public financial management at the district government level and improving public service delivery. A range of incentives may be offered for improved performance. Both financing of infrastructure and on-going maintenance require sound public expenditure management and public financial management. IndII should encourage the sub-national government agencies it works with to participate in this program where they are eligible to do so.

AusAID regional offices have been established in Kupang in Nusa Tenggara Timur (NTT) and Aceh, and an AusAID staff member is seconded to the multi-donor program SOfEI in Makassar in South Sulawesi. It is anticipated that an AusAID representative will be located in a multi-donor Papua office.

**Lessons learned on effective approaches for engagement**

The following lessons provide a guide to how the IndII should approach engagement on policy and regulatory issues and promote changes in governance regimes which underlie infrastructure project management.

- Long term engagement is the most effective approach for supporting change at the policy level. The capacity to influence policy can only be built on a relationship of trust and confidence in the quality of advice. This takes time to develop. The TAMF model of a long term advisor with resources available to meet needs for technical knowledge transfer and training as they arise is seen as a good model by the GoI and other donors.

- A small project, whether a scoping exercise or more ideally addressing a specific technical problem, is an ideal method for developing an understanding of needs and developing the relationship basis important for a longer term engagement. This approach allows for progressive engagement, while the flexibility offered by a facility also allows for a reduction in activities as needs change (for example if legislation is put on hold and the engagement was based on the objective of supporting implementation of the legislation). Thus progressive engagement can see both an increase and a decrease in resources committed to an engagement.

- Flexibility and speed of response in the engagement was emphasised by GoI and donors as one of the main features of AusAID’s programs that allowed AusAID
support to be highly effective. This is the flexibility to respond to needs as they emerge, and to changing requirements. The capacity to “fill the gaps” in other donor’s programs was identified as an effective, and valued, approach.

- There is a need to engage GoI agencies up front and to encourage buy-in. This is best done by supporting the agencies’ own agenda. Care must be exerted to ensure that where support is provided to sub-national governments it reflects the GoI priorities and is consistent with GoI processes.

- Technical assistance and other ‘soft’ support works best when directed by a real imperative. In the case of IndII, this is the development and implementation of infrastructure investment. There are considerable development activities such as prioritisation and engineering design that, if done poorly, lead to cost overruns and delays. Detailed planning is needed to ensure infrastructure meets the needs of the community, delivers the services expected, and does not face high maintenance costs or early replacement. Linking the technical assistance to committed infrastructure investments provides a win-win as they are highly complementary. It also addresses a major constraint — a reluctance to use loan funds for such preparatory and management work.

**Lessons learned on AusAID’s role**

- AusAID oversight structures need to be clarified and processes for engagement that are both efficient and effective developed. An example is the combining in the oversight of the Government Partnership Fund (GPF) and TAMF to address duplication, improve coordination and reduce demands on GoI agencies.

- While this design is tasked with ensuring that management is efficient/cost-effective, the changing requirements made by AusAID on reporting, engagement and in many cases what the facility delivers (adding components that are different) add to the management costs. The often complex management structures are a response to meeting AusAID demands, and clarifying what AusAID needs up front can greatly improve the cost effectiveness in the longer term.

- Funding and expenditure flows in facilities are generally poorly matched. It usually takes some time for a facility or any program to ramp up — especially with an implement-design or a progressive engagement approach. Ideally, AusAID budgeting can be matched to the time path of required expenditures. If this is not possible it poses a risk of funding activities that are poorly planned due to lack of time to achieve a sound understanding of needs and buy-in, or for a build up of expectations that cannot be fulfilled by later budget allocations.

**Rationale for AusAID support**

Infrastructure is a major priority for Indonesia to support economic growth and work toward meeting the Millennium Development Goals (MDGs) for access to water and
sanitation and electricity. The GoI faces challenges in improving the environment for private sector investment in infrastructure, and in response has set out a considerable policy and regulatory reform agenda. Progress in policy and regulatory reform can be a slow process as the understanding of costs of the current systems and impact of changes is developed over time. Learning from other countries’ experiences and sharing of technical and analytical skills can help to support this process of change.

Sub-national governments will take on an increasing share of public investment in infrastructure, but many lack capacity for the task. The importance of improving water supply and sanitation is well known for the impact on health, especially of women and children, and in reducing environmental risks. Improvements in the capacity of sub-national government to manage infrastructure investment in one area will flow through to others, making both direct and indirect links between supporting infrastructure project management and improving services for broad based growth.

While a number of donors are engaged in infrastructure, much of the support is in loan funds. There is a need for technical expertise and capacity building to deliver technical requirements and to build skills for project management in government agencies particularly at sub-national level. Leveraging the government’s own commitment to investment projects with grant support offers considerable prospect to enhance the returns to the government’s investment. The success of TAMF in assisting the GoI to achieve policy and regulatory change provides a model for progress on the infrastructure investment environment. There is considerable support for AusAID to expand their support for infrastructure following from successful engagement in EINRIP and TAMF.

The IndII will contribute to economic growth by supporting the national and sub-national government agencies to accelerate infrastructure investment and improve the quality of the process and the final product. It will do this by reducing the constraints on infrastructure investment arising from lack of funds for external technical design and other components that have to be contracted out (such as environmental surveys), insufficient capacity in agencies to prioritise and manage infrastructure project delivery, and policy and regulatory impediments to investment. The IndII will also fund enhancements to infrastructure projects that will contribute directly to raising the economic impact of the project. Section 2.3.1 sets out the priority areas, and annex D the proposed initial activities.
2 Description of the initiative

2.1 Program goals

2.1.2 Goals

Development goal: to promote economic growth in Indonesia by enhancing the relevance, quality and quantum of infrastructure investment.

Facility goal: to get better infrastructure sooner by reducing policy, regulatory, capacity and financing constraints on infrastructure investment at national and sub-national levels.

2.1.3 Objectives

Objectives: to support the national and sub-national governments of Indonesia to:
- implement efficient, effective and accountable project management for government’s infrastructure projects at national and sub-national level, including those financed by loans from the MDBs;
- build a more supportive regulatory and policy environment for infrastructure investment; and
- enhance the economic and social impact of priority infrastructure projects.

2.2 Components

2.2.1 Modality of delivery

The IndII is a facility that will engage on a progressive basis in areas where it can make a real contribution to getting better infrastructure sooner. It will do this by addressing constraints arising in the prioritisation or management of infrastructure project delivery, the policy and regulatory environment, or funding available for highly desirable, but not essential features in the infrastructure. Funding for the activities will generally be provided from an SPA. A trust fund with the World Bank will also be established to facilitate funding of activities related to IndII support provided for selected World Bank loan supported projects.

There are three components – Infrastructure Project Management (IPM), Policy and Regulatory (P&R) and Infrastructure Enhancement Grants (IEG). The first two components have a common structure each with two sub-components:
The immediate and emerging issues (IEI) sub-component is a flexible responsive mechanism to engage on issues satisfying the criteria set out in each component. The engagement may be a one-off activity to meet a well defined need identified by a counterpart agency. It can also provide for scoping work in anticipation of developing into a strategic partnership. The IEI can also support collection of baseline data needed for evaluation and to improve agencies’ own evaluation capabilities.

The strategic partnership support (SPS) sub-component is a longer term engagement with a partner agency to pursue an agreed set of objectives. It will involve the development of a clear engagement strategy that aligns with the partner agencies’ own agenda. Based on this strategy, six-month workplans of activities will be developed. This sub-component will effectively deliver mini-projects, but with the flexibility to evolve, accelerate, pause or terminate as conditions dictate. The delivery approach will be to place a Lead Advisor with the partner agency, who will work with them to develop the detailed requirements for technical support/advice and capacity building activities for the agency’s staff. The length of engagement with a partner will depend on the extent of their needs, progress being made, and the contribution that the IndII is making in achieving the partner agency’s infrastructure objectives.

The third component is a selective grants mechanism to fund infrastructure support/enhancement. Chart 2.1 provides an overview of the content of the IndII. A logframe is provided in annex E.
2.1 Overview of the IndII – content

**Development Goal**
To promote economic growth in Indonesia by enhancing the relevance, quality and quantum of infrastructure investment

**Facility Goal**
To reduce policy, regulatory, capacity and financing constraints on infrastructure investment at National and Sub-national levels

**Objectives**
To support the National and Sub-national governments to:

- a) Implement efficient and effective and accountable project management for infrastructure projects
- b) Build a regulatory and policy environment that encourages investment in infrastructure
- c) Enhance the economic and social impacts of priority infrastructure projects

1. **Infrastructure Project Management component**
Objective: better identification, coordination, planning and implementation of priority infrastructure investment by governments

2. **Policy and Regulatory component**
Objective: more efficient, effective and accountable infrastructure investment through:
- reducing uncertainty in the policy, regulatory and financing environment.

3. **Infrastructure Enhancement Grants component**
Objective: to enhance the economic and social impacts of infrastructure projects through providing financial support to priority infrastructure projects.

**Management**
Objective: Efficient and effective management committed to:
- modelling good governance
- addressing cross-cutting issues of gender, HIV/AIDS and anticorruption
- coordinating with other AusAID programs and donors, and
- measuring development effectiveness
2.2.2 Infrastructure Project Management (IPM)

Objective: more efficient, effective and accountable infrastructure investment through better identification, coordination, planning and implementation of infrastructure projects that will contribute to economic growth.

The IPM component aims to address the technical and capacity constraints in delivering infrastructure projects funded by GoI agencies and Pemdas from MDB loans or their own resources.

Component activities

The component will support:

- technical design and other requirements, such as environmental surveys, that are essential steps in project preparation and are normally contracted out (such as project design and feasibility assessment, engineering planning, environmental surveys, social impact assessments); and

- capacity (skills, processes and system) development in the implementing agency to undertake any or all of the steps in project prioritisation, development and implementation (in areas such as contracting strategies, and contract and works management).

Additional services that may be added include financial planning and programming for maintenance, analysis of scope for and systems of user charges and planning and ex-ante impact assessment and community consultations as input into investment decisions. It is anticipated that a fairly common set of training and tools (such as contracting strategy guidelines and templates, financial management systems for maintenance) will be developed over time. IndII advisors will be required to share these tools, where developed, with IndII resources.

The types of projects to be supported

The support will be provided where there is an actual or intended (with preliminary financial approval) infrastructure project that:

- is a national infrastructure priority, or for sub-national governments a priority for the local area and/or region, and consistent with national government priorities for infrastructure investment;

- will significantly contribute to economic activity in the local area and/or region;

- considers the impact on gender, health and safety and on the environment in selection, design and implementation; and

- takes the maintenance requirements and financing arrangements for on-going maintenance into account in planning.
Priority will be given to projects already in the pipeline that are being delayed by lack of funding for specific steps or agency capacity. The exception is in regional areas where prioritisation and coordination of infrastructure planning is still developing, where this is a prerequisite to infrastructure investment.

Support can be provided to one or two elements under the IEI sub-component or more comprehensive support across a number of areas of the project management cycle under the SPS sub-component.

Counterpart agencies

The IndII will work with selected GoI agencies and local governments at provincial, kabupaten and kota levels. In forming partnerships under SPS IndII requires a commitment from the partner to:

- adequately fund the infrastructure investment including maintenance;
- commit staff and resources to project management;
- be willing to work collaboratively with the IndII service suppliers;
- practice good governance as set out in the Government of Indonesia’s RAN-PK; and
- consider the gender and environmental impacts of the project and in the approach to its delivery.

These criteria will also be applied in assessing the merits of requests for support under the IEI sub-component.

Other features

The sub-component will support the sharing of successful approaches developed by the partner agencies with other agencies. Resources will be reserved in years three and four to:

- invite potential partners to visit and meet with past and current partners to discuss the strategies and approaches that have been successful; and
- showcase the successes by conducting seminars in a regional centres featuring the partner agencies to present their stories.

Successful participation in the sub-component will also qualify the partner agency to apply for grants under the IEG component of the IndII (see 2.2.4).

Initial activities for the IPM component

It is anticipated that this sub-component would develop over time and by year 4 support around six long term strategic partnerships (the final number will be determined by the Board as opportunities dictate). In the first year four engagements could be initiated.
Support to the Directorate General of Highways (DG Highways) (in the Ministry of Transport) to assist in the preparation of the Western Indonesian Road Improvement Project (WINRIP), which has loan funding of US$350 million from the World Bank. A priority activity is the Final engineering design (FED) for the first-year work program (AWP1), to allow project initiation. This area could potentially expand into developing the capacity of GoI to finance quality FED from its own budget.

Also with DG Highways, there is a set of scoping activities that could lead into a number of possible SPS engagements in areas such as new bridges, road realignment design, toll roads and regional planning.

Support to the Papua provincial government to assist in the development of transport infrastructure. A preliminary review of Papua’s infrastructure needs was undertaken by AusAID in early 2007. It recommended that more detailed scoping for prioritisation and planning be undertaken in the transport sector. The Transport Sector Review is expected to generate a schedule for priority transport projects. The IndII will provide support for the project planning and feasibility studies for these projects and their preparation as they progress to the implementation phase. It is understood that the Papua government has resources to fund such projects. It is anticipated that these scoping activities will be undertaken prior to the mobilisation of the IndII MC and will provide IndII with a good starting point for engagement. AusAID is funding three advisors to the Provincial Governor’s Office as part of a World Bank support package, one of whom will be an infrastructure advisor. It is anticipated that this advisor will provide guidance to IndII on priorities and projects where IndII support is desirable.

NTT infrastructure — initial scoping will be undertaken with the NTT Governor’s Office to identify infrastructure projects in the province that may be suitable candidates for the IndII prior to the commencement of the IndII MC.

Further details are given in annex D.

2.2.3 Policy and regulatory (P&R) component

**Objective:** more efficient, effective and accountable infrastructure investment through reducing uncertainty in the policy, regulatory and financing environment.

The P&R component aims to improve the policy and regulatory environment for infrastructure investment. This requires the capacity to act quickly as needs arise (supported by the IEI) and the ability to engage in longer term partnerships providing the support required to bring about system change (supported by the SPS).
Component activities

The P&R component will provide technical advice and capacity building to address needs related to the policy and regulatory objectives at a national level (see 2.3.8 for the types of activities).

Types of policy and regulatory reform supported

The component will support reforms that:

- have a high priority for GoI;
- reduce or remove barriers to infrastructure investment by government, BUMNs, Pemdas and the private sector; and
- contribute to infrastructure improvements that significantly affect economic growth.

Counterpart agencies

The P&R component will work with national agencies such as BAPPENAS, the Ministry of Public Works, MoF, other line ministries and possibly state owned enterprises. In forming partnerships under SPS, IndII requires a commitment from the partner agency to:

- development of a strategy to achieve the objectives that clearly defines how the IndII support will contribute to achieving the objectives and measures of progress toward achieving the objectives;
- commit the staff and resources required to achieving these objectives as agreed in six monthly workplans; and
- comply with the principles for engagement, including consideration of gender and anti-corruption implications for the policy and regulatory change and/or the infrastructure investment being supported by the SPS.

Initial activities for the P&R component

Development of a small number of IEI activities will be undertaken to be ready for implementation on commencement of the IndII MC. Activities are already being conducted with IFGI funds in advance of the commencement of IndII. These are mainly based on previous TAMF activities and will provide a base of work for IndII to commence with (further details are given in annex D). These include:

- support for the Directorate General of Posts and Telecommunications (DG Postel) in the Ministry of Communications and Information Technology (MoCIT) to improve governance of its spectrum management functions;
- assistance to CMEA and KKPPI to commence implementation of a policy framework for managing infrastructure service subsidies and PSOs;
- support to the Fiscal Policy Office in MoF to establish an effective infrastructure risk management capacity to be used to evaluate requests for GoI support for specific infrastructure projects; and
- provision of a consultant to assist the World Bank and GoI in finalising the operational structures for Indonesia Infrastructure Facility (IIF). IIF will be corporate, non-bank financial institution focused on long term infrastructure investment for which the GoI has already set aside 600 billion IDR.

2.2.4 Infrastructure Enhancement Grants (IEG) component

**Objective:** to enhance the economic and social impact of infrastructure projects through providing financial support to priority infrastructure projects.

While priority will be given to projects that IndII has been supporting the IEG will be available to any infrastructure project which is at the final engineering design phase, or in early stages of construction. Consideration may also be given to projects at an earlier stage of development where a strong case can be made. Applications must come from the agency building the infrastructure project, but can be initiated by the Board or AusAID. The IEG applications will be ranked by the Board and funded in this order up to the amount of funding available through this component.

**Criteria for IEG**

The suggested criteria for assessing the application for a grant are:
- the proposed additional investment adds significantly to economic and social impact of the infrastructure;
- the investment is cost-effective;
- the applicant agency has demonstrated commitment to good governance in their development of the related infrastructure project; and
- IndII, other donors or the government agency has a system in place to be able to contract and monitor the satisfactory construction and completion of the additional investment.

The criteria are to be approved by the Board. In assessing the economic and social impact of the enhancement, factors to be considered include the following:
- Extension to infrastructure economic life — for example embedding longer term maintenance in the deliverables for the contractor building the infrastructure is an effective mechanism to provide for maintenance. A second example is how improving drainage on roads can greatly improve their economic life.
- Improved interconnectedness of infrastructure — for example improving the loading capacity at railway stations can raise use for cost effective transport of goods as long as there is also matching capacity at the destination.
• Enhanced safety features — for example widening road shoulders and construction of pedestrian overpasses can greatly improve the safety of users and/or the adjacent community (especially for the benefit of women and children).

Agencies can seek assistance from the Lead Advisor for IndII supported projects or Technical Director (IPM) in the preparation of grant applications. Support for design of the proposed “add-on” will be considered a legitimate activity under the IPM component, or can be supported from the grant funds. Where such design work is required it should be included in the grant application.

There may be potential to apply to the AusAID Incentives Program to expand the resources available for this component. Initially, it will be fully funded from the IndII resources. The Board will be required to set an appropriate limit on the size of the funding for add-ons, but as a guide it could have a limit of whichever is the lesser — A$5 million or 5 per cent of the infrastructure project costs.

### Implementation approach

The IEG component is expected to invite applications in the middle of the first year for assessment at the end of year 1. The criteria for making grants should be reviewed and confirmed by the Board at the first Board meeting. One round of grants will be conducted annually.

An initial activity to be undertaken by the Facility management will be to establish an agreed process with BAPPENAS for the dispensing of the grant funds. Some options are discussed in annex L.

## 2.2.5 Links between the components

The components are linked in the following ways:

- IEI activities may develop into SPS strategic partnerships in components 1 and 2, but are not required to.
- Policy and regulatory issues that arise in the IPM component can be referred to the P&R IEI component for further scoping and action.
- Approaches and tools developed for project management in the IPM SPS should be shared.
- Opportunities for involving partners in any training opportunities offered in other engagements will be fully explored and encouraged.
2.3 Guidance for the approach

2.3.1 Priority investment areas for the IndII

The priority sectors for IndII support are roads and railways, based on their importance for market access. Initial activities outlined above leverage off AusAID’s current engagement on roads with EINRIP. The IndII will explore the potential to engage on water supply infrastructure in the first year, in cooperation with other AusAID engagements in water. This is motivated by the importance of urban water supply both for industry and the health and well being of the labour force.

The priority areas for policy and regulatory engagement relate to reducing barriers to private sector financing of major national infrastructure. These include:

- development of mechanisms to reduce uncertainty regarding government intervention in market prices and other commitments such as PSOs;
- establishment of mechanisms to strengthen the capital market’s ability to raise private sector finance for infrastructure; and
- promoting clarity and consistency in licensing and other regulations governing use of infrastructure, especially in areas where there are elements of natural monopoly.

The IndII will work with national and sub-national government agencies, with scope to work with the BUMNs should such opportunities emerge, principally on policy and regulatory issues. It will support infrastructure projects funded by multi-lateral development banks (MDBs) loans as well as those funded from government’s own resources.

2.3.2 AusAID guiding principles

In addition to the objectives of the initiative there are a number of cross cutting principles that AusAID has committed to achieving in all its initiatives. These will apply to the IndII, and their satisfaction will form part of the performance measurement (see 4.3.4):

- Leading donor harmonisation efforts in key sectors — The IndII aims to form strategic partnerships with government agencies, but these will often be in cooperation with other donors, notably where the multilateral banks are financing the infrastructure project. A default position is to co-finance these MDB projects providing grant funding for the project development activities. Under the preferred approach, these services are made directly available to the partner agency, but clearly are developed in consultation with the financing agency.
- Strengthening performance orientation — The emphasis on strategic partnerships and documentation of the objectives are central to being able to demonstrate progress and consequently performance.
• Combating corruption — Good governance is a key in good project management, a primary objective of the IndII, and accountability forms a key criteria for engagement.

• Advancing gender equality and empowering women — All infrastructure investments and policy changes will be screened for the impact on gender. Those with positive gender impacts should take priority, given that they satisfy the other criteria. Support should be provided to strategic partners to assist them in conducting gender impact analysis.

• Increasing alignment with GoI systems — The strategic partnerships approach centres on supporting government agencies to develop and strengthen their own systems. It is not about imposing other systems on these agencies.

• Australian Government partnerships with GoI counterparts — There is considerable potential in the areas of regulatory and policy change for Australian government agencies to share their experiences with GoI agencies. Such opportunities for staff exchanges, workshops or shared training, whether funded under the GPF or directly by the IndII, are to be encouraged. For example, the Australian Department of Transport and Regional Affairs (DoTARs) is engaging with the GoI on transport and safety issues.

2.3.3 The approach will be strategic and partnership focused

The delivery modality is a facility, but it is important in order to demonstrate development effectiveness that the engagements be strategic and contribute to clearly articulated objectives. The structure of the SPS sub-components in the IPM and P&R components are both based around strategic partnerships with national and sub-national government agencies. The IndII will need to assist their partners to document the objectives for change in policy and regulation or the services the infrastructure will deliver where the partner agency has yet to do so. This documentation will provide a basis for formative evaluation (see 4.4.2 and annex J).

It is important that AusAID understands and is in agreement with the strategies being pursued with the partner agencies. AusAID is building its technical expertise in infrastructure and will be playing a more active role in the IndII engagement with partner agencies. This will assist in improving accountability, as well as ensuring AusAID understands the rationale for proposed engagements.

2.3.4 The approach will be phased

The budget allocation for the IndII commences in 2007–08. To provide time for a quality program to be developed and contracted, AusAID will manage the preliminary phase of the IndII, contracting activity development and delivery until the MC is established. This is expected to be in May–June 2008.

The IndII will take a phased approach to engagement.
• Considerable preliminary scoping and design work and engagement with potential partner agencies will be undertaken prior to the commencement of the IndII and funding has been committed for this work. This preparation phase aims to lay the groundwork for a good start to the IndII, and addresses AusAID’s lack of knowledge and relationships in infrastructure in Indonesia, as it is a relatively new area for the Indonesian Country Program.

• In the first year, the majority of activities under the P&R component will be IEI activities. They will be assessed in the first six-month Board Report for the scope to develop into engagements under the SPS in the following year. The target will be for at least two to progress in this way in the following year.

• The IPM component is likely to commence with the two SPS engagements that are being developed over the next six months. Lead Advisors will be established in DG Highways to explore a range of options and provide support as required for WINRIP engagement, and in Papua to develop engagement in the transport sector. Funding of activities developed in the preparation phase will commence within six months of the establishment of the Lead Advisor in the agency. Hard infrastructure projects that satisfy the criteria should be identified as early as possible by the Lead Advisors (if not before during the preparation phase). It is expected that the weight of support in the first year of the IndII will be in funding design work primarily through the World Bank Trust Fund. This reflects, in part, priority needs to progress infrastructure investment, but also that it takes time to build the local knowledge and relationships required for such programs to achieve change in systems and processes that improving project management requires.

• Under the IPM IEI component, activities to develop another SPS engagement should commence within 3 months of the establishment of the IndII office, and a proposal for a third strategic engagement be made to the second Board meeting.

### 2.3.5 Allocation of IndII resources across components

The allocation of the IndII resources across the components depends on the relative success of the components. Indicative allocations are around 40 per cent of the SPA to IPM (component 1), 20 per cent to P&R (component 2) and 40 per cent in IEG (component 3). Based on these indicative allocations, around six SPS engagements will be achieved in each of the IPM and P&R, and around 15-20 IEG activities will be funded over the four year period.

### Determinants of the allocation across components

As the P&R component targets supporting change in policy and regulation it can only be effective where there is momentum for such change in the government. Similarly, the success of the IPM SPS depends on the willingness to improve project management capabilities. At the end of each year the allocation of resources across
the components will be re-considered and targets set for the number of SPS engagements to be developed in the year. In the SPS sub-components the allocation of resources will be based on opportunities for the IndII to make a positive contribution to better infrastructure sooner. If there is insufficient momentum for change a greater share of resources can be allocated into the IPM IEI component to support technical service needs for infrastructure projects funded by the MDB loans under co-financing arrangements. If a considerable share of the IndII resources goes to such co-financing, the management requirements will be considerably lower, and management will need to be downsized. The potential to adjust the management needs is taken into account in the Scope of Services document.

It should be noted that although P&R makes up only around 20 per cent of indicative disbursements, it will require a similar level of effort to manage as the IPM component. The number of activities is expected to be similar for the P&R and IPM components, with some of the IPM activities of much larger values, but requiring less logistical and management requirements.

2.3.6 The IndII can be extended beyond four years for up to ten years

It is anticipated that if the IndII is successful and AusAID remains engaged on infrastructure, the facility could be extended beyond the current four year commitment, with ten years being considered a more appropriate time frame to see results. For policy and regulatory change and for embedding quality project management, if not for building infrastructure, time frames of much longer than four years are generally required. The decision on whether to continue the IndII beyond the current four years, and whether it will be redesigned, will be made by the beginning of year 4. Provision will be made in the contract with the MC for roll-over subject to the performance of the MC and AusAID’s determination on the IndII beyond the current four year commitment.

2.3.7 Building AusAID capacity for effective engagement in infrastructure

The IndII will be the major component of the Indonesia County Program’s investment in infrastructure. There may be synergies with other AusAID programs such as the WASPOLA facility over time, and clearly strong synergies between the proposed first SPS engagement (with WINRIP) with the current EINRIP. As AusAID strengthens its technical capacity on infrastructure it is important that it is very engaged with the content of the IndII as well as its management. It is proposed to colocate the IndII with AusAID staff and advisors working on the other infrastructure projects in order to maximise the opportunities for such engagement. Other strategies for ensuring engagement are set out in the management arrangements (chapter 3).
2.3.8 The types of activities that the IndII will deliver

All final deliverables by contractors to the IndII are activities. These may include:

- Lead Advisors providing long term technical assistance, located within a partner agency, working on a strategic engagement approach;
- technical services such as engineering designs, and structural testing services;
- surveys and consultations to provide baseline and impact information (such as gender environment or economic impact) required as input into prioritisation, design or impact analysis;
- short term advisors providing technical assistance to an agency;
- training courses specifically design to meet needs conducted in-house;
- financing for agency staff to attend relevant external training courses;
- work placements and exchanges with Australian agencies, or other appropriate agencies;
- study tours; and
- procurement of software, testing equipment or other items required for infrastructure project management.
3 Management

3.1 Management structure

3.1.1 Overview

The management structure is as follows:

- The **IndII Board** provides overall strategic direction and oversight. It approves SPS engagements, SPS workplans, IEI activities and ranks the IEG proposals. It provides guidance to AusAID in the assessment of MC performance. The Board will be made up of a senior GoI (BAPPENAS and CMEA) and AusAID officials (Counsellor and the Post Infrastructure Advisor). AusAID and BAPPENAS will co-chair the Board.

- A **Facility Managing Contractor** will be contracted to AusAID to provide the management services for all reporting, sub-contracting, financial, administrative and logistical requirements, and the technical services to develop and design the engagements and activities. The MC will contract individuals and companies to provide the activities according to the workplans and other approvals by the Board. The MC will monitor delivery of the activities and undertake formative evaluation and report on a six monthly basis to the Board on outcomes achieved as well as proposed new engagements. The MC reports to the Board on IndII activities and to AusAID on all management, financial and administrative issues.

- **AusAID** will monitor and assess the performance of the MC. It will provide financial oversight for all activities, approving the final TORs and budget for expenditure. AusAID will co-chair the Board, chair the Co-ordination Group and participate in the Impact Assessment Team.

- The **Impact Assessment Team (IAT)** will undertake impact assessments of selected IEI activities and the SPS engagements as well as the overall facility impact for AusAID. Assessments will be undertaken toward the end of year 3 as input into the decision about the future of the IndII, and on completion of year 4. The IAT will be headed by an external expert and involve the AusAID Infrastructure Advisors (in-country, thematic group), the AusAID Desk officer, and other external experts as required (selected based on the areas IndII engages with).

- **Partner agencies** are those national and sub-national government agencies that are involved in SPS engagements with the IndII under the IPM P&R components.

- A **Coordination Group** will meet regularly to discuss progress, new opportunities, lessons and share resources. It has no decision making power, but
can be asked by the Board to provide an opinion. It will be chaired by the AusAID Infrastructure Advisor at Post and will include the Technical Directors, Lead Advisors, and other AusAID staff and contractors involved in infrastructure. Other donors and GoI staff may be invited to participate in sessions that are relevant to them.

3.1 Overview of management structure

3.1.2 Activity identification, approval and preparation

All activities will be funded on a reimbursable basis from allocations made to an SPA. The exception is activities funded from the Trust Fund established with the World Bank. There are two pathways to activities — SPS and IEI activities.
Strategic partnership support (SPS) engagements

The process for developing an SPS engagement is as follows:

- A proposal for a strategic engagement with a partner agency must be made by the agency. It can be initiated by the GoI, Pemdas, AusAID or IndII. The MC will provide assistance to the agency for preparation of the proposal and ensure that the proposal satisfies the criteria for support prior to completion. The proposal will:
  - set out the objectives;
  - the agencies’ own activities in regard to the objectives;
  - how the IndII will be able to provide support and address the criteria for approval (see sections 2.2.2 and 2.2.3 for the criteria for IPM and P&R components respectively);
  - whether it will follow a Lead Advisor model (recommended for all P&R SPS, and for IPM SPS unless there is someone in a position to identify very clear activity requirements) or whether activities will be developed by the agency’s own staff, staff working on another AusAID program or other donor program; and
  - likely scale (budget) and length of engagement. It will not set out any activity details.

- The MC will present the case for supporting the SPS in the Board report. This will include information on the scope to accommodate the proposal in terms of funding availability and raise any issues the MC is aware of that might affect the Board decision.

- The Board will consider the proposal at the six monthly Board meeting and approve it, return it for reconsideration by the applicant agency (with guidance on changes needed for approval), or reject it (stating the reasons for rejection).

- Once a proposal is approved the MC will develop with the partner agency a Terms of Reference (TOR) for a Lead Advisor for contracting. The TOR will require the Lead Advisor to work with the agency to develop a strategy document and initial workplan. If the Lead Advisor approach is not appropriate, the MC will work with the agency to develop the strategy document and initial workplan. The MC will ensure that the logic is sound, the activities are feasible, and provide guidance on budget requirements. The partner agency will need to sign-off on the workplan prior to submission to the Board.

- The MC will submit the strategy document and first workplan of activities to the Board for approval no later than six months after approval of the proposal (ideally at the subsequent Board meeting, but out of session if timing requires an earlier approval).

- Following strategy approval, workplans are developed on a six monthly basis until the engagement concludes (or is suspended pending specified conditions). SPS activities are approved as part of the workplan approval. New activities that
are identified and need to be delivered in the period covered by the workplan, or unplanned extensions can be approved by AusAID, as long as they are within the budget envelope approved by the Board and consistent with the approved strategy.

- Activity TORs are developed by the Lead Advisor and/or Technical Director. TORs need to be signed-off by the partner agency. The MC will prepare a tendering strategy (open, invited, sole provider). The TORs, budget and tendering strategy will be submitted to AusAID for approval prior to tendering. This approval will be conducted on a no objection basis.

- The MC will conduct the tendering process in accordance with Australian Government Procurement Guidelines. AusAID will be notified of the successful tenderer and have right of veto. Assessment criteria will be based on value for money.

- For on-going strategic engagements a workplan of activities will be developed following the previous two steps on a six monthly basis following a green light assessment of progress made and/or continued relevance by the Board (see 3.2.1). If required, the strategy will be revised with changes highlighted for the consideration of the Board.

IEI activities

Under the IEI sub-components under the P&R and IPM, proposals for activities can be initiated by GoI agencies, Pemdas, AusAID, other Australian Government Agencies or other donor agencies. The IEI is to be used for scoping and initial engagements and where there is a clear gap to be filled that does not require the more extensive strategic partnership arrangement. The process is:

- submission of a two page concept note setting out the objectives, required activity outputs and inputs and indicative budget to the MC, which acknowledges receipt;

- the MC will provide an assessment of the feasibility of the activity (inputs will deliver outputs and outputs will achieve objectives), appropriateness of the budget, compliance with the criteria (including alignment with the IndII objectives and government priorities), and financial feasibility against the IEI and overall budget;

- the MC will refer the activity to the Board for approval (this will be by email when it needs to be done out of session on an objections basis, otherwise it will form part of the Board Report); and

- the MC will prepare the TOR for the activity and a tendering strategy. The pathway then follows the same process as for the SPS activities.

Chart 3.2 sets out the two processes.
3.2 Process for development of activities

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<thead>
<tr>
<th>IEI activities</th>
<th>SPS engagements</th>
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<tbody>
<tr>
<td><strong>Concept note (2 pages)</strong></td>
<td><strong>Proposal (5 pages)</strong></td>
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<tr>
<td>• Objectives</td>
<td>• Objectives</td>
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<td>• Nature of the activity</td>
<td>• Agency actions</td>
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<td>• Activity outputs</td>
<td>• IndII contribution</td>
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<td>• Budget envelope</td>
<td>• Model for the engagement</td>
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<td>• Budget and timing envelopes</td>
<td>• Budget and timing envelopes</td>
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<th><strong>MC assessment</strong></th>
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<td>• Technical feasibility</td>
<td>• Compliance with criteria</td>
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<td>• Compliance with criteria</td>
<td>• Financial scope to be included in IndII</td>
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<td>• Budget feasibility</td>
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| **Board approval** | **Board approval** |

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<th><strong>MC</strong></th>
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<tr>
<td>• Engages Lead Adviser</td>
<td>• Compliance with criteria</td>
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<tr>
<td>• Ensures Lead Adviser develops strategy or develops strategy</td>
<td>• Financial scope to be included in IndII</td>
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<td>• Initial workplan</td>
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<th><strong>Design of TORs</strong></th>
<th><strong>AusAID approval</strong></th>
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<tr>
<td>• In consultation with counterpart agency</td>
<td>• Expenditure</td>
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<td></td>
<td>• Tendering strategy</td>
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| **MC conduct tender** |
3.2 Roles and responsibilities

3.2.1 Roles and responsibilities of the Board

The major responsibility of the Board is to oversee and guide the activities of the IndII. It will be made up of representatives from AusAID, BAPPENAS and CMEA. AusAID and BAPPENAS will co-chair the Board.

The Board will meet on a six monthly basis, and members be available by email for out of session approvals.

The Board will:

- approve proposed SPS engagements;
- approve documented strategies and initial workplans for SPS;
- assess progress of SPS in the previous six months, and confirm or amend the green, amber or red assessment recommended in the Board Report;
- approve six month workplans and budgets for SPS engagements subject to satisfactory progress;
- approve proposed IEI activities; and
- rank the IEG applications (from those that satisfy the criteria).

The Board will provide feedback to AusAID on the MC performance at the request of AusAID. On an annual basis the Board will provide a broad indication of the desirable allocation of IndII funds across the different components and sub-components of the IndII.

The Board can request presentations on any of the SPS strategies by the Technical Directors and/or the Lead Advisors to be given at the Board meetings. They can request an informal (non-decision making) meeting be undertaken for such presentations twice a year or otherwise as agreed.

The Board is encouraged to identify IEI activities especially in areas that may be suited to develop into SPS engagements.

3.2.2 Roles and responsibilities of AusAID

The Minister-Counsellor will co-chair the IndII Board. The Minister-Counsellor will have ultimate responsibility for approval of any IndII expenditure. This responsibility will be delegated to the Program Officer where it is within the amounts to be determined by AusAID internal processes.

AusAID will direct an AusAID Infrastructure Advisor at Post to:

- sit on the IndII Board;
- chair the Coordination Group;
• participate in the IAT;
• review proposed activity providers and raise any concerns with selections made with the MC;
• provide advice to AusAID as requested on draft strategies and the design and costings of activities; and
• ensure that the Monitoring and Evaluation (M&E) Plan will deliver the information necessary for reporting on the IFGI and CPS performance indicators.

AusAID will provide a Program Officer at Post for day to day liaison with the MC Management team. The Program Officer will:

• monitor sub-contracting to ensure it meets the procurement guidelines;
• monitor and keep records as required of movement of MC staff and sub-contractors;
• approve proposed expenditure when within the agreed amounts, and refer to the Minister-Counsellor delegate for approval when above agreed amounts;
• monitor the monthly financial accounts provided by the MC;
• monitor the compilation of activity completion reports by the MC;
• participate in the Coordinating Group;
• organise and participate in meetings for the IAT;
• brief other AusAID staff and the AusAID Infrastructure Advisor as requested on any of the above;
• liaise with Canberra-based AusAID staff and advisors, particularly on matters of policy and program effectiveness requirements; and
• review and circulate reporting to relevant areas of AusAID and ensure lessons learned are fed back into Agency reporting.

AusAID has the right to object to a proposed activity TORs, contracting strategy, expenditure or proposed contractor for activities. They also have the right to terminate activities should the need to do so arise. AusAID will consult the Board on any such action. It is anticipated that AusAID will rely on the judgement of the MC unless there is evidence raising concerns about this judgement (such as from the Board, counterpart agencies, Lead Advisors and other donors).

3.2.3 Roles and responsibilities of the Facility Managing Contractor

The MC will provide the management of the IndII and the development and design of the engagements and activities.

The MC will ensure the following services are undertaken in the IndII. Note that activities to be undertaken in the mobilisation phase are marked (MP).
It is expected that the MC will compile an operational manual consisting of all appropriate documentation. This should meet the needs of the MC to deliver the following responsibilities.

Manage relationships
- Develop and maintain relationships with the partner agencies of the IndII to ensure that the agencies’ needs are being addressed by the agreed services provided by the IndII.
- Develop and maintain relationships with AusAID including staff managing other infrastructure programs and ensure that they are informed of IndII strategies and activities.
- Organise and host the Coordination Group meetings on a six monthly basis.

Support the Board
- Provide secretariat services to the Board including organisation of meetings, venues, keeping of minutes and the circulation of Board Report a minimum of a week prior to Board meetings.
- Prepare the Board Report and organise attachments (see reporting 3.3.3).
- Prepare and circulate the Board Minutes within 2 weeks of the Board meeting.
- Organise presentations as requested.

Develop strategies, workplans and activities
- (MP) Develop simple Word templates for the presentation of proposals for strategic engagement, partnership workplans and activity TORs, and ensure they are used.
- Work with potential partner agencies to prepare proposals for strategic engagements and concept notes for IEI activities. Prepare proposals for any substantive change in strategy to be presented to the Board.
- Work with Lead Advisors and nominated personnel from the partner agency in the preparation of strategies, workplans and activity TORs. Where Lead Advisors have the skills to do this work the MC will provide quality assurance.
- Ensure that activity TORs are of a quality that can be tendered and contracted.
- Fully and accurately cost workplans, individual activities, and maintain a set of benchmark costs that are available to AusAID.
- Submit SPS strategies and workplans, IEI proposals and indicative budgets to the Board for approval.
- Submit activity TORs and costings to AusAID for approval as directed.
Contracting activities

- (MP) Establish a preferred tenderer list for delivery of activities under the IPM component based on an open call for expressions of interest from firms with access to local presence.
- Contract the services of individual consultants and firms as best suits the efficient and effective delivery of activities and manage these contracts in a professional manner.
- Ensure that there is GoI agency approval of proposed sub-contractors, and AusAID have no objections.
- Contract delivery of infrastructure add-ons for successful IEG applications if this is the chosen approach.
- Follow government procurement guidelines in the tendering and selection of sub-consultants. Where appropriate this should include preparation of a shortlist of applicants for consideration by the counterpart agency. Open tenders are required for all contracts greater than A$500,000 in value. Below this value the MC may provide a shortlist with a minimum of three candidates to the partner agency for selection. A sole supplier is allowed where there is a continuation or follow-up activity on request of the partner agency for contracts less than A$100,001, with the exception of Lead Advisor positions that may be rolled over subject to approval by the partner agency and AusAID.

MC tendering for activities

In order to ensure that the widest range of firms will be interested in tendering for the IndII, the MC is allowed to deliver some activities. The MC may undertake any activity of under A$100,001 in value for which it can provide competent services acceptable to AusAID and the counterpart agency. It may not tender for any activities of value greater than this.

Financial management

- (MP) Establish a financial management system that supports monthly financial reporting in a format acceptable to AusAID. Document the processes for financial management and reporting in a manual.
- (MP) Establish an SPA according to AusAID Guidelines (AusGuideline 3.8 section 5.1).
- (MP) Establish an agreed process with the GoI for disbursal of grants in the IEG component and develop any financial management system required to support this agreed process.
- Provide a monthly financial report to AusAID on disbursals from the SPA.
- Undertake an acquittal of expenditures against budget on a six monthly basis for provision to the Board meeting.
- Provide a forward projection of funding envelopes on a six monthly basis for provision to the Board meeting.
- Provide financial information as required for an annual financial audit of the SPA.
- Ensure that sub-contractors are paid within 30 days of submission of their invoices for any progress payments and payment is completed a maximum of 30 working days after confirmation of satisfactory delivery of the contracted work.

**Monitoring and evaluation**

(MP) The MC will develop a Monitoring and Evaluation (M&E) Plan within six months of the establishment of the IndII office. This will be submitted to AusAID for approval. Details of the M&E plan are set out in section 4.4.

The MC will ensure that M&E is undertaken as set out in the plan. The MC will:
- ensure that performance indicators and measures are clearly specified in the strategies, workplans and TORs as set out in the M&E Plan;
- monitor delivery of activities in accordance with the activity TORs, and assess the quality of delivery;
- ensure completion of activity completion/progress reports, and confirm the accuracy of the assessment with Lead Advisors and partner agencies;
- undertake formative evaluation of all SPS engagements, and IEI engagements where progressive engagement is proposed;
- maintain an M&E database record of activity completion and progress reports (APCRs) and SPS reviews;
- compile the M&E information for the Board Report as set out in the M&E Plan (see 3.3.3); and
- provide information as requested for input into reviews undertaken by the IAT.

**Other management activities**

- (MP) Establish an office co-located with AusAID that can also accommodate AusAID staff on other infrastructure programs.
- (MP) Procure and maintain an IT system and network that meets the needs of IndII staff and contractors. Note that contractors will provide their own hardware and software unless specified in the activity TOR, but should be provided with an IndII email account.
- (MP) Liaise with partner agencies and other agencies where activities are located to ensure the provision of office space and furniture. If appropriate, procure any necessary office furniture, including computer hard and software, telecom connections as approved for the specific activity.
- (MP) Develop security procedures for all IndII staff and contractors. Maintain up to date lists of all personnel and their location. Ensure all staff and contractors are briefed and remain up to date on security and emergency procedures.

- Brief all new contractors in a pre-commencement briefing about objectives of the IndII and the need to demonstrate development effectiveness, relationships with other donors and GoI agencies, the support available from the MC, avenues to raise any issues that arise with the MC, and security arrangements. All contractors should receive a briefing package setting out this information including 24 hour contact numbers (MP).

- Participate in Coordination Group meetings.

Annex F sets out suggested duty statements for the Facility Director, Deputy Director and Technical Directors.

### 3.2.4 Roles and responsibilities of the Impact Assessment Team

The IAT is responsible for reporting to AusAID on the:

- impact of selected SPS and IEI engagements – that is what has changed as a result of the IndII engagement;

- contribution these engagements have made to the IndII objectives and collectively over time the contribution IndII has made/is making to the CPS and IFGI objectives; and

- value added of the IndII compared to alternative approaches that AusAID could have taken to supporting infrastructure investment in Indonesia.

The IAT will be contracted separately by AusAID. The IAT will review the proposed M&E Plan to ensure that it will provide the baseline and other information required for the later impact assessment work.

Annex F sets out the TOR for IAT Leader.

### 3.3 Governance arrangements

#### 3.3.1 Accountability and decision making on content

Content decisions are made by the Board on advice from the MC as set out in the Board Report. AusAID has the right to object to any activity, but only following consultation with the Board on any such proposed action.

Delivery decisions are made by:

- MC in consultation with partner agencies, Lead Advisors, and other donors involved; and

- AusAID, which has to endorse all activity expenditure and activity contractors.
For contracts greater than A$500,000 final selection of contractors is to be undertaken by a selection panel that should include a representative of the agency involved and an AusAID representative.

The MC is accountable for developing high quality proposals, strategies and workplans and activity TORs. It is suggested that the Technical Directors take a lead role in these tasks.

Contractors are accountable to the MC for delivering fully on their TORs. If, for reasons beyond their control, they are unable to do so, they are responsible for working with the MC to find a solution acceptable to all parties involved, including the partner agency and AusAID.

The MC will provide an assessment of IndII results to the Board on a six monthly basis, highlighting the implications for continued funding of SPS engagements. The Board will confirm or revise these assessments. Accountability for M&E is set out in section 4.3.

3.3.2 Financial management arrangements

The financial management processes are to be documented in a manual. MC staff should be familiar with the manual and follow the processes set out in the manual.

Financial reports are:
- monthly expenditure reports to AusAID;
- six monthly acquittal of expenditures from the SPA against the budget;
- six monthly projected expenditures report and request for funds; and
- annual audited financial accounts.

The MC will establish a SPA according to AusAID Guidelines (AusGuideline 3.8, section 5.2). It is expected that the World Bank Trust Fund will be established prior to the commencement of the IndII. The MC will provide any required oversight of this Fund and any other such funds that might be established.

3.3.3 Reporting mechanisms and responsibilities

Reporting will be on an exception or change basis wherever possible.

**Board Report (six monthly) prepared by the MC for the Board meeting**

The Board Report will include the following.
- Strategic partnerships progress summary — for each SPS engagement a brief description of the objectives, the traffic light rating, any changes proposed and issues that have arisen (such as an amber or red light assessment), a list of proposed activities in the workplan with their budget, and the financial
expenditure made over the last six months and projected for the next six months. This will be a summary of the six monthly strategic engagement reports (see below) which will be provided as attachments to the Board Report.

- Listing of IEI activities conducted over the previous six months (including those completed in the period). The listing should include activity name, agencies involved, nature of the activity, start and completion date, total expenditure by IndII and the rating for outputs achieved (from activity progress and completion reports).
- Issues arising — issues that need to be brought to the attention of the Board for action or for their information. Those requiring action should include a specific proposal for action and have been discussed with AusAID prior to inclusion in the Board Report.
- A list of proposed new strategies, IEI activities, and on an annual basis IEG applications, with a unique IndII identifier, name, counterpart agencies involved, likely duration and budget envelope. The associated documentation should be provided as attachments.

The agenda will include:

- Discussion and approval of:
  proposals for new strategic engagement (proposals attached); and
  proposals for major changes to strategic engagements including concluding the engagement or putting it on hold due to lack of progress (proposals attached).
- Discussion and approval of:
  new strategies (proposals approved in the previous meeting);
  workplans for strategic engagements (workplans attached) including indicative budget;
  IEI concepts and indicative budgets.
- On an annual basis:
  ranking of IEG applications that have satisfied the criteria (they will be funded based on rank up to the amount of funds available);
  overall resource allocations across the components and sub-components; and
  agreement with the MC on the performance targets.

**Board minutes**

The minutes of the Board will record:

- attendance;
- comments on progress in the strategic engagements and response to the MC ratings on progress and the development effectiveness assessment (documenting any reasons for revision of the assessment);
- decisions on approvals (see previous agenda list);
- actions arising from the meeting; and
- at the end of each year discussions on resource allocation across the components and sub-components.

The MC will attach to the Board Minutes a response that sets out the actions it will undertake to address any issues raised in the Board meeting.

**Strategic engagement report (six monthly)**

This is a key M&E document that is prepared by the Technical Directors for all strategic engagements. They will consult with the Lead Advisors and partner agencies in the preparation of the report. Details are given in 4.4.2.

**Management report (monthly to AusAID)**

The MC will report on a monthly basis to AusAID. This report will list:
- proposed activity TORs and budget (TORs and proposed tender strategies to be attached);
- contracts negotiated with names of contractors (firms and individuals);
- personnel and contractor movements;
- any other issues for the information or attention of AusAID; and
- the monthly financial report should be attached.

It is anticipated that there will be day to day contact between the MC and the AusAID Program Officer for the IndII. The MC will be able to submit TORs and tendering strategies for approval monthly, but can submit at any time when a rapid response is required. AusAID will commit to responding within 5 working days of receipt with approval, a request for changes, with automatic approval on compliant changes or a request for resubmission with changes, or rejection. AusAID must document the reasons for any rejection for the MC records.

**Mobilisation Report (end first 6 months)**

The Mobilisation report is to be made within the first six months of the establishment of the IndII. It will provide a completed checklist of what has been achieved (list marked MP in section 3.2.3). It will bring any issues that impact on the effectiveness or efficiency of the IndII to the attention of AusAID with a brief proposal for how these should be addressed for discussion. Attached to the Mobilisation Report will be:
- financial management manual/documentation;
- preferred tenderer list for IPM;
3.4 Coordination and communication

3.4.1 Information on IndII activities – website

The MC will develop and maintain a website for the IndII that briefly describes all the current IndII strategic engagements, and IEI activities. It should identify the agencies and other donors that the IndII is working with, the locations, and sectors.

The website should include a section on proposed strategies and activities and invite comment from other programs and donors on potential for synergies through email contact. It should include links to the AusAID Indonesia website, and other links as requested by AusAID.

The website can also be used to advertise for tenders for IndII activities.

3.4.2 AusAID staff and other programs

Good coordination and communication is required between the IndII, AusAID staff and the other AusAID programs with an interest in infrastructure. Coordination and cooperation will be promoted through:

- co-location of IndII with AusAID infrastructure staff;
- inviting other programs to participate in the Coordination Group and subsequent development of networks;
- development of good relationships between the Technical Directors and Post Infrastructure Advisor and with thematic group advisors; and
- regular email updates of IndII activities to other AusAID programs.

3.4.3 GoI: BAPPENAS, CMEA and other agencies

BAPPENAS is the counterpart for the IndII and will co-chair the IndII Board. CMEA will also sit on the IndII Board. The Board has considerable decision making powers on agencies for strategic engagement and investment in all major activities. It will be kept well informed through the six monthly Board meetings and the proposed informal Board meetings. The MC is tasked with ensuring that BAPPENAS is satisfied with the level of information and engagement provided by the IndII.
The agencies that become partners in strategic engagements will be comprehensively involved in the proposal, development of the strategy, workplan and in confirming activity outputs and assessments of progress and outcomes. Where agencies can commit a staff member to assist in the development of the strategy, workplan and activities this is to be strongly supported by the IndII. The MC will meet with selected agencies to confirm the reporting, and will assess the extent to which agencies are engaged. For strategic engagements, where the IndII is supporting the agency in achieving its objectives, the agency’s systems and processes will be used wherever possible to achieve the common objectives.

3.4.4 Other donors

In view of the number of donors engaged in infrastructure and the potential overlap of AusAID’s programs, engagement with GoI agencies needs to be coordinated to minimise the burden on these agencies. Noting that an under-one-roof approach is preferred by GoI when multiple donors are engaged, the MC should ensure that in such cases the IndII cooperates with other donors to achieve this arrangement. The MC is responsible for keeping other donors informed of the agencies and areas where IndII is working. This engagement should identify areas of potential overlap for appropriate management. The Coordination Group will seek to involve other donors in the meetings where such overlap is identified to develop the relationships and networks to manage potential overlap and build on potential synergies.

The IndII is encouraged to provide needed activities for other donor funded programs under the IEI sub-components. Greater cooperation is encouraged on strategic engagements where the IndII involvement is invited by the partner agency. In such situations the best approach for coordination with the other donors engaged with the agency is to be determined with the partner agency. The IndII can provide funds to other donor agencies to co-fund activities, however, IndII must ensure that it can meet M&E obligations for performance measurement.

3.4.5 The Coordination Group

The Coordination Group is a mechanism to promote coordination and cooperation between the different areas of the IndII, and between the other AusAID infrastructure programs and other donor programs. It has no decision making powers, but can refer issues raised to the MC for consideration and to the AusAID Infrastructure Advisor for consideration by AusAID and the Board.

Its main role is to:

- share information to improve coordination and prevent overlap;
- identify opportunities for cooperative approaches;
- identify synergies and the potential to share information, tools and materials; and
• build relationships and support networks.

It is envisaged that the Coordination Group will meet quarterly, generally in the IndII facilities. The AusAID Infrastructure Advisor in consultation with the MC may specify a particular topic for discussion and other donors and program staff invited on the basis of relevance. MC resources for the Coordination Group will include a lunch and funding to support some travel for the meeting so that Lead Advisors in the Provinces can attend at least one meeting a year.

3.5 Risk management and feasibility

3.5.1 Risk analysis

Facilities are a highly flexible modality, but that flexibility is often associated with increased risk arising from a less prescriptive design, compared with other modalities, and the associated difficulty in designing a coherent package of activities. Adding to this difficulty in this case is AusAID’s relative inexperience in the infrastructure sector in Indonesia, at both the national and sub-national levels. The IndII design addresses these potential weaknesses and a number of other risks inherent to the facility. A detailed risk matrix ordered by type of risk is provided in Annex G.

The IndII design needs to address three main types of risk:

• facility design and content risks;
• facility management and implementation risks; and
• political and security risks.

The facility design and content risks include:

• any lack of commitment from the main GoI counterpart agency to IndII;
• the delay in engaging a managing contractor and the consequent difficulty in disbursing funds in the first year of the facility, bearing in mind that IndII funds have been available since 1 July 2007 and only four years of funding are assured;
• poor activity selection and design or a lack of coherence in activity selection, if pressure to disburse funds results in most activities being pursued through the IIEI sub-components;
• a poor choice of provinces to work with at the sub-national level;
• the inability to respond to GoI requests for assistance under IndII in the later stages, as the budget becomes fully programmed with strategic engagements; and
• the threat to AusAID ‘independence’ in the eyes of GoI from too close an association with multilateral donors if the pressure to disburse funds leads to most funding being provided under co-funding arrangements.
There are a number of facility management and implementation risks that could result in failure to expend the funds available, or lead to activities driven by the need to expend rather than by the IndII objectives. That is, activities do not meet the criteria for funding. These would arise from:

- inability to build strong, ongoing relationships with counterpart staff in GoI agencies;
- lengthy delays in identifying sectoral and organisational entry points at both the national and sub-national levels;
- ‘leakages’ in grant or funding disbursements or delays in disbursing funds through the formal GoI channels;
- lack of support from staff in agencies with which IndII advisors are engaged; or
- inadequate ongoing monitoring and evaluation of activities.

Two political and security risks are of concern:

- a deterioration of the security situation in areas where IndII staff are engaged; and
- the possibility of reduced GoI political support for IndII arising from tensions in the Australia-Indonesia bilateral relationship.

Overall, IndII is a very high risk undertaking, with most of the individual risks being either category 5 (extreme) or category 4 (high) on the AusGuideline ranking. The major individual risks, should they eventuate are:

- a lack of commitment from the GoI counterpart agency to IndII;
- an inability of the Facility Director and the Lead Advisors to develop strong, ongoing relationships with their counterparts in GoI agencies; and
- misuse of grant monies or any directly allocated funds through inadequate controls in GoI financial management systems.

### 3.5.2 Risk prevention and mitigation

The discussion of the management structure and the risk analysis in the risk matrix highlight the importance of engaging an experienced MC that can cope with the complexity of the program (limited AusAID experience in the infrastructure sector in Indonesia and the imperative of using the funds available in the first year, while searching for sectoral and organisational entry points and building a coherent portfolio of activities). It will be essential that the MC can demonstrate considerable management experience in an environment similar to that applying to the facility, as well as a strong design and M&E capability, given IndII’s very high risk level.

The risk associated with the complexity of the program will be reduced by having the Facility Director focus on the management of the facility and the Technical Director and Lead Advisors responsible for the technical content of facility activities. The entire management team will be required to demonstrate relevant, developing
country infrastructure experience, and, preferably Indonesian experience. The most important attribute, however, will be the ability to develop strong counterpart relationships to underpin the effectiveness of facility activities in counterpart agencies and to ensure that the facility is well-aligned with GoI and sub-national government needs. This will be emphasised in the Scope of Services document.

Given that it will take time for the managing contractor to establish a presence in Indonesia and to design and implement a program of activities, the AusAID Infrastructure Group in Jakarta will take responsibility for raising the awareness of IndII throughout relevant GoI agencies and for identifying and designing a set of initial activities (see also 2.3.4). The overall risk level of the facility will be considerably reduced if the facility can build momentum at both the national and sub-national levels in the first 12 months. Accordingly, the Scope of Services will emphasise the importance of quickly establishing the facility and balancing scoping activities against activities that directly contribute to the achievement of the facility goal. The IPM IEI activities (see 2.2.2) will also be important to reducing risks from delayed implementation and to improving the design of longer-term engagements.

The review by the Board of progress of each SPS on a six monthly basis is an important part of the risk management framework. If the SPS engagements do not work or develop as envisaged, there is the option to seek to co-finance World Bank and other donor activities through the IEI stream, greater utilisation of the Trust Fund with the World Bank and/or the establishment of other Trust Funds.

3.5.3 Feasibility assessment

The IndII is an ambitious program motivated by the desire to address policy and regulatory constraints on infrastructure investment and the need to build capacity within the GoI and sub-national government agencies for efficient and effective project management. The IndII will also fund technical needs that would generally be contracted out to experts such as engineering designs. Unlike activities that address capacity or policy and regulatory issues such activities do not require changing behaviour or mindsets (except possibly in regards as the processes by which such contracts are made), thus they form the most feasible of the IndII activities. But they are also not without risks.

The TAMF experience has demonstrated that it is possible to deliver changes in policy and regulatory environment and achieve substantial improvements in government processes. It does, however, take time to achieve such changes. The IndII does need to be engaged for a longer time than the currently approved four years to achieve such changes.

The design reflects this recognition and focuses very much on building relationships and working with government’s own systems on their own objectives. Rates of progress can be expected to vary across the engagements and be very uneven at
times. The potential for postponing and for terminating engagements will help to manage this risk to the IndII effectiveness, but this may affect the disbursal of funds.

The option for co-financing and gap filling for other donor projects provides an avenue to help meet disbursal requirements and is the fall back position, if at the end of the first year it is considered that the current design is too ambitious. It should be noted that IndII structures and processes are well placed to provide well designed services in cooperation with other donors following the IEI model. Thus the fall back is to channel the majority of the funds through the IEI part of the IPM.

The engagement in Papua is considered feasible based on the current engagement in Papua and the considerable flexibility that IndII has to tailor the engagement to best meet needs. While the model should have value in other provinces, governance challenges may make effective engagement difficult. In the view of the design team, the purpose of development assistance is to support reformers and to push for change that is need to bring about major improvements. In light of this view, the IndII is feasible if relationships can be developed with the reformers in government agencies that facilitate change at the pace that the partner agencies are comfortable with and can manage effectively.
4 Monitoring and evaluation

4.1 Expected impact and sustainability

4.1.1 Nature of the impacts of IndII

The impact of the IndII, in order of the nature of the contribution (direct to indirect to diffuse), will arise through its contribution to:

- specific features of infrastructure project financed through the IndII grants, that are selected on the basis that they improve the economic and social impact of the infrastructure investment;
- improved project management of specific infrastructure projects or other support that results in the projects being completed sooner, of higher quality, and better tailored to meet the needs of the population immediately and over time;
- specific policy and regulatory reforms that support greater certainty and with this higher levels of investment in infrastructure by the BUMN and private sector;
- greater attention to maintenance requirements with maintenance financing embedded in the project contracting and/or government budgeting processes;
- greater attention to issues of gender, health and environmental impact in selecting and designing infrastructure investments; and
- general improvement in government processes (more efficient, effective and accountable) for developing and managing infrastructure projects with consequent improvements in quality of infrastructure available.

4.1.2 Sustainability

Apart from the long lasting consequences of the changes resulting from specific infrastructure projects and policy and regulatory change, sustainability of the IndII impacts depends on the extent to which improved project management, and policy and regulatory analysis, are embedded in the agencies the IndII works with. The evolution of government’s own processes and systems to embrace more effective and efficient ways of managing infrastructure would be the ultimate success the IndII could achieve.
4.2 **AusAID requirements for M&E**

4.2.1 **State of the sector reporting and the Infrastructure Thematic Group**

AusAID has introduced state of the sector reports as the main mechanism for reporting to the Government of Australia. The IndII M&E must support the Infrastructure Thematic Group’s reporting needs. The Infrastructure Sector Performance Framework is still in development, but envisages being able to report on activities, outputs, outcomes, and specified performance indicators by infrastructure sector (road, rail, etc). The MC must ensure that its M&E includes a sector flag so that such information can be compiled easily for thematic reporting.

Some suggested performance measures are provided in annex J.

4.2.2 **Country Program reporting of development effectiveness**

The Country Program Performance Framework (CPPF) is still in development, but should be in place with the commencement of the IndII. It is anticipated the CPPF will develop indicators for the guiding principles that the IndII can adopt. The IndII is likely to map directly to the CPS theme of “Creating a prosperous Indonesia: accelerating economic growth, investing in people”.

4.3 **The M&E framework**

4.3.1 **Overall framework and responsibilities**

The overall M&E framework has three parts:

- On-going M&E conducted by the MC to inform the Board and feed into the continuous improvement of strategies, workplans, activity design and their delivery as well as development effectiveness reporting.

- External impact assessment conducted by the IAT to inform AusAID of the effectiveness of the facility in delivering IFGI and other AusAID objectives, and to confirm the internal development effectiveness reports.

- MC performance assessment conducted by AusAID to provide incentives for the MC to deliver the IndII in an efficient, effective and accountable manner.

The overall structure is provided in chart 4.1.
4.1 M&E process and reports

4.3.2 On-going M&E

The MC will develop and implement an M&E Plan that:

- provides sufficient information on a regular basis to AusAID for them to be able to meet reporting obligations (see 4.2.1 and 4.2.2);
- provide sufficient information to the Board for them to make decisions about where to engage and continuation of engagements and activities (see 3.2.1);
- sets out how the MC will monitor the quality of the design and delivery of activities and its activity, workplan, and strategies, and trigger action when quality falls short of the required level; and
- how M&E information will be reported, recorded and made available to AusAID and the IAT on request.
The MC should embed M&E into the design of all strategies, workplans and activities by including and revising, as required, indicators of outputs, outcomes and, where appropriate, impacts. The MC should ensure that baseline data is collected to be able to estimate the changes resulting from the IndII SPS engagements.

### 4.3.3 The IAT impact assessment

An Impact Assessment Team (IAT) will be contracted by AusAID to undertake an independent impact assessment of the IndII. This has two elements.

- Assessment of the contribution of the IndII to better infrastructure faster through the removal or reduction in constraints on infrastructure investment which will consider the collective impact of the IndII engagements. It will consider unintended as well as intended impacts. It will explore the extent to which the total impact is greater than the sum of the impacts of the individual SPS and IEI engagements. It will audit the MC assessments, and utilise these in forming an overall assessment of contribution.

- Assessment of the effectiveness of the IndII facility will consider the extent to which this mechanism performed better than alternatives in delivering on the GoI, IFGI and other AusAID objectives.

The IAT will also review and provide comment to AusAID on the M&E Plan and proposed baseline surveys at the six month point. The IAT will conduct an impact assessment in year 3 as input into deliberations about the future of the IndII. They will conduct an impact assessment at the end of year 4 of the IndII that will provide independent information on development effectiveness for the IndII AusAID’s reporting requirements. This will be guided by the Office of Development Effectiveness (ODE) requirements.

### 4.3.4 MC performance assessment for basis of payment

AusAID will assess the performance of the MC on a six-monthly basis. Performance measures are to be agreed between AusAID and the MC on an annual basis. The assessment of performance based on these measures will form the basis of payment for the performance component of the fee. It is expected that the measures in the first six months will be focused on timeliness of key mobilisation activities (see 5.1.2), as well as the commencement of the two SPS and several IEI activities currently in preparation. For subsequent six month performance assessments AusAID will assess the MC on the agreed performance measures for efficiency (timeliness, costs of transacting, record keeping), effectiveness (developing and maintaining relationships, content management, contractor selection, financial management) and governance (transparency, participation and accountability). It will make a judgement about the overall cost effectiveness of management (excellent, good, fair or poor value for money) and the extent to which the guiding principles are being followed and achieved. AusAID will consult with the IndII Board in making this performance assessment.
4.4 The M&E plan

4.4.1 Coverage of the M&E plan

The M&E plan will provide assessments of the following:

- Contribution to IFGI and CPS performance measures — this will report on the achievements/contributions to the agreed IFGI and CPS performance measures as set out in their relevant performance frameworks.

- SPS progress and achievements — this will report on the extent to which the workplan’s intermediate outcomes have been achieved (effectiveness) and how these are contributing to the achievement of the strategy objectives and any other outcomes. It will indicate whether all is going well (green light), significant adjustments needed (amber light), or the engagement should be suspended pending satisfaction of conditions, or terminated (red light).

- Activity success — will present measures of effectiveness (were the outputs achieved as envisaged), quality (were the outputs of high quality) and effectiveness (did the outputs contribute as expected to the workplan outcomes).

- Achievement of the guiding principles — will report on the extent to which gender, HIV/AIDS, environment and anti-corruption are taken into account in the development of all strategies and activities, and any measures of achievement in these areas.

Annex J sets out a results-based framework with some examples of the types of indicators that might be used.

4.4.2 M&E proposed reporting mechanisms

The MC M&E framework has three major reporting mechanisms.

- The APCR (same format) to be prepared by the consultant delivering the activity, overseen by a Lead Advisor or Technical Director, as appropriate, and signed off by the counterpart agency. This is an on-going M&E activity.

- The Strategic Engagement Report (SER) is prepared by the Technical Directors for all strategic engagements on a six monthly basis. They will consult with the Lead Advisors and partner agencies in the preparation of the report.

- The formative evaluation component of the Board report prepared by the MC (see 3.3.3). This will summarise the SER findings, report on the achievement of guiding principles, and present a summary of the activity progress completion reports scoring.

4.4.3 Development of the M&E Plan

The MC will develop an M&E plan during the mobilisation phase of the IndII. The plan will include:
Agreed measures:

- specification of agreed outcome/impact measures at the IndII level and for engagements under the IPM SPS component and potential indicators for strategies under the P&R component;
- potential indicators for intermediate outcomes for use in workplans and activity levels, with actual measures for the IPM SPS engagements, and IEI activities commenced in the first few months of the IndII;
- process and outcome measures for cross-cutting issues reflected in the guiding principles — gender, HIV/AIDS, environment, anti-corruption; and
- performance measures for the MC for the first two six months periods (note that these will be revised annually).

These measures will be chosen to facilitate reporting at CPS and IFGI levels.

Templates for M&E reporting mechanisms: these include setting out performance measures and reporting on them:

- summary performance report to the Board; This will be a compilation of APCRs and SERs for reporting to the Board on a six monthly basis;
- SPS strategy and the SER;
- workplans (set out intermediate outcome indicators for the six month period) based on expected progress on and completion of strategies for strategic engagements; and
- activity TORs (output and intermediate outcome indicators) and activity progress/completion reports.

An M&E database to record the measures of performance set out in the APCRs, and SERs so that this information can be compiled and presented in aggregate, where this makes sense (for example kilometres of roads built with support from IndII, aggregate number of months that roads were completed earlier than otherwise would be the case).

Assignment of responsibilities to ensure that:

- all strategies, workplans and activity TORs clearly state the performance measures that need to be reported and responsibilities for reporting; and
- the APCRs and SERs are all completed on time and reflect a sound and unbiased assessment of achievement.

Collection of baseline data - a baseline measurement of key parameters should be undertaken during the development of the strategy. Some suggestions for baseline measures are given in annex J. Where baseline data is not available and cannot easily be collected by the contractors involved, the MC should develop a small IEI activity to collect the required baseline data.

Processes to ensure that lessons learned are discussed in appropriate forums to improve the selection, design and delivery of IndII strategies and activities.
4.4.4 Responsibilities for monitoring and evaluation

Monitoring is an on-going activity that feeds into continuous improvement in performance. The Technical Directors are primarily responsible for monitoring of the quality of delivery of services and the effectiveness of the services delivered in meeting the stated objectives. The Lead Advisors will monitor activities under their workplan, where well placed to do so, with oversight provided by the Technical Directors. The MC will monitor the performance of the Technical Directors as part of their on-going management.

The Technical Directors are responsible for evaluation of the progress toward achieving and achievement of the objectives of the SPS strategies. They are also responsible for identifying any unintended (good and bad) impacts.

4.4.5 Timing

The APCRs will be completed as activities are finished, or at the six monthly periods in a longer term activity. The SERs are to be prepared a month prior to the Board meeting and provided in draft to the MC, which will prepare a summary for the Board report. The draft SERs should be discussed with the Lead Advisors and partner agencies before being finalised by the Technical Directors. The final SERs are to be attached to the Board Report.

4.4.6 M&E database

The MC will maintain an M&E database that records for each activity an:
- activity code that identifies the component and strategic engagement it belongs to;
- activity name;
- budget and expenditure;
- contractor providing the service;
- nature of the service;
- sector affected by the service;
- indicators measures (see 4.4.1); and
- activity status (completed, current).

The database will also record for each strategy and IEI activity (where relevant):
- physical infrastructure that the strategy is making a contribution to, including the sector and physical measure, such as kilometres of roads;
- nature of the contribution made by IndII, such as speeding up construction, improving quality of construction, improving lifespan, improving safety, improving usefulness (e.g. better location for access); and
Government processes and systems the strategy is making a contribution to under categories such as reduced investor uncertainty, reduced risk to government finances, improved government efficiency, reduced costs to users, and great access to services.

The information should be kept up to date and reports produced on reasonable request by AusAID. Ideally, the database will also keep the other information provided in the APCR.

The MC will maintain records of all strategies, workplans, activity TORs and record the date of any changes to these within their duration.

### 4.5 M&E reports

#### 4.5.1 The activity progress/completion report

The APCR will be completed for all activities, including Lead Advisors. It will be done on completion of an activity and every six months for activities longer than this. It will:

- report on achievements against the outputs and objectives specified in the TORs for the activity;
- briefly describe why any outputs/objectives were not achieved or were changed slightly (major changes require approval by the Technical Director and a revised TOR is required);
- document evidence of compliance with the AusAID guiding principles;
- include a lessons section;
- briefly list any studies, tools or other materials developed that could be useful to other activities; and
- flag issues that affect the strategy, workplan of activities, design of activities, management, or other issue of importance.

Note that the activity TORs should present the outputs and outcomes in a matrix that includes the performance targets/indicators. Where possible these should be drawn from those used in the Thematic Group Performance Framework.

The Technical Director will confirm the assessment of the delivery of outputs with the partner agencies, and in consultation with them and the Lead Advisor, assign three scores (five point scale):

- satisfactory completion/progress of the activity (delivery of outputs not achieved, partly achieved or fully achieved);
- contribution to progress under the strategy or to IndII objectives for the IEI activities (none, minor, major); and
• evidence of compliance with the AusAID guiding principles (excellent, good, fair, poor, none).

These scores will be recorded on an M&E database maintained by the MC.

4.5.2 *The Strategic Engagement Report (SER) (six monthly)*

This is a key document for keeping the Board informed of the strategic engagements being undertaken by the IndII. In completing the report the Technical Directors will draw on the APCRs as well as conversations with the partner agencies and the Lead Advisors. The report will:

• list the activities undertaken over the last six months and identify whether they occurred according to the workplan or were significantly changed, if so, noting why;
• present a compilation the scores of the activity progress/completion reports — for the last six months, and over the life of the strategic engagement;
• assess whether the outputs have made a contribution to achieving the intermediate and/or overall objectives as set out in the relevant strategy;
• assess the extent to which the guiding principles are being followed and achieved;
• assess overall progress and whether there is a need to change the strategy, suspend activities pending progress or conclude the engagement;
• provide a green light (all fine with minor changes if any), amber light (significant changes needed) or red light (a suspension or withdrawal recommended) assessment;
• report measures relevant to AusAID IFGI and CPS reporting requirements; and
• raise any other issues for the attention of the Board as regards ensuring quality outcomes.

*The strategy document should be set out to facilitate M&E*

The strategy for a strategic engagement should set out the expected impact, outcomes, and outputs from the strategic engagement. It should set out targets and indicators at each of these levels and identify the contribution that the IndII engagement will make in each case, including how it aligns with the IndII, GoI and AusAID priorities (IFGI and CPS). Data sources and reporting mechanisms should be identified. The strategy should identify assumptions and risks that need to be monitored. During the development of the strategy, the MC can fund an activity to develop baseline measures of the current capacity of the agency, and performance measures that relate to the objectives of the strategy. This information can be used to feed into strategy development and to provide a baseline for follow up impact assessment.
Workplans will set out the outputs for activities and demonstrate how they relate to achieving the outcomes. The TOR for an activity will include targets and indicators and means of measurement for outputs.
5 Implementation and resources

5.1 Implementation

5.1.1 Scoping and design work in preparation for mobilisation

There is a considerable amount that needs to happen to prepare for IndII mobilising beyond tendering and selecting a MC. AusAID is committed to laying the ground work for the IndII and has accessed some of the earmarked resources for this purpose. The tasks include:

- socialising the design with the national and selected sub-national governments;
- appointment of a Post Infrastructure Advisor with responsibilities for supporting IndII;
- scoping and discussions with GoI agencies on possible IEI activities and the first SPS engagements (DG Highways and Papua transport sector — see annex D for details);
- development of activity TORs, including for Lead Advisors for SPS;
- negotiation with the World Bank to establish a Trust Fund;
- supporting DG Highways and WINRIP to meet the costs of final engineering design;
- formation of the IndII Board and initial meeting to discuss tendering for the MC; and
- establishment of the Coordination Group — information meeting for interested GoI, AusAID and other donor programs.

5.1.2 Mobilisation

Once the MC is contracted it will have six weeks to mobilise and establish the office in Jakarta. The mobilisation tasks are to:

- establish the office and communication and computer systems;
- establish the SPA;
- establish the IndII website and content management processes;
- develop procedures and documenting them in a manual that includes:
  - strategy and activity design and approval process, with criteria for approval (to be approved by the Board);
strategy proposal template, strategy template, workplan template, activity TOR template (all to include performance measures at the appropriate level (see 4.2.1);
TOR and expenditure approval processes (with AusAID);
tendering guidelines (how activities will be tendered based on size and complexity);
contracting procedures;
processes for mobilisation of contractors — briefings, logistics, payment arrangements etc;
safety procedures;
website maintenance (content updating, responding to contacts made etc.);
financial reporting;
monthly report format;
Board agenda format;
M&E Plan;
* meet with key GoI agencies, other donors and establish relationships, promote awareness of IndII and its objectives and support offered; and
* tender and contract the prepared TORs for the IEI and other activities.

5.1.3 Timetable

Table 5.1 sets out the timetable for the major office establishment activities as well as the MC mobilisation phase of the IndII.

Board meetings will be held twice yearly ideally in December and July. The meeting in July should follow from the Australian Government budget decision so resources available to the IndII are known.

Annex H sets out the Implementation schedule.
## 5.1 Timetable

<table>
<thead>
<tr>
<th>Activity</th>
<th>Responsibility</th>
<th>Timing</th>
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<td></td>
<td></td>
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<tr>
<td>Post Infrastructure Advisor appointed</td>
<td>AusAID</td>
<td>October 2007</td>
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<tr>
<td>Socialisation of IndII PDD</td>
<td>AusAID Post</td>
<td>September-October 2007</td>
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<tr>
<td>• Scoping of possible IEI activities</td>
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<td>• Scoping of SPS - support for DG Highways WINRIP</td>
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<td>• Scoping of Papua transport sector</td>
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<td>• IEI activities</td>
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<td></td>
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<tr>
<td>• SPS Lead Advisors (DG Highways, Papua)</td>
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<td></td>
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<tr>
<td>IndII Board formed and first meeting (approval of proposed activities)</td>
<td>AusAID</td>
<td>November 2007</td>
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<tr>
<td>Inaugural Coordination Group meeting</td>
<td>Post Infrastructure Advisor</td>
<td>December 2007</td>
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<tr>
<td>MC selected and contracted</td>
<td>AusAID</td>
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<tr>
<td><strong>Mobilisation:</strong></td>
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<td></td>
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<tr>
<td>MC mobilise – office established</td>
<td>MC</td>
<td>May-June 2008</td>
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<tr>
<td>SPA established and financial processes agreed</td>
<td>MC, AusAID</td>
<td>June 2008</td>
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<tr>
<td>Contracting of designed initial activities</td>
<td>MC</td>
<td>June 2008</td>
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<tr>
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<tr>
<td>Development of engagements:</td>
<td>Technical Directors</td>
<td>June-August 2008</td>
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<td>• Strategy proposal development</td>
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<tr>
<td>• IEI activities</td>
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<tr>
<td>Mobilisation of IEG opportunities:</td>
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<tr>
<td>• Advertising/ awareness raising</td>
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<td>• Developing process</td>
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<td>• Applications invited</td>
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<td>MC, AusAID, IAT</td>
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<td>Mobilisation of new Lead Advisors</td>
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<tr>
<td>• TORs (from approved proposed strategies) development</td>
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<td>• Advertising and selection</td>
<td>MC and selection panel</td>
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<td>• mobilisation</td>
<td>MC</td>
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<tr>
<td>Coordination Group meeting</td>
<td>Post Infrastructure Advisor</td>
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<tr>
<td>Supporting systems and documentation finalised</td>
<td>MC</td>
<td>November 2008</td>
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<tr>
<td>Development of:</td>
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<tr>
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<td>Lead Advisors with Technical Directors</td>
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<td>• IEI activities TORs etc.</td>
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<tr>
<td>Board meeting</td>
<td>MC</td>
<td>December 2008</td>
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<tr>
<td><strong>Routine operations:</strong></td>
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<tr>
<td>Approval of IEI TORs, expenditure</td>
<td>AusAID</td>
<td>On-going</td>
</tr>
<tr>
<td>Contracting of approved TORs</td>
<td>MC</td>
<td>On-going</td>
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</table>
5.1.4 Adjusting to variable resource allocations and addressing the first year issue

The IndII MC is unlikely to be mobilised until April-May 2008. Given the time required to build up strategies and activities it will not be capable of disbursing the full budget allocation for 2007-08, as funds have to be expended from the SPA prior to 30 June 2008. The time required for facilities to reach full disbursement is a common feature and needs to be recognised in the design. Difficulties have also been evident in other facilities where the budget available failed to meet expectations and the facilities had to cut planned activities. The IEG component in the IndII aims to provide a mechanism that allows the IndII to manage these challenges. The amount of grant funds available will be the residual, and grants will be funded based on budget available in the order they are ranked by the Board. It is hoped that this mechanism will allow the IndII to fully disburse funds and fund its planned activities.

The 2007-08 year remains a challenge as the IEG component will still take some time to be established. The proposed solution to the need to disburse funds within the 2007-08 financial year is to establish a Trust Fund with World Bank to support DG Highways final engineering design work for WINRIP that will be contracted over the 2008 and 2009 calendar years. Once disbursed to a Trust Fund of this nature, the money is treated as expensed for AusAID accounting purposes. The proposed IndII engagement with WINRIP will ensure that IndII and AusAID have considerable influence over the contracting of the engineering design work, and good mechanisms to complement the DG Highways and World Bank monitoring and evaluation. AusAID will develop this proposal with the World Bank, and it is expected to be in place prior to the mobilisation of the MC or soon afterwards. The Trust Fund monies will be paid directly by AusAID and not through the IndII SPA.

5.2 Resources required

5.2.1 MC resources

The MC will provide adequate staff to provide the services of the IndII in an efficient and effective manner. The MC will provide office accommodation, IT systems and supplies for staff to operate effectively. The MC will ensure that they have adequate systems.

The IndII will also be required to provide office space and resources for the existing AusAID infrastructure Advisors.

Staffing

The MC will provide:
- a full time Facility Director located in Jakarta, ideally this person will be a member of the MC firm;
- a full time Deputy Director, located in Jakarta;
- a Financial Officer, located in Jakarta and other accountancy support as considered necessary by the MC;
- an administrative team including skills in database management, contracts, logistics and administrative support; and
- two Technical Directors, full time located in Jakarta, although the IPM Technical Director may spend considerable time in the provinces.

A short term specialist in M&E can be employed for the development and implementation of the M&E Plan for up to four months if the management team lacks the skills in this area.

**Other resources:**
- Office accommodation in Jakarta;
- Office furniture;
- Networked IT system and supporting computer hardware and software;
- Fax, telephones and telephone services for staff, mobile phone issue for contractors on an as needs basis;
- Office supplies; and
- Car and driver.

**Other expenditures:**
- Website (construction, hosting, maintenance);
- Local travel (taxis, additional car and driver hire);
- National travel (airfares, accommodation, transfers, local travel);
- International travel (return travel twice annually for non-locally based staff);
- Insurance (personal protection, property, indemnity, travel, health, motor insurance);
- Entertainment and hosting meetings (venues, meals, per diems for attendants, sitting fees);
- Communication materials (business cards, information brochures); and
- Advertising expenditures.

Annex I sets out the resource and cost estimates.
5.2.2 Potential activity resource requirements

Activities will mainly be in the form of technical expertise and services that may be provided by an individual (to work with the partner agency) or by a company (for example in the form of design services where the output is an accepted design, or quality testing where the output is a report). Activities may also include funding of in-house and external training courses for partner agency staff, which will need organising as well as funding the course fees. The IndII may also fund work placements and exchanges and study tours that involve travel and organisation. There may be minor procurement of computer software and hardware such as for project management systems.

In general, contracts for all activities will include all such organisation costs, including minor procurement associated with activities (the cost of the items procured is to be included in the activity costing).

The exceptions, which are to be delivered using MC resources, are organising logistics for individual contractors, and minor procurement such as office furniture and ITC required for them to be effective.

Administrative support for Lead Advisors can be provided as an activity where there is a significant organisational burden required for organising training activities for partner agency staff. The collection of baseline information for M&E can also be funded as an activity, where this information significantly improves the M&E.

5.2.3 Contracting strategy for IPM component

Given the likelihood that many of the activities required in the IPM will be similar, it is considered appropriate to develop a short list of preferred tenders who are invited to bid on activities other than the Lead Advisor activity. This preferred tenderer list should be developed using a competitive process and allow companies to offer the services of both individuals within the company and the company as a whole. The preferred tenders should offer the services that will commonly be contracted, such as final engineering design and quality assurance and testing, or training in infrastructure project management.

5.2.4 AusAID resources

The design envisages considerable involvement by AusAID in both the development of the activities and in their evaluation. It expects:

- Minister-Counsellor as the co-chair of the IndII Board and an overall responsibility for approval of expenditure (delegated);
- Post Infrastructure Advisor as a member of the Board, chair of the Coordination Group and participant in the IAT;
- Program Officer as the day-to-day contract for the MC, provider of financial oversight, and participant in and meeting coordinator for the IAT;
- Desk Officer as a participant in the IAT and providing comments to AusAID on proposed strategies and IEI activity TORs; and
- Infrastructure Thematic Group Advisor/officer as a participant in the IAT and providing comments to AusAID on proposed strategies and IEI activity TORs.

The IAT will be funded by AusAID. The resources, beyond AusAID staff are expected to be:
- IAT Team Leader, M&E plan review (5 days), impact assessments (30 days each);
- external experts, (maximum of 20 days per review); and
- associated international and domestic travel costs.

5.2.5 Counterpart commitments

Counterpart agencies in activities and partner agencies will be requested to provide:
- office space, furniture and telephone access for short term advisors working in the agencies;
- office space for long term and short term advisors;
- staff to work with advisors as specified in the design of activities or strategies; and
- a principle contact who will be responsible for ensuring the agency meets its oversight obligations (sign-off on activity progress and completion, meetings with Technical Directors and the IAT for assessment).

5.3 IndII contracting strategy

The IndII will be tendered using a two-step tender. Calls for expressions of interest by suitably qualified companies are expected to be advertised in October 2007. Short listed companies will be invited to submit a full tender in late 2007 or early 2008. Selection is expected to be completed by end February 2008 for a March or April 2008 mobilisation.
References


CMEA (Coordinating Ministry for Economic Affairs) 2007, “Instruction of President on policies to accelerate development of the real sector and empower micro, small and medium enterprises to promote economic growth and to alleviate unemployment & poverty”, Press Release

KKPPI (The National Committee for the Acceleration of Infrastructure Provision) 2006, Medium-term Agenda for Infrastructure Reforms, October 2006, Jakarta.


