

**REVIEW OF THE
AUSTRALIA INDONESIA PARTNERSHIP
FOR RECONSTRUCTION AND DEVELOPMENT
(AIPRD)**

**Final Report
21 August 2008**

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ABBREVIATIONS AND ACRONYMS

AARP	Aceh Aquaculture Rehabilitation Project
ACIAR	Australian Centre for International Agricultural Research
ADB	Asian Development Bank
ADS	Australian Development Scholarships
AIGRP	Australia Indonesia Governance Research Partnership
AIP	Australia Indonesia Partnership
AIPRD	Australia Indonesia Partnership for Reconstruction and Development
ALA	Australian Leadership Awards
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
APS	Australian Partnership Scholarships
ARPIC	Aceh Rehabilitation Program – Infrastructure Component
ARTI	Aceh Research Training Institute
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
AusAID	Australian Agency for International Development
AWP	Annual Work Plan
AWRAP	AIPRD Water Resources and Aquaculture Program
BAKORNAS	National Disaster Management Coordinating Board (<i>Badan Koordinasi Nasional Penanggulangan Bencana dan Penanganan Pengungsi</i>)
BAPEPAM-LK	Indonesian Capital Market and Financial Supervisory Agency, Ministry of Finance (<i>Badan Pengawasan Pasar Modal dan Lembaga Keuangan</i>)
BAPPENAS	National Development Planning Agency (<i>Badan Perencanaan Pembangunan Nasional</i>)
BEP	Basic Education Program
BPK	Supreme Audit Board of the Republic of Indonesia (<i>Badan Pemeriksa Keuangan Republik Indonesia</i>)
BRR	Agency for the Rehabilitation and Reconstruction of Aceh-Nias (<i>Badan Rehabilitasi dan Rekonstruksi</i>)

CBDRM	Community Based Disaster Risk Management
CDASC	Child Disaster Awareness in Schools and Communities
CEPA	Communities and Education Program in Aceh
DCP	Development Cooperation Program
DESC	Development Effectiveness Steering Committee
DFAT	Department of Foreign Affairs and Trade
DGH	Directorate General of Highways
DIFF	Development Import Finance Facility
ECP	Expanded Cooperation Program
EINRIP	Eastern Indonesia National Roads Improvement Project
EMA	Emergency Management Australia
EOP	End of Program
EQAM	Educational Quality Assurance Model
ERA	Education Rehabilitation in Aceh Project
GoI	Government of Indonesia
GNI	Gross National Income
GPF	Government Partnerships Fund
HARAP	Health Assistance Rehabilitation – Aceh Program
ICB	International Competitive Bidding
IFC	International Finance Corporation
IFI	International Financial Institution
ITB	Bandung Institute of Technology (<i>Institut Teknologi Bandung</i>)
ITB-CDM	Institute of Technology Bandung Centre for Disaster Mitigation
JSS	Junior Secondary School
KDP	Kecamatan Development Program
LAN	State Administration Agency (<i>Lembaga Administrasi Negara</i>)
LAPIS	Learning Assistance Program for Islamic Schools
LIPI	Indonesian Institute of Sciences (<i>Lembaga Ilmu Pengetahuan Indonesia</i>)

LOGICA	Local Governance and Infrastructure for Communities in Aceh Project
MDF	Multi Donor Fund (for Aceh and Nias)
MenPAN	Minister for Administrative Reform (<i>Menteri Pendayagunaan Aparatur Negara</i>)
MoF	Ministry of Finance
MoNE	Ministry of National Education
MoRA	Ministry of Religious Affairs
MTR	Mid-Term Report
NGO	Non-Governmental Organisation
NHDM	Nabire Health and Disaster Management Project
NTT	East Nusa Tenggara (<i>Nusa Tenggara Timur</i>)
NU	Nahdlatul Ulama
ODE	Office of Development Effectiveness
PARC	Performance Assessment Research Centre
PBDRM	Pesantren Based Disaster Management
PEPAN	Private Enterprise Partnership Aceh and Nias
PIP	Project Implementation Plan
PMSG	Program Monitoring and Support Group
PM&C	Department of Prime Minister and Cabinet
PNPM	National Community Empowerment Program
PPC	Project Preparation Consultant
QAI	Quality at Implementation
RAMSI	Regional Assistance Mission to Solomon Islands
RCT	Roving Construction Team
R&D	Research and Development
RENSTRA	Strategic Plan (<i>Rencana Strategis</i>)
RSF	Aceh Research Support Facility
RSUZA	Aceh Provincial Government Hospital (<i>Rumah Sakit Umum Zainoel Abidin</i>)
SADI	Smallholder Agribusiness Development Initiative

SCC	School Construction Committee
SetKab	Indonesian Cabinet Secretariat (<i>Sekretariat Kabinet</i>)
SetNeg	Indonesian State Secretariat (<i>Sekretariat Negara</i>)
SISWA	System Improvement through Sector Wide Approaches
SME	Small and Medium Enterprise
TA	Technical Assistance
TAMF	Technical Assistance Management Facility
UNDP	United Nations Development Program
WFP	World Food Programme
WINRIP	Western Indonesia National Roads Improvement Project

AIPRD REVIEW EXECUTIVE SUMMARY

AIPRD Objectives and Guiding Principles

- i. In early January 2005, Australia announced that it would provide \$1 billion over five years to help rebuild tsunami-affected areas, and to support reforms and development throughout Indonesia. While these dual objectives of AIPRD made a lot of sense, many people initially believed that the whole amount was for tsunami reconstruction. The resulting confusion detracted from the worthy objectives of AIPRD. With hindsight, two separate initiatives – one for Aceh reconstruction and one an enhancement of the existing aid program for a longer-term partnership – might have been easier to explain. To improve communications, a dedicated, well-resourced public affairs function was quickly put in place, which has provided regular reports on AIPRD progress and now serves the whole aid program in Indonesia.
- ii. AIPRD is governed by a Joint Commission of senior ministers from both countries, overseen by the Australian Prime Minister and the Indonesian President. This has helped to reinforce the joint nature of the program, and its importance to officials on both sides. There has also been good coordination at the initiative level. However, there is still considerable work to be done to strengthen coordination between ministries on the Indonesian side. A stronger steering committee, coordinated by BAPPENAS, would allow GoI officials to play a more effective role in joint discussions on country strategy, program priorities and aid modalities, as well as in identifying substantive issues for discussion at the Joint Commission. Any bilateral arrangements with Australia would have to be consistent with BAPPENAS' broader plans to improve donor coordination.
- iii. On the Australian side, a whole-of-government structure was put in place, reporting to a Secretaries Committee, to emphasize that AIPRD was not 'business as usual'. This forced AusAID to think creatively and act decisively. However, in practice, the primary task of carrying AIPRD forward increasingly fell to AusAID staff. The Secretaries Committee is unlikely to meet again, now that the direction of the program is set, and the primary focus is on implementation. Most whole-of-government partners believe that this decision could have been taken earlier, with formal responsibility shifted back to AusAID (consistent with its budgetary obligation for AIPRD resources and results). Broad aid strategy and performance issues are now taken to the Development Effectiveness Steering Committee (DESC), which could take on the role of the Secretaries Committee in the future.
- iv. AIPRD was managed separately from the ongoing Development Cooperation Program (DCP) in Indonesia. This probably made sense for the Aceh/Nias reconstruction effort, which needed to move quickly with dedicated staff and streamlined procedures. But for the longer-term development partnership, it caused unnecessary duplication of effort, and complicated the task of explaining the Australian aid program(s) to the Indonesian public. In response, integrated program teams were soon put in place in Jakarta. By mid 2006, both programs had been 'rebranded' as the Australia Indonesia Partnership (AIP) and they have now been formally merged in the new AIP Country Strategy for 2008-2013. For any future development initiatives, it would be preferable to integrate them into the ongoing aid program from the start.

v. The most controversial aspect of AIPRD was the decision to provide half of the funds as concessional loans. This was the only aspect of AIPRD which was opposed by the then Opposition in Australia, and it also raised questions in the Indonesian Parliament. However, BAPPENAS was able to explain this was a special case, aligned with GoI priorities, and on highly concessional terms. In practice, it took much longer than expected to put loan agreements in place. In August 2005, the Secretariat proposed converting the loans to grants, but this was rejected by the Secretaries Committee. More positively, loans have increased AusAID's experience in working through the GoI's budget and systems. This deeper experience will be invaluable for all future programs – whether loans or grants.

vi. Procurement under AIPRD was limited to Australian, New Zealand and Indonesian firms. The decision to include Indonesian firms was consistent with AusAID's new procurement policy (December 2004). However, a Ministerial waiver was needed to set aside AusAID's obligation to use full International Competitive Bidding for construction contracts. No evidence is available to determine whether these procurement restrictions raised the cost of Australian aid. However, consistent with the subsequent decision to untie all Australian aid (April 2006), the AIP program should revert to all untied grants in the future. In the meantime, both sides should use the flexibility built into individual project agreements (e.g. for consultancy services) to make the tendering pool as competitive as possible.

Funds Allocation and Program Design

vii. AIPRD funds were fully allocated by the end of 2005. This process was facilitated by the early decision to identify a few large initiatives, rather than spread the funds over a large number of small projects. In particular, all of the loans (\$500 million) and \$128 million of grants were allocated to the two large infrastructure programs for basic education (BEP) and national roads improvement in Eastern Indonesia (EINRIP). Because the initial allocations were broad, there was some flexibility for moving funds between projects (e.g. within the Aceh reconstruction program). While it might have been prudent to leave some funds unallocated, for new initiatives to be identified later on, this option was effectively pre-empted by the initial five-year timeframe for disbursements.

viii. AIPRD used streamlined decision-making processes. Short concept notes were sent up to the Secretaries Committee for approval – and many activities in Aceh and Nias used rolling designs. This approach was highly effective in emergency situations, both in terms of responding to the immediate human tragedy and facilitating a seamless transition through relief, reconstruction and development phases. However, the two large infrastructure programs inevitably took longer to prepare, with substantial upfront investment in the loan agreements, technical design work and anti-corruption plans. Even so, most staff working on AIPRD believe that there is scope to streamline AusAID processes, without sacrificing project quality, and with more immediate and enhanced development results.

ix. One down-side of the pressure to respond quickly was the inadequate attention early on to putting in place robust performance monitoring and evaluation systems. There appears to have been mixed signals and as a result partial efforts on the extent to which a 'program-level' performance framework was required. As a result, most monitoring focuses on activity-level information (much of which is very thorough). More recently, a performance framework has been developed for Aceh and Nias – although it still suffers from a lack of good baseline data.

The longer preparation periods for the two large infrastructure projects have meant that they have been able to put in place substantial monitoring and evaluation frameworks. This is more difficult for programs such as the Government Partnerships Fund (GPF) and Australian Partnership Scholarships (APS), where the eventual impact on development outcomes is harder to define. In the future, more attention should be given to strengthening and using Indonesian monitoring systems, especially for tracking progress towards development outcomes.

x. AIPRD was a strongly bilateral partnership between Australia and Indonesia. As a result, Australia decided not to work through the Multi Donor Fund for Aceh and Nias. However, in practice, Australia has ensured a coordinated approach with other donors through its participation in the MDF Steering Committee (as a non-voting observer). And there is widespread appreciation for the flexible and effective way in which Australian reconstruction aid was provided. For the two infrastructure programs, AusAID worked very closely with the World Bank, drawing on their experience with loan financing and government systems. Both sides acknowledge that they have benefited enormously from this partnership. In the future, GoI is expected to take a stronger lead on donor coordination, through the new mechanisms being proposed by BAPPENAS.

xi. The Guiding Principles for AIPRD did not make explicit reference to issues of gender equality, despite the increased prominence of gender issues in Australia's aid policy at this time. As a result, the attention given to gender issues in program design is uneven across AIPRD initiatives. Where they build on existing programs, such as the Australian Partnership Scholarships, the gender criteria have been maintained. The Basic Education Program added a gender focus in 2006 – to assist with implementation of GoI's gender mainstreaming policy in education. And there were gender components in some of the Aceh programs (e.g. LOGICA), which have been developed into a significant gender focus in the new AIP Aceh Strategy.

Progress on Implementation and Achievements to Date

xii. By the end of June 2008, about half of the AIPRD funds are expected to be spent, including most of the funds committed to Aceh reconstruction. Around 55% of the unspent funds relate to the roads project. To allow time for all programs to be fully implemented, the disbursement period for AIPRD has been extended by two years to 30 June 2011. The following assessment of progress to date follows the two broad themes and seven major areas of cooperation identified in the Partnership Framework.

xiii. **Emergency Preparedness and Response.** The AIPRD program structure was spearheaded by **rehabilitation and reconstruction in Aceh and Nias**. From the start, AIPRD took a broad developmental approach, including a strong capacity strengthening thread at provincial, district and community levels. Overall the impression is of a large and rapid programming effort that has delivered some impressive early results. This experience generates a number of lessons for Australia's future role in Aceh, and in other reconstruction efforts:

- With hindsight, it would have made sense to make at least the minimum contribution (US\$10 million) to the Multi-Donor Fund (MDF) – to raise Australia's profile and influence in the overall reconstruction effort. That said, all parties interviewed acknowledged the valuable 'gap-filling' role played by Australia, and the rapid and flexible way in which Australian aid responded to Aceh's needs.

- Experience in Aceh confirms that, after the immediate relief effort, progress on infrastructure rehabilitation and reconstruction is usually much slower and more expensive than planned. The more lasting contribution of Australian aid is almost certainly its impact on local capacity – within government, communities and construction teams.
- The approach taken to project design coupled with the particular circumstances of Aceh (decimated public service, peace dividend) has produced a distinctive character – with a strong sense of ownership and momentum – to a number of the AIPRD initiatives. Future investment in monitoring and evaluation above the activity and output level can help to confirm how this has translated into enhanced development outcomes.
- Now that BRR is winding down, the focus of attention in Aceh is shifting back to the local government – which is strong in resources but weak in capacity. Australia is now taking the lead on setting up a much smaller second multi-donor fund, to support “peace and development” throughout Aceh. Hopefully, Australia will also continue to support the capacity building elements in existing AIPRD initiatives.

xiv. While responding to the immediate rehabilitation and reconstruction needs in Aceh, AIPRD has also provided longer-term support for **building capacity for emergency preparedness**. This has so far generated limited results at the centre, and it’s too early to judge the impact of Indonesia’s new legislative framework for disaster management. Prospects for progress seem to be brighter at the local government and community levels, including work with the two mass-based Islamic groups. The merit of continuing these various efforts should be carefully reviewed in the context of the whole-of government disaster management plan being prepared for the new AIP Country Strategy.

xv. Finally, AIPRD has provided funding to **respond to other disasters** in Indonesia over the past three years, including relief and reconstruction work following earthquakes in Yogyakarta, Nias and Papua. Each of these has a unique character, depending on the capacity of local government and the role played by Australia. In Yogyakarta, for example, the local government wasn’t as adversely affected as in Aceh, and quickly took the lead in the reconstruction effort. However, the overhead costs of Australian assistance seem to be high. When the time comes for evaluation, it would be useful to compare overhead costs across the emergency response portfolio, and with other donors, to see whether there is scope to reduce them. It would also be interesting to see to what extent the Yogyakarta and other disaster responses have built upon the Aceh experience, especially on the balance between immediate reconstruction and longer-term development activities.

xvi. **Promoting Broad-Based Economic Growth.** The Government Partnerships Fund (GPF) was the primary vehicle for contributing to **improved governance** in the areas of economic, financial and public sector management. This has worked very well in some cases, and less well in others. Success clearly depends on strong commitment from the agency heads in both countries, a clear demand from Indonesian officials, and a capacity to respond effectively from the Australian side. Partnerships with the Indonesian Ministry of Finance (Department of Finance, Treasury and APRA) and the Supreme Audit Board (ANAO) stand out in this regard, although it is still too early to assess whether these will lead to significant and sustainable improvements in capacity. Going forward, three GPF-related issues require more thought:

- There is demand from both sides for more strategic oversight of GPF. In particular, there should be a regular assessment of which partnerships should be continued, expanded, modified or dropped. While this role has been played in the past by the Secretaries Committee in Australia, this doesn't involve Indonesian counterparts. Therefore, a joint oversight mechanism should be considered for GPF (and possibly TAMF as well).
- GPF is just one of several channels for building or supplementing capacity in Indonesian institutions. Strong leadership from the Indonesian side is needed to fit these various sources of assistance into a coherent and effective program. This may be another area where potential conflicts, at least within the Australian program, could be resolved by a joint oversight mechanism.
- There has been a lot of debate about how to measure the outcomes of GPF activities. All parties would benefit from a clearer framework for monitoring progress on the GPF, which doesn't over-prescribe how the partnership will develop, but which still allows some ex-post measure of its contribution to capacity building and (eventually) its development impact.

xvii. Most of the funding under AIPRD was allocated for **economic and social infrastructure**. BAPPENAS has confirmed that the two large infrastructure programs for basic education (BEP) and Eastern Indonesia national roads improvement (EINRIP) reflect GoI's development priorities. Both programs have taken longer than expected to get up and running, because of AusAID's unfamiliarity with loan financing, the complexity of working through the government budget and systems, and the need to put in place strong anti-corruption safeguards. Progress on construction has been more rapid for BEP, because of Australia's prior experience in the education sector, the clear commitment from GoI to provide universal access to basic education, and the availability of a relatively simple model for disbursing funds directly from MoF to school construction committees. By contrast, road construction is still to start. But EINRIP has made a substantial investment in building up capacity for technical work and project supervision, which is also being used by the World Bank. This experience raises the following issues and lessons:

- It was always unrealistic to expect quick results from these large infrastructure programs. Channelling large loans through the government's budget and systems demands a methodical and careful approach. However, having learnt from this experience, AusAID may well be able to design and implement similar programs more quickly in the future. This experience will also demonstrate in what circumstances the extra fiduciary safeguards required by AusAID are justified, and where they can be relaxed because of confidence in the government's own systems for disbursing money, auditing the use of funds, and tracking program performance.
- The new AIP Country Strategy foresees "a reduction in the use of traditional project approaches and assistance will be targeted to help Indonesia utilise its own systems and resources more effectively and efficiently." To this end, the experience gained under the AIPRD loans with working through the government's budget and systems will be invaluable – even for grant programs in the future. From this year, AusAID is putting all of its grant assistance into BAPPENAS' Blue Book and they will be registered in GoI's

budget from 2009. This will be an important step forward – provided it can be done in a way which doesn't reduce the speed and flexibility of Australian aid.

- Both BEP and EINRIP have significant grant components. These enabled Australia to respond flexibly to requests from GoI for technical and policy work, to build capacity within the implementing agencies, and to put in place satisfactory fiduciary safeguards. IFIs do not have access to large grant funds, and GoI is reluctant to borrow for this type of technical assistance. Therefore Australian grants can make a valuable contribution to improving the performance of sector-wide programs, including those financed by IFIs. This needs to be taken into account in assessing the impact of these AIPRD programs.

xviii. AIPRD funding for **private sector development and rural productivity** was channelled through the Smallholder Agribusiness Development Initiative (SADI). SADI has built on and integrated three existing programs to improve linkages between smallholder farmers (with the World Bank), small and medium agribusiness firms (with IFC) and adaptive agriculture research (with ACIAR) in four provinces of Eastern Indonesia. While some of the pilot activities are already delivering results, it is too early to judge whether they will generate sufficient benefits in terms of rural growth and household incomes to justify the cost. A lot will depend on how effective SADI can be in replicating the pilot activities, and influencing local government policies and programs. The potential for these impacts should be assessed before extending SADI or considering a second phase of activities.

xix. Beyond basic education, AIPRD supported **human resource development** through the Australian Partnership Scholarships (APS). APS effectively doubled the size of ADS over a two-year period to 600 per annum. The Governments of Australia and Indonesia will now have to decide the appropriate scale of future scholarship programs. There may also be merit in looking more broadly at how to: (1) link up GPF, technical assistance and scholarship programs to strengthen key economic institutions; and (2) strengthen universities in Indonesia – including through financial support and exchange or twinning programs with Australian universities – so that they can take on more of the load in providing higher education to Indonesian students.

xx. Overall our assessment suggests that the performance of AIPRD in terms of 'achieving development results' has been positive. While in many cases the pace of progress has been slower than that targeted, this largely reflects the unrealistic expectations at the start of AIPRD about what could be achieved, especially on the two large infrastructure programs. The 'partnership' dimension of AIPRD has been strengthened at the top, through the role of the Joint Commission, and at the bottom, where joint teams have worked on the design and implementation of individual initiatives. However, the middle core of the partnership, including inter-ministerial coordination on the Indonesian side, remains relatively weak. This process has now moved to another level, with the recent preparation of the new AIP Country Strategy. However, it still has some way to go to move beyond consultation on Australian proposals to a genuine partnership. The absence of a fully developed approach to performance monitoring and evaluation has constrained the maturing of this partnership dimension.

Impact on AusAID Staff and Systems

xxi. While AIPRD was a whole-of-government program, AusAID took the lead on the bulk of program design and implementation. The AIPRD experience holds some important lessons for AusAID's approach to human resources (HR) going forward:

- As AusAID takes on a higher profile role in Indonesia, its staff must have a 'deep knowledge' of the country. Country knowledge should be taken into account in recruitment decisions, developed through longer assignments, and passed on when staff rotate. Fluency in Bahasa Indonesia will also become an important asset, especially for staff working with local governments and community groups. Under AIPRD, AusAID was able to tap into a large pool of Indonesian consultants and advisers. This valuable resource needs to be maintained – and extended into other areas.
- The review team has been impressed with the commitment and experience of staff who have worked on AIPRD programs. But there is a concern that many of these staff will now move on or be absorbed back into administrative positions. Greater clarity will be needed in the allocation of responsibilities between Canberra, Jakarta and regional offices, and between A-based and O-based staff in Indonesia. Government and donor counterparts welcome the recent devolution of AusAID responsibilities to Jakarta, and would like to see this extended to regional offices (such as Banda Aceh) in the future.
- AIPRD was also part of an evolution in the 'contractor' model. In the past, AusAID has largely used managing contractors to implement well-defined projects. But, under AIPRD, managing contractors have been used to both design and implement programs in the rolling design model. Greater use is also being made of contractors to supplement capacity in both AusAID and in the implementing agencies for AusAID-funded programs. However, there is a risk that this will create multiple and sometimes confusing layers of management. Greater clarity in the roles of AusAID program managers, contract advisers and team leaders is needed.

xxii. AIPRD also stretched AusAID's existing systems for managing contracts, overseeing procurement, and monitoring performance. Much of this capacity was built up at the activity level. Going forward, AusAID will have to decide which of these functions are best handled in this way, and which could benefit from a more centralised and coordinated approach. Similarly, some of these functions could be contracted in or out. As with HR policy, some of these issues may require corporate decisions by the AusAID Executive. But, in the first instance, AIP managers should decide how they want to proceed, act on options within their authority, and make proposals for systemic changes for consideration at a higher level.

xxiii. The review team found that records on AIPRD activities are not as accessible as they might be. While many documents have been provided to the team, they do not seem to be organised in well-structured project files. In terms of public disclosure, AIPRD did maintain a very complete website through late 2007. However, all of the supporting documents have now been removed – even though AIPRD still has several years to run. And it is very difficult for the public to access hard copies of AIPRD documents through the AusAID Offices in Jakarta or Canberra. This detracts from an otherwise very pro-active and effective public affairs function.

There might be a case for AusAID taking a broader look at its record keeping and public information policies to support an expanded aid program in the future.

Broader Lessons for Australian Aid

xxiv. The Australian Government is committed to increasing aid to 0.5% of GNI by 2015-16. This represents approximately a trebling of aid flows in little over a decade to around \$8 billion per annum. Including AIPRD, the Indonesian program has expanded by a similar amount over the past five years. This experience therefore provides some potentially important lessons for the Australian aid program as a whole, as it is scaled up:

1. While there may be a special case for disaster response, longer-term development initiatives should always work within an integrated country strategy and program. It's inefficient and confusing to run parallel aid programs within one country.
2. The pace of scaling up has to reflect the realities of country and program conditions. Multi-year budgets clearly facilitate this process – while also providing more predictable funding for the recipient government.
3. There is value in thinking about broad country allocations, aligned with recipient government priorities, before introducing Australia's own initiatives to the country program.
4. High-level joint commissions can play an important role in guiding the strategic direction and raising the profile of large aid programs. But they need to be consistent with the recipient government's own donor coordination mechanisms, and supported by effective inter-ministerial coordination mechanisms at the official level.
5. Whole-of-government structures within Australia can impose discipline on AusAID and bring new perspectives to the aid partnership. But, it's also important to recognize the primary role of AusAID in designing, implementing and evaluating aid programs.
6. There is no one model of how to work with other donors, including IFIs and multi-donor funds. Ultimately, a lot will depend on the preferences of the recipient government and Australia's own assessment of what will be best for aid effectiveness.
7. Scaling up aid can raise Australia's profile and strengthen bilateral relations. But it can also expose Australian aid to new political risks and uncertainties. It's important that Australia preserves its reputation as a flexible, pragmatic and reliable long-term partner.
8. Australia's aid program is most effectively delivered through the provision of grants, rather than loans. Procurement should be untied to gain the full benefits of competition.
9. It is worthy in principle to work through the government's budget and systems, but complicated in practice. The Indonesian experience should be widely shared across country programs within AusAID and with other whole-of-government partners.
10. Good information is needed for real-time program management and for assessing impact over the longer term. It's essential that appropriate monitoring and evaluation frameworks are established early for new programs, so that good baseline data can be collected.

11. A substantial scaling up of Australian aid will demand new roles and skills from AusAID staff. A 'deep knowledge' of country conditions will become increasingly important, as will access to the best sources of information in the recipient country and Australia.
12. Consideration should be given to establishing more centralized capacity for managing contracts, overseeing procurement and monitoring performance. AusAID's record keeping and public information policies should also be reviewed.

REVIEW OF THE AUSTRALIA INDONESIA PARTNERSHIP FOR RECONSTRUCTION AND DEVELOPMENT (AIPRD)

Final Report
21 August 2008

A. INTRODUCTION

1. On 26 December 2004, an earthquake in the Indian Ocean triggered a series of tsunamis, causing one of the deadliest disasters in modern history. Indonesia's western provinces of Aceh and North Sumatra (including the island of Nias) were among the worst affected areas, with an estimated 168,000 people killed and over 500,000 made homeless. An 800km stretch of coastline - equal in length to the distance between Sydney and Brisbane - was destroyed. The international response was also of unprecedented speed and scale, supported by an outpouring of public sympathy and assistance from around the world. Australians were among the first on the ground to help. The Australian Government provided \$72 million in immediate humanitarian assistance to Indonesia, and private donations to tsunami appeals reached an astonishing \$380 million.¹

2. Less than two weeks after the disaster, on 6 January 2005, Prime Minister Howard attended an ASEAN tsunami summit in Jakarta. The day before the summit he met with the Indonesian President and announced that Australia would provide \$1 billion over five years to help rebuild the tsunami-affected areas, and to support reform and development throughout Indonesia. This new Australia Indonesia Partnership for Reconstruction and Development (AIPRD) was over and above the immediate humanitarian assistance and the ongoing aid program (\$170 million in 2005/06), with half of the funds to be provided as grants and half as concessional loans (zero interest for up to 40 years, with a grace period of 10 years). Signalling high-level support for the partnership, AIPRD was to be governed by a Joint Commission of senior ministers from both countries, overseen by the Australian Prime Minister and the Indonesian President.

3. This review looks at what has been achieved by AIPRD over the past three years. According to the Terms of Reference (see Annex 4), the review's objectives are to:

- assess whether the AIPRD achieved its primary objective and operated according to its guiding principles, by examining its processes, modes of aid delivery and outcomes;
- identify and bring together lessons learned across the AIPRD; and
- recommend changes to these processes and modes of aid delivery to improve the performance of the AIPRD and future Australian development programs in Indonesia and other countries.

The timing of this review is determined in part by the decision to integrate AIPRD and the regular Development Cooperation Program into a single Country Strategy for the Australia

¹ The private donations were for all countries affected by the tsunami, although most went to Indonesia. Australia also provided official assistance to other countries affected by the tsunami, including Sri Lanka and the Maldives. All currencies in this report are Australian Dollars, unless noted otherwise.

Indonesia Partnership (AIP) from 2008. This is obviously an interim review, as many AIPRD programs are still being implemented and only about half of the funds have been spent to date. However, while it's premature to evaluate the impact of AIPRD programs at this stage, it is still useful to assess whether they are on track or off track to deliver on expected outcomes.

4. The review has been carried out by a joint Australian-Indonesian team of aid officials and development experts.² The team's findings are based on a review of background documents and discussions in Canberra, Jakarta and Banda Aceh over the period from 21 May to 6 June 2008. A brief assessment of each of the major AIPRD initiatives, showing progress against objectives, is also provided. However, the primary focus of the review has been on cross-cutting issues and lessons. The rest of this report is organized into five sections looking at:

- AIPRD Objectives and Guiding Principles
- Funds Allocation and Program Design
- Progress on Implementation and Achievements to Date
- Impact on AusAID Staff and Systems
- Broader Lessons for Australian Aid

B. AIPRD OBJECTIVES AND GUIDING PRINCIPLES

5. The Partnership Framework for AIPRD was finalized and endorsed by the Joint Commission in December 2005.³ It confirms that the primary objective of AIPRD is to “support Indonesia’s reconstruction and development efforts, both in and beyond tsunami-affected areas, through sustained cooperation focused on the Indonesian Government’s programs of reform, with an emphasis on economic and social development.” The Partnership Framework identified seven major areas of cooperation, aligned with the Government of Indonesia’s (GoI’s) Medium Term Development Strategy for 2004-2009, and grouped around two main themes: (1) emergency preparedness and response; and (2) promoting broad-based economic growth. It also outlines the Guiding Principles for AIPRD (see Box 1), which highlight that Australia and Indonesia will “work together in a spirit of genuine partnership”: supporting Indonesia’s own development efforts, building linkages between institutions and people in the two countries, and working closely with other international development partners.

² The review team members were: Mark Baird, former Vice President and Indonesia Country Director, World Bank; Lukita Dinarsyah Tuwo, Deputy Minister for Development Funding Affairs, BAPPENAS; Benny Setiawan, Director, Utilisation for Development Funding, BAPPENAS; Thee Kian Wie, Economist, LIPI; and Julian Gayfer, Director, International Organisation Development.

³ The objectives and guiding principles for AIPRD were actually announced earlier in a Joint Commission statement on 17 March 2005.

Box 1. Guiding Principles for AIPRD

Australia and Indonesia will work together in a spirit of genuine partnership that will:

- demonstrate Australia and Indonesia's shared interest in a strong, stable and prosperous Indonesian economy and society;
- recognize the Government of Indonesia's responsibility for setting the priorities for national social and economic development and reform;
- take account of the special characteristics and needs of tsunami-affected areas and those of other areas of Indonesia;
- support Indonesia's development efforts;
- focus on areas where Australia has a comparative advantage in expertise and the delivery of reconstruction and development assistance, with special emphasis on the development of linkages between Australian Government agencies and institutions and their Indonesian counterparts as well as the strengthening of people-to-people links;
- identify activities for funding based on merit according to their relative contribution to recovery and reconstruction as well as longer-term economic and social development, with a special emphasis on human resource development and good governance, both in tsunami-affected and other areas of Indonesia;
- implement a partnership approach in the joint identification of activities for implementation, and the joint selection of implementing bodies with decision-making based on principles of transparency and accountability, open and competitive tendering, and robust performance monitoring and evaluation systems; and
- coordinate with the activities and planning of other international development partners and, where effective and consistent with the objective of the partnership, utilise a range of international and domestic aid delivery mechanisms, including multilateral agencies and non-governmental organizations.

Source: AIPRD Partnership Framework.

6. Discussions with senior officials familiar with the origins of AIPRD confirm that Australia had been looking for an opportunity to put the relationship with Indonesia on a firmer and more stable footing, following the tumultuous period around the Independence of East Timor. AIPRD built on both the official support in Australia for the political and economic reforms being implemented by newly-elected President Yudhoyono and the public concern for the victims of the tsunami. It also drew on a renewed interest in Canberra in a whole-of-government approach to aid, following the rapid expansion of assistance to the Solomon Islands (RAMSI) and PNG (ECP) in 2003 – and anticipated the expansion of Australian aid announced in September 2005.⁴ However, while it's likely that some enhancement of the Indonesian aid

⁴ The Regional Assistance Mission to Solomon Islands (RAMSI) was deployed in July 2003 and the Expanded Cooperation Program (ECP) with PNG was agreed in December 2003. Both were whole-of-government programs

program would have taken place in any event, it's generally accepted that it would not have been so large or rapid without the trigger of the tsunami.

7. The combination of reconstruction in tsunami-affected areas and broader support to Indonesia made a lot of sense, given the partnership objectives of AIPRD and the importance of sustaining reform and development momentum across the country (at a time when a lot of resources were being concentrated on Aceh). It would never have been realistic to expect \$1 billion to be spent on tsunami reconstruction alone. Yet, that is what many people initially believed.⁵ This misunderstanding probably arose because the announcement was linked to the tsunami summit in Jakarta – and no specific amount was identified for tsunami reconstruction. However, the resulting confusion initially detracted from the worthy objectives of AIPRD. With hindsight, two separate initiatives – one for Aceh reconstruction and one an enhancement of the existing aid program for a longer-term partnership – might have been easier to explain. To improve communications, a dedicated, well-resourced public affairs function was quickly put in place, which has provided regular reports on AIPRD progress and now serves the whole aid program in Indonesia.⁶

8. The Joint Commission met three times in 2005 and about once a year since then – usually at the time of the Indonesia-Australia Ministerial Forum.⁷ Its purpose is to set the broad strategic directions for the Partnership and agree on major activities for funding under AIPRD. This has helped to reinforce the joint nature of the program, and its importance to officials on both sides. GoI is satisfied that AIPRD followed its own national development priorities, including for Aceh reconstruction and the two large infrastructure programs. There has also been good coordination at the 'initiative' level. However, initial plans to establish a joint secretariat in BAPPENAS soon proved to be impractical. And there is still considerable work to be done to strengthen coordination between ministries at the official level on the Indonesian side. A stronger inter-ministerial steering committee, coordinated by BAPPENAS, would allow GoI officials to play a more effective role in joint discussions on country strategy, program priorities and aid modalities, as well as in identifying substantive issues for discussion at the Joint Commission.⁸ Any structural solution would have to leave room for informal discussions with

(RAMSI involving several regional countries) to improve governance and build capacity. Prime Minister Howard announced a doubling in Australian aid to \$4 billion by 2010 at the UN World Summit in September 2005. This was followed by a renewed focus on aid effectiveness in the White Paper on Australian Aid in April 2006.

⁵ For example, an article by Aid/Watch on the Reality of Aid website states: "A common perception amongst Australians, largely perpetuated by the Australian media, was that the \$1 billion package was solely for tsunami relief." Similar views were expressed by several Indonesian officials in Jakarta and Banda Aceh, and a number of AusAID staff working on AIPRD in early 2005.

⁶ The scale of AIPRD and its association with the tsunami relief and reconstruction effort generated intense public interest in Australia. Hence the decision to integrate a strong public affairs function into AIPRD's program design, using messaging and innovative approaches to managing media relations. In May 2005, a Public Diplomacy Strategy was approved as the basis for AIPRD media relations and public diplomacy in Australia and Indonesia. Through this, Australia was successful in providing clear explanations of the factors influencing disbursement rates, including the complexity of the situation on the ground and the need to pursue a partnership approach.

⁷ The members of the Joint Commission are the Minister for Foreign Affairs and the Treasurer from Australia, and the Minister for Foreign Affairs, the Minister of Finance and the State Minister for National Development Planning for Indonesia.

⁸ For example, BAPPENAS has suggested that it would be useful for the Australian and Indonesian Governments to share perspectives on effective aid, particularly on how they interpret and apply the five pillars of the Paris Declaration: ownership, alignment, harmonisation, managing for results and mutual accountability.

AusAID, to build up mutual trust and understanding, and be consistent with BAPPENAS' broader plans to improve donor coordination.⁹

9. On the Australian side, a formal whole-of-government approach was put in place, with an AIPRD Secretariat drawing on a Core Group of officials from key departments, and sending proposals to the Secretaries Committee for approval.¹⁰ Initially the Secretariat was housed in the Department of Foreign Affairs and Trade (DFAT), to emphasize that AIPRD was not 'business as usual'. There is no doubt that this forced AusAID to think creatively and act decisively. However, in practice, the primary task of carrying AIPRD forward increasingly fell to AusAID staff and the Secretariat moved back to AusAID in March 2006. The Secretaries Committee continued to meet regularly until March 2008, although it is unlikely to meet again, now that the direction of the program is set, and the primary focus is on implementation. Most whole-of-government partners believe that this decision could have been taken earlier, with formal responsibility shifted back to AusAID (consistent with its budgetary obligation for AIPRD resources and accountability for results). Broad aid strategy and performance issues are now taken to the Development Effectiveness Steering Committee (DESC), which could take on the role of the Secretaries Committee in the future.

10. Managing AIPRD separate from the ongoing Development Cooperation Program (DCP) was also intended to demonstrate that the Partnership was not 'business as usual' – that it would deliver quickly, at scale and achieve substantive results. This probably made sense for the Aceh/Nias reconstruction effort, which needed to move quickly with dedicated staff and streamlined procedures. But for the longer-term development partnership, it caused unnecessary duplication of effort, and complicated the task of explaining the Australian aid program(s) to the Indonesian public. In response, integrated program teams (e.g. for governance and education) were soon put in place in Jakarta. By mid 2006, both programs had been 'rebranded' as the Australia Indonesia Partnership (AIP) and the first annual report (2005-06) to the Joint Commission laid out progress and achievements under the whole Australian aid program, including AIPRD. This process recently reached its logical conclusion, with the formal decision to merge the two programs within the new AIP Country Strategy for 2008-2013. For any future development initiatives, it would be preferable to integrate them into the ongoing aid program from the start.

11. The most controversial aspect of AIPRD was the decision to provide half of the funds as concessional loans. This was considered appropriate to finance longer-term infrastructure investments in a lower middle-income country – and indeed is common practice for the International Financial Institutions (IFIs) and some bilateral programs, such as from Japan. Loans were also seen to impose more fiscal discipline on the Government of Indonesia, while shifting the budgetary burden below the line in Australia. However, loans were a departure from

⁹ BAPPENAS is proposing a new GoI-led aid coordination process to replace the Consultative Group for Indonesia (CGI), which was abolished in early 2007. This would initially be organized around key thematic areas, such as poverty, education, decentralization and climate change. To the extent possible, Australia should fit within this structure, rather than promoting separate bilateral arrangements.

¹⁰ The Secretaries Committee was chaired by the Secretary of DFAT and included the Secretaries from the Departments of PM&C, Treasury and Finance, as well as the Director General of AusAID. The Secretariat was initially headed by a senior manager seconded from AusAID, and had staff from DFAT, Treasury and AusAID. The Core Group largely provided a sounding board for ideas before they were sent to the Secretaries Committee.

Australia's 'all grant' policy of recent years.¹¹ This was the only aspect of AIPRD which was opposed by the then Opposition in Australia, and it also raised questions in the Indonesian Parliament. However, BAPPENAS was able to explain this was a special case, aligned with GoI priorities, and on highly concessional terms. In practice, it took much longer than expected to put loan agreements in place.¹² In August 2005, the Secretariat proposed converting the loans to grants, but this was rejected by the Secretaries Committee. More positively, loans have increased AusAID's experience in working through the GoI's budget and systems. This deeper experience will be invaluable for all future programs – whether loans or grants.

12. Procurement under AIPRD was limited to Australian, New Zealand and Indonesian firms.¹³ The decision to include Indonesian firms was consistent with AusAID's new procurement policy (December 2004). However, a Ministerial waiver was needed to set aside AusAID's obligation to use full International Competitive Bidding (ICB) for construction contracts. The Secretaries Committee had proposed that the competitiveness of these procurement arrangements be monitored against the experience of IFIs, but this was never done. As a result, no evidence is available to determine whether the restrictions raised the cost of Australian aid. However, consistent with the subsequent decision to untie all Australian aid (April 2006), the AIP program should revert to all untied grants in the future. In the meantime, both sides should use the flexibility built into individual project agreements (e.g. for consultancy services) to make the tendering pool as competitive as possible.

C. FUNDS ALLOCATION AND PROGRAM DESIGN

13. The decision to announce a \$1 billion program over five years, with only broad guidance on how the funds would be used, provided unusual flexibility in making allocation decisions (as well as predictability in funding levels for GoI). However, there was also enormous pressure to allocate the funds quickly, to get on with program implementation, and to demonstrate results. This was especially the case for the Aceh and Nias reconstruction program. But this same time pressure also impacted on the goals and decision-making processes for all AIPRD programs.

14. AIPRD funds were fully allocated by the end of 2005 (see Table 1). This process was facilitated by the early decision to identify a few large initiatives, rather than spread the funds over a large number of small projects. In particular, all of the loans (\$500 million) and \$128 million of grants were allocated to the two large infrastructure programs for basic education (BEP) and national roads improvement in Eastern Indonesia (EINRIP). Other large chunks of money were allocated for rehabilitation and reconstruction programs in Aceh and Nias (\$181 million), Australian Partnership Scholarships (\$78 million) and the Government Partnerships Fund (\$50 million). These five initiatives accounted for 94% of AIPRD funding. Because the

¹¹ The earlier Development Import Finance Facility (DIFF) was discontinued in 1996. The Australian Government has recently announced that all future aid will be in the form of grants.

¹² The Partnership Loan Agreement was signed on 27 June 2006, followed by the Loan Agreements for BEP (12 July 2006) and EINRIP (7 September 2007).

¹³ An Australian or New Zealand firm is defined as an organisation carrying on business in Australia or New Zealand. An Indonesian firm is defined as an entity carrying on business in Indonesia, established in accordance with Indonesian laws and regulations, which, in the case of an incorporated company, has majority Indonesian local ownership/shareholding. Exceptions were allowed for short-term consultancy contracts and for entities that "are constituted in a way that reflects the spirit of partnership" between Australia, Indonesia and New Zealand.

initial allocations were broad, there was some flexibility for moving funds between projects (e.g. within the Aceh reconstruction program). While it might have been prudent to leave some funds unallocated, for new initiatives to be identified later on, this option was effectively pre-empted by the initial five-year timeframe for disbursements.

15. AIPRD used streamlined decision-making processes. Short concept notes (usually one page) were sent up to the Secretaries Committee for approval. Many activities in Aceh and Nias also used rolling designs: interim teams would develop scoping/pilot projects, which could inform full project design 6-12 months later. This approach was highly effective in emergency situations, both in terms of responding to the immediate human tragedy and facilitating a seamless transition through relief, reconstruction and development phases. However, the two large infrastructure programs inevitably took longer to prepare, with substantial upfront investment in the loan agreements, technical design work and anti-corruption plans. It remains to be seen whether this experience will allow Australia to move faster on such programs in the future. Even so, most staff working on AIPRD believe that there is scope to streamline AusAID processes, without sacrificing project quality, and with more immediate and enhanced development results.

Table 1: Allocation and Disbursement of AIPRD Funds
(\$ million)

Initiative	Amount Allocated /a			Amount Spent/b
	Grants	Loans	Total	
<u>Emergency Preparedness & Response</u>	<u>226</u>	<u>0</u>	<u>226</u>	<u>188</u>
Aceh/Nias Rehabilitation & Reconstruction Programs	181		181	156
Yogyakarta Reconstruction Program	30		30	21
Disaster Management Program	15		15	11
<u>Promoting Broad-Based Economic Growth</u>	<u>294</u>	<u>500</u>	<u>794</u>	<u>251</u>
Eastern Indonesia National Roads Improvement Project	28	300	328	25
Basic Education Program /c	100	200	300	142
Smallholder Agribusiness Development Initiative	38		38	19
Australian Partnership Scholarships	78		78	44
Government Partnerships Fund	50		50	22
<u>Total</u>	<u>520</u>	<u>500</u>	<u>1,020</u>	<u>439</u>

/a Maximum allocation within AIPRD total commitment of \$1 billion. Any over-programming will be picked up under the regular Indonesian DCP. Numbers exclude management costs (\$10 million).

/b At the end of April 2008.

/c BEP also received \$55 million in grants from the regular Indonesian DCP.

Source: AusAID.

16. One down-side of the pressure to respond quickly was the inadequate attention early on to putting in place robust performance monitoring and evaluation systems (a guiding principle for the Partnership).¹⁴ There appears to have been mixed signals and as a result partial efforts on the extent to which a ‘program-level’ performance framework was required. AIPRD has a program structure formed around clusters of initiatives that quickly emerged from the priority setting by the Joint Commission – it wasn’t developed as a ‘program’. As such, design work on performance monitoring (setting outcome statements and target indicators) has been largely confined to the individual initiative level. This reinforced the practice of reporting using primarily activity-level information (much of which is very thorough) rather than ‘program outcomes’. A performance framework for Aceh and Nias (with end-of-program outcomes) was developed during 2006-07 by the Program Monitoring and Support Group (PMSG). This process has been useful for those initiatives with a longer-term development horizon, although the continued lack of good baseline data will constrain the eventual evaluation of outcomes and Australia’s contribution.¹⁵ The sheer size and longer preparation periods for the two large infrastructure projects have meant that they have been able to put in place substantial monitoring and evaluation frameworks. This is more difficult for programs such as the Government Partnerships Fund (GPF) and the Australian Partnership Scholarships (APS), where the eventual impact on development outcomes is harder to define. In the future, more attention should be given to strengthening and using Indonesian monitoring systems (at various levels of government), especially for tracking – as a partnership – progress towards intermediate and longer-term development outcomes.

17. AIPRD was a strongly bilateral partnership between Australia and Indonesia. As a result, Australia decided not to work through the Multi-Donor Fund (MDF) for Aceh and Nias. However, in practice, Australia has ensured a coordinated approach with other donors through its participation in the MDF Steering Committee (as a non-voting observer). And there is widespread appreciation for the flexible and effective way in which Australian reconstruction aid was provided. For the two infrastructure programs, AusAID worked very closely with the World Bank, drawing on their experience with loan financing and government systems. Both sides acknowledge that they have benefited enormously from this partnership. In the future, GoI is expected to take a stronger lead on donor coordination, through the new mechanisms being proposed by BAPPENAS.

¹⁴ To be fair, AusAID didn’t have a strong performance assessment framework when AIPRD started in 2005. This has since changed, with the establishment of the Office of Development Effectiveness (ODE) and the introduction of Quality at Implementation (QAI) reports and ratings for all AusAID activities. The first Annual Program Performance Update for the whole AIP program was prepared in 2007 and a performance assessment framework has been prepared for the new AIP Country Strategy 2008-2013.

¹⁵ The ANAO report (2006) anticipates the undertaking of an audit of activities and outcomes achieved when AIPRD funds have been expended. ODE might also want to undertake an end-of-program evaluation of AIPRD, possibly as part of a broader assessment of the AIP Country Strategy 2008-2013, provided that: (a) all AIPRD activities, including those completed before 2008, are included; and (b) the Performance Assessment Framework for the Country Strategy is refined to include all major AIPRD objectives and outcome indicators. This evaluation could be undertaken as early as 2010, when most of the AIPRD funds will be spent, although more time will be needed to fully evaluate AIPRD outcomes.

18. Finally, it is worth noting that the Guiding Principles for AIPRD did not make explicit reference to issues of gender equality, despite the increased prominence of gender issues in Australia's aid policy at this time.¹⁶ As a result, the attention given to gender issues in program design is uneven across AIPRD initiatives. Where they build on existing programs, such as the APS, the gender criteria (at least 50% of students will be female) have been maintained. The Basic Education Program added a gender focus in 2006 which assists the Ministries of National Education and Religious Affairs to implement GoI's gender mainstreaming policy in education. And there were gender components in some of the Aceh programs (e.g. LOGICA). Building on this experience, the new Aceh Strategy for the AIP Partnership recognizes the key role played by women in the reconstruction effort, the new challenges posed by regional autonomy, and the importance of helping women play a more active role in the political, economic and social life of the community. This is seen to be an issue of aid effectiveness, as well as fairness and justice.

D. PROGRESS ON IMPLEMENTATION AND ACHIEVEMENTS TO DATE

19. By the end of April 2008, \$439 million of the AIPRD funds had been spent (see Table 1). This amount is expected to be closer to \$500 million by the end of June 2008, including most of the funds committed to Aceh reconstruction. Around 55% of the unspent funds relate to the roads project. To allow time for all programs to be fully implemented, the disbursement period for AIPRD has been extended by two years to 30 June 2011.

20. So, three years on, and with about half of the AIPRD funds spent, what has been achieved – in line with the original objectives of AIPRD and its seven major areas of cooperation as identified in the Partnership Framework? To look at this question, we have divided the AIPRD programs into the two broad themes and seven major areas of cooperation as identified in the Partnership Framework. As summarized in Table 2, the review has assessed the progress achieved towards a set of targeted 'program-level' outcomes which relate to one or more initiatives funded by AIPRD.¹⁷ This assessment is constrained by the extent to which such outcomes have been defined, the nature (including consistency) of indicators set and the availability of outcome-level data collected through AIPRD monitoring. The table also includes an assessment of the performance of AIPRD initiatives, based on the extent they are likely to achieve their 'outputs', and any significant gains or 'added value' that have arisen from AIPRD to date.¹⁸ The rating scale used in the review is as follows:

¹⁶ See, for example, the White Paper on Australian Aid (2006). Gender issues are less prominent in Indonesia's Medium-Term Development Strategy 2004-2009, which is the starting point for identifying AIPRD priorities.

¹⁷ Outcomes are the likely or achieved short-term and medium-term effects of an intervention. Annex 3 includes the latest (2007/08) Quality at Implementation (QAI) ratings for each initiative in terms of 'achieving objectives': i.e., a self assessment of whether we are achieving (or likely to achieve) the outcomes expected.

¹⁸ Outputs are the products, goods and services arising from an intervention. Broader gains and 'added value' are assessed against the context in which AIPRD has operated.

Progress towards program outcomes	<i>The extent to which originally targeted outcomes against related performance indicators have been or are likely to be achieved by the end of the program, within one of seven AIPRD program areas.</i>
On track	A high proportion of the outcome indicators have been achieved or are likely to be achieved by the end of the program.
Partially off track	At least half of the outcome indicators have been achieved or are likely to be achieved by the end of the program.
Significantly off track	A small proportion of the outcome indicators have been achieved or are likely to be achieved by the end of the program.
Unable to make a judgement	There are inadequate data and/or no firm indicators available.

AIPRD initiative performance	<i>The extent to which a specific initiative has achieved or is considered likely to achieve its targeted outputs by the end of the program and any evidence of significant gains or added value.</i>
Excellent	All outputs have been achieved or are likely to be achieved and there is clear evidence of added value.
Good	A high proportion of outputs has been achieved or are likely to be achieved.
Fair	Around half of the outputs have been achieved or are likely to be achieved.
Poor	A limited number of outputs have been achieved or are likely to be achieved.

Table 2: Summary Assessment of AIPRD Performance

AIPRD program areas	Progress towards program outcomes	AIPRD initiative performance	AIPRD significant gains/ added value
<i>AIPRD Theme: 'Emergency preparedness and response'</i>			
<p>1. Aceh/Nias reconstruction: rehabilitation of health, education and local government services; rebuilding community and economic infrastructure; restoring livelihoods and private enterprise; other reconstruction and humanitarian assistance.</p> <p>AIPRD: 17 initiatives (\$181m)</p>	<p>Health & education services: Partially off track</p> <p>Infrastructure: Partially off track</p> <p>Community – Government linkages: On track</p> <p>Livelihood development: Partially off track</p>	<p>HARAP (\$15m): Good ERA (\$12.3m): Good ARPIC (\$37m): Fair Aceh Housing (\$5m): Good Banda Aceh Port (\$5m): Good Nias Reconstruction Fund (\$9.7m): Poor Mapping assistance (\$9.8m): Poor LOGICA (\$27.7m): Excellent CEPA (\$9.6m): Fair PEPAN (\$6.5m): Fair AWRAP (\$2.3m): Fair ARTI (\$2.9m): Fair Food security (\$10m): Good /a</p>	<p>Mix of immediate operational support and longer-term strategy interventions.</p> <p>Range of high quality infrastructure; health, education and local government facilities.</p> <p>LOGICA: High ownership, and together with CEPA provide a good 'fit' with the opportunities available from the post-conflict period.</p>
<p>2. Emergency preparedness: capacity building of government and local emergency response organisations</p> <p>AIPRD: 1 initiative/3 activities (\$10m)</p>	<p>National coordination: Partially off track</p> <p>Community level: Unable to make a judgement</p>	<p>Disaster Management Program (\$10m): - BAKORNAS-EMA Partnership Project (\$1.4m): Poor - SurfAid: Community Based Disaster Preparedness for West Sumatra Islands (\$3.1m): Good - CBDRM (NU, ITB and Muhammadiyah) (\$2.35m): Fair</p>	
<p>3. Responding to other disasters: including needs arising from earthquakes in Yogyakarta, Nias (North Sumatra), Alor (NTT) and Nabire (Papua).</p> <p>AIPRD: 2 initiatives (\$35m)</p>	<p>Focus on immediate benefits so no assessment provided of longer-term outcome perspective.</p>	<p>Yogyakarta Reconstruction (\$30m): Good</p> <p>Responding to other disasters (\$5m): - Provision of immediate assistance in the wake of Nias earthquake (SurfAid) (up to \$1m), Alor Integrated Development (\$0.83m) & NHDM (\$3.7m): all Fair</p>	<p>Yogyakarta: Effective immediate reconstruction support.</p>
<i>AIPRD Theme: 'Promoting broad-based economic growth'</i>			
<p>4. Improved governance: economic, financial and public sector management</p> <p>AIPRD: 1 initiative (\$50m)</p>	<p>Financial & economic management: On track</p> <p>Public sector management: Significantly off track</p>	<p>GPF (\$50m): 7 partnerships: <i>range</i> Excellent - Good 8 partnerships: Fair</p>	<p>Australia positioned as a preferred source of advice (through the government to government partnership).</p>
<p>5. Economic & social infrastructure: road transport, education and other infrastructure to boost local and regional economies</p> <p>AIPRD: 2 initiatives (\$628m)</p>	<p>Education services: Partially off track</p> <p>National roads network: Significantly off track</p>	<p>BEP (\$300m): Good</p> <p>EINRIP: (\$328m): Fair</p>	<p>- Wider uptake by MoNE and MoRA schools in 2008 of the Education Quality Assurance Model. - Joint approach adopted with World Bank to improve transparency in GoI procurement.</p>
<p>6. Human resource development: up to 600 Australian Partnerships Scholarships</p> <p>AIPRD: 1 initiative (\$78m)</p>	<p>Human resource development strategies in targeted areas: Unable to make a judgement</p>	<p>APS (\$78m): Good</p>	<p>Scholarships highly valued by GoI officials.</p>
<p>7. Private sector development/ rural productivity: smallholder agribusiness and regional enterprise development</p> <p>AIPRD: 1 initiative (ex Aceh) (\$38m)</p>	<p>Rural productivity 'model': Partially off track</p> <p>Commodity supply chains: Partially off track</p>	<p>SADI (\$38m): Fair</p>	<p>Valued concept by GoI officials.</p>

/a In the absence of sufficient information, no rating has been provided for four areas of AIPRD expenditure in Aceh: Aceh Procurement Project, Aceh Construction Short-Term Assistance Project, Aceh Nias Technical Assistance Fund and the Aceh Local Government Project.

Source: AIPRD documents, QAI ratings and review team assessments.

D.1 Emergency Preparedness and Response

21. The AIPRD program structure was spearheaded by **rehabilitation and reconstruction in Aceh and Nias**.¹⁹ The early focus on infrastructure in tsunami-affected areas was quickly broadened to include: allied work in thematic areas of governance, education, health and rural development; wider geographic coverage (reaching into conflict-affected areas); and a strong capacity strengthening thread at provincial, district and community levels. As a result, the valuable ‘footprint’ of a development programming approach was established at an early stage. Aceh was a new area of operation for AusAID and the AIPRD structures mobilised quickly and learnt fast on how to operate effectively in this environment; demonstrating good pace, early delivery and a considered mix of technical inputs (interim advisory teams, advisers in key agencies, managing contractors and, later on, an embedded Program Monitoring and Support Group). To date there has been minimal ‘whole-of-government’ engagement in Aceh beyond the initial emergency relief phase and in the agriculture sector (ACIAR).

22. Overall the impression is of a large and rapid programming effort that has delivered some impressive early results. Case studies on two of the more successful Aceh initiatives (LOGICA and ERA) are provided in Boxes 2 and 3. There have also been some less successful ventures (e.g. Aceh mapping assistance, which has been delayed and therefore failed to meet BRR’s urgent construction surveying needs).²⁰ This experience generates a number of lessons for Australia’s future role in Aceh, and in other reconstruction efforts:

- With hindsight, contributing the minimum amount (US\$10 million) to the MDF would have raised Australia’s profile and influence in the overall reconstruction effort. That said, all parties interviewed in Jakarta (including BAPPENAS) and Aceh (including BRR) acknowledged the valuable ‘gap-filling’ role played by Australia, and the rapid and flexible way in which Australian aid responded to Aceh’s needs.
- Experience in Aceh confirms that, after the immediate relief effort, progress on infrastructure rehabilitation and reconstruction is usually much slower and more expensive than planned. It is generally accepted that Australia built infrastructure to a high standard, and this will hopefully improve the durability of these investments (to be confirmed by subsequent evaluations). However, the more lasting contribution of Australian aid is almost certainly its impact on local capacity – within government, communities and construction teams.

¹⁹ For progress on the overall reconstruction effort, see BRR NAD-Nias (2007), *Strengthening the Narrative of Community Life*, Two Year Report, August 2007 and the Multi Donor Fund for Aceh and Nias (2007), *Three Years after the Tsunami: Delivering Results, Supporting Transition*, Progress Report IV, December 2007.

²⁰ This is distinct from the community-based mapping of 80,000 housing plots, financed under LOGICA, which is generally seen to have been very successful (see the Rapid Review of LOGICA, April 2007).

Box 2: Local Governance and Infrastructure for Communities in Aceh Project (LOGICA)

The goal of LOGICA is to make a significant contribution to community recovery and well being in tsunami-affected areas through the rehabilitation and recovery of communities and local government services. The tsunami destroyed over 1,000 government buildings and traumatised a government service that was already weak as a result of the years of conflict in Aceh.

A 'rolling design' approach was used; a short 6-8 month interim phase of scoping and piloting directed by guiding principles rather than by a pre-determined hierarchy of objectives building on the strengths of existing networks and personnel operating on the ground. This was followed by two extensions, in total amounting to a \$35 million package of support from January 2006 to June 2008; an appropriate response to a rapidly changing context.

LOGICA's simple yet carefully constructed program implementation strategy, that links in a mutually reinforcing way work on 'responsive government' with 'active communities', has produced impressive results. In its activity areas, LOGICA has met or exceeded its targets and the program has made an important and valued contribution in the tsunami-affected areas to:

- restore land ownership: helping communities undertake their own land-mapping; and, through the recognition and respect of land boundaries (by communities and authorities), allowing the carefully targeted rebuilding of houses to proceed;
- strengthen sub-district governments: rebuilding and improving structures and systems at the sub-district level resulting in an increased responsiveness to the needs of local communities; and
- re-establish village communities: building a capacity within local communities which has allowed them to exercise some control over the rebuilding of their villages.

An illustration of progress is the 'single window service' model promoted by LOGICA which is now operational in 17 sub-district offices and 16 out of the 17 have reported improvements in services as measured against benchmarks set. The fact that two new districts not previously part of LOGICA's regional focus have expressed a demand for the approach reflects the demand pull which is broadening the reach of the program to new geographic areas.

LOGICA has evolved through strong local ownership graduating from important practical concerns such as land mapping to an active contributor to the momentum of 'change' evident within the relationships between communities and government structures in Aceh. There was no active village government in Aceh before the tsunami so this is now experiencing a re-activation. LOGICA, well aligned to incentives in the wider system and community aspirations, provides the important seeds of a countervailing force to the natural drift towards a more traditional form of local government with its attendant limitations of transparency and accountability.

From the outset LOGICA has integrated concerns of gender equity into the core of its operations; setting and resourcing specific external and internal objectives through a dedicated gender unit. A significant early result from targeted support to a small group of women running in the August 2007 local elections for village heads was the election to office of two women candidates. All village councils in target areas now have at least two female representatives.

Source: Rapid Review of LOGICA (April 2007) and field visits around Banda Aceh.

Box 3: Education Rehabilitation in Aceh Project (ERA)

ERA was designed to restore and improve educational systems, facilities and human resource capacity in five districts of Aceh, working in partnership with government and communities, and through this contributing to the longer-term goal of increasing the benefits of education in Aceh through systemic reforms. The tsunami had a devastating effect on education provision; over 2,000 school buildings damaged, 2,500 teachers killed and over 160,000 students lost their schools. Many external actors became involved in an assistance effort focussed on school reconstruction. ERA developed a niche through a carefully considered blend of hardware and software activities. Its work in the Islamic sub-sector has been distinctive.

The program has successfully delivered against its three core objectives:

- restore and improve pre-service and in-service facilities for teacher professional learning;
- construct and fit out educational facilities in a partnership with the community that includes community approvals and on the job training in managing and maintaining infrastructure and procurement; and
- restore and strengthen education management and strategic planning at the provincial level and in targeted institutions, agencies and districts.

ERA has evolved organically into a capacity building/governance focus, aided by the flexibility inherent within a concept note that set out short, medium and long-term goals. Investment of time into building relationships with the Provincial Education Board, even when the natural pull was towards 'hardware', has paid off in terms of a high uptake of ideas and a sense of strong local ownership, an illustration of which is the provincial initiative on Teacher Development Centres for which budget provision has been made. The Aceh authorities chair and run the education working group. The ERA-supported RENSTRA (strategic planning) exercise is now being cascaded down to the district level.

The program is an effective demonstration of how to 'fit' and contribute to the positive direction and momentum of reform in education services (from a pre-tsunami low base position), arising from a 'shocked' environment.

Source: Independent Completion Report of ERA (19 November 2007) and field visits around Banda Aceh.

- The approach taken to project design coupled with the particular circumstances of Aceh (decimated public service, peace dividend) appears to have produced a distinctive character – a strong sense of ownership and momentum – to a number of the AIPRD initiatives. It is not yet clear how this will translate through into enhanced development outcomes. Future investment in M&E above the activity and output level can help to answer this question and may provide valuable insights on how approaches during relief and reconstruction phases can influence the impact of assistance in the subsequent development phase.
- Now that BRR is winding down, the focus of attention in Aceh is shifting back to the local government – which is strong in resources (because of decentralisation and Aceh’s special autonomy status) but weak in capacity (because of the impact of the conflict and the Tsunami). Australia is now taking the lead on setting up a much smaller second multi-donor fund, to support “peace and development” throughout Aceh. Hopefully, Australia will also continue to support the capacity building elements in existing AIPRD initiatives (e.g. LOGICA, ERA). Continued Australian engagement is flagged in the new AIP Country Strategy, which identifies Aceh (and Eastern Indonesia) as a regional focus.

23. While responding to the immediate rehabilitation and reconstruction needs in Aceh, AIPRD has also provided longer-term support for **building capacity for emergency preparedness**. However, the partnership between the Emergency Management Australia and the Indonesian Disaster Coordination Authority (BAKORNAS) has so far generated limited results, due in part to the ongoing process of restructuring within BAKORNAS. The Indonesian Parliament recently passed a new legislative framework for disaster management, which emphasises preparedness, planning and mitigation of risk over the traditional almost exclusive focus on response. It also sets up a new disaster management agency. However, it’s too early to assess how this will work in practice. Prospects for progress seem to be brighter at the local government and community levels, including work with the two mass-based Islamic groups: Nahdlatul Ulama (NU) and Muhammadiyah. The merit of continuing these various efforts should be carefully reviewed in the context of the whole-of government disaster management plan being prepared for the new AIP Country Strategy.

24. Finally, AIPRD has provided funding to **respond to other disasters** in Indonesia over the past three years, including relief and reconstruction work following earthquakes in Yogyakarta, Nias (North Sumatra), Alor (NTT) and Nabire (Papua). Each of these has a unique character, depending on the capacity of local government and the role played by Australia. In Yogyakarta, for example, the local government wasn’t as adversely affected as in Aceh, and quickly took the lead in the reconstruction effort. Australian assistance through the Yogyakarta Central Java Community Assistance Program initially focused on quick-impact activities (such as emergency shelter and water and sanitation) and then transitioned to reconstruction (including housing, schools and community facilities) and livelihood activities. Following the mid-term review in late 2007, the community engagement and consultation component is now being strengthened. The overhead costs of this program seem to be high, with \$6.8 million being spent for managing contractor management and technical adviser fees to implement a \$15

million program.²¹ When the time comes for evaluation, it would be useful to compare overhead costs across the emergency response portfolio, and with other donors, to see whether there is scope to reduce them. It would also be interesting to see to what extent the Yogyakarta and other disaster responses have built upon the Aceh experience, especially on the balance between immediate reconstruction and longer-term development activities.

D.2 Promoting Broad-Based Economic Growth

25. From the start, AIPRD was intended to contribute to **improved governance** through partnerships between government agencies in Australia and Indonesia. The Government Partnerships Fund (GPF) was the primary vehicle for this purpose in the areas of economic, financial and public sector management (see Box 4). Findings from the Mid-Term Review of GPF, and discussions by the AIPRD review team, confirm that this has worked very well in some cases, and less well in others. Success clearly depends on strong commitment from the agency heads in both countries, a clear demand from Indonesian officials, and a capacity to respond effectively from the Australian side. Partnerships with the Indonesian Ministry of Finance (Department of Finance, Treasury and APRA) and the Supreme Audit Board (ANAO) stand out in this regard, although it is still too early to assess whether these will lead to significant and sustainable improvements in capacity. Going forward, three GPF-related issues require more thought:

- There is demand from both sides for more strategic oversight of GPF. In particular, there should be a regular assessment of which partnerships should be continued, expanded, modified or dropped.²² While this role has been played in the past by the AIPRD Secretaries Committee in Australia, this doesn't involve Indonesian counterparts. The joint advisory board for the Technical Assistance Management Facility (TAMF) is often quoted as a good model. Going forward, it might be worthwhile setting up a joint mechanism to provide strategic oversight to GPF (and possibly TAMF as well).
- GPF is just one of several channels for building or supplementing capacity in Indonesian institutions. Australia also has TAMF (which focuses more on short-term technical assistance) and many other donors are involved in the crowded field of economic management and governance. It's clear from the experience of the Ministry of Finance that strong leadership and coordination from the Indonesian side can fit these various sources of assistance into a coherent and effective program. But not all Indonesian institutions have this capacity. This may be another area where potential conflicts, at least within the Australian program, could be resolved by a joint oversight mechanism.

²¹ Similar issues have been raised for the Aceh Housing Assistance Program, where preliminary data suggest that overhead costs were over \$1 million, or \$4,000 per house. This, as well as the higher quality of AusAID-constructed houses, largely accounts for the higher unit cost (at least \$15,580) compared to the average (\$9,000) spent by other housing providers on similar sized houses in Banda Aceh.

²² Not all Indonesian agencies will be interested in establishing GPF relationships. On the other hand, some Indonesian agencies (such as BAPPENAS), which don't have an obvious counterpart in Australia, are still keen to strengthen their roles through GPF. The interest of Australian agencies in sustaining their GPF partnerships will depend in large part on the costs, in terms of diverted staff resources, and the perceived benefits, in terms of their contribution to building capacity and partnerships in Indonesia.

- There has been a lot of debate about how to measure the outcomes of GPF activities. Most whole-of-government partners focus on the partnership itself, and how it is building capacity in Indonesia and strengthening ties with Australia. However, AusAID wants a stronger focus on development outcomes: how will this partnership eventually impact on Indonesian development? Clearly, both aspects of the program are important. All parties would benefit from a clearer framework for monitoring progress on the GPF, which doesn't over-prescribe how the partnership will develop, but which still allows some ex-post measure of its contribution to capacity building and (eventually) its development impact.

Box 4: Government Partnership Fund (GPF)

AIPRD allocated \$50 million to the GPF to be spent over five years. The objectives of GPF are to: (1) exchange skills, knowledge and expertise between Australian and Indonesian public sector institutions in economic governance, financial management and public sector management; and (2) build long-term institutional linkages and partnerships between Australian and Indonesian public sector institutions. Currently there are 13 Australian Government agencies working with their Indonesian counterparts on a range of activities, including placement of Australian advisers, provision of in-country training and secondment of Indonesian officials to Australian agencies.

The Mid-Term Review of GPF found “clear and consistently positive views in both Canberra and Jakarta about the contribution of the GPF to building and supporting a stronger bilateral relationship between Australia and Indonesia.” Senior Indonesian officials emphasised the value of working with senior Australian Government practitioners who had up-to-date hands-on knowledge of reform, policy and implementation issues, and who understood how government systems and processes worked. They also stressed that GPF was based on a “more equal relationship” between the two sides. However, the Mid-Term Review goes on to note that “it is difficult to be confident about the contribution of the GPF beyond this relationship-strengthening dimension. There is, as yet, very limited evidence available to make an informed assessment of the impact of the GPF in terms of broader development outcomes, or the likely sustainability of the reform activities being addressed.”

The Mid-Term Review identified a number of factors which have impacted on the effectiveness of GPF activities. These are:

- the length of the agency to agency relationship;
- the extent to which the right people are engaged;
- identifying the right mix of inputs and modalities;
- language proficiency; and
- access to quality contextual information.

Finally, the Mid-Term Review notes that some GPF activities are more supply-driven than demand-driven, reflecting the available skills of Australian advisers rather than being tailored to meet the clearly articulated priorities of the Indonesian Government. Similarly, most Australian agencies do not see these activities as core business and they are not funded to participate (other than through GPF funding from AusAID). “It would be desirable to clarify quickly whether the GPF is to be extended beyond its current life and review the funding arrangements for agencies, with a view to encouraging them to make long-term commitments to the program. Given its profile among key reformers in Indonesia, winding-up GPF would be prejudicial to wider bilateral relations.”

Source: GPF Mid-Term Review (31 January 2008) and interviews with Indonesian and Australian agencies involved in GPF.

26. Most of the funding under AIPRD was allocated for **economic and social infrastructure**. BAPPENAS has confirmed that the two large infrastructure programs for basic education (BEP) and Eastern Indonesia national roads improvement (EINRIP) reflect GoI's development priorities (see Boxes 5 and 6). While the loan components were used primarily for construction (of schools and roads), these programs also provided significant grant components for technical, policy and governance work.²³ Both programs have taken longer than expected to get up and running, because of AusAID's unfamiliarity with loan financing, the complexity of working through the government budget and systems, and the need to put in place strong anti-corruption safeguards.²⁴ Progress on construction has been more rapid for BEP, because of Australia's prior experience in the education sector, the clear commitment from GoI to provide universal access to basic education, and the availability of a relatively simple model for disbursing funds directly from MoF to school construction committees. By contrast, road construction is still to start. But EINRIP has made a substantial investment in building up capacity for technical work and project supervision, which is also being used by the World Bank.²⁵

27. This experience raises the following issues and lessons:

- It was always unrealistic to expect quick results from these large infrastructure programs. Channelling large loans through the government's budget and systems demands a methodical and careful approach. However, having learnt from this experience, AusAID may well be able to design and implement similar programs more quickly in the future. This experience will also demonstrate in what circumstances the extra fiduciary safeguards required by AusAID are justified, and where they can be relaxed because of confidence in the government's own systems for disbursing money, auditing the use of funds, and tracking program performance.
- The new AIP Country Strategy foresees "a reduction in the use of traditional project approaches and assistance will be targeted to help Indonesia utilise its own systems and resources more effectively and efficiently." To this end, the experience gained under the AIPRD loans with working through the government's budget and systems will be invaluable – even for grant programs in the future. From this year, AusAID is putting all of its grant assistance into BAPPENAS' Blue Book and they will be registered in GoI's budget from 2009.²⁶ This will be an important step forward – provided it can be done in a way which doesn't reduce the speed and flexibility of Australian aid.

²³ Including, in the case of BEP, a supplemental grant of \$55 million from the DCP.

²⁴ According to BAPPENAS, the loan agreement for EINRIP was delayed by the long process of issuing a tax letter from the Ministry of Finance, as requested by AusAID. Implementation was subsequently delayed by the slow preparation of bidding documents by consultants.

²⁵ The World Bank is financing a parallel Western Indonesia National Roads Improvement Program (WINRIP). This has also faced start-up difficulties, and is currently running a little behind the EINRIP schedule. It normally takes at least 2-3 years for the World Bank to prepare and approve large infrastructure programs.

²⁶ The Blue Book lists all of the projects that have been vetted by BAPPENAS, in line with the medium-term development strategy, and are eligible for funding from the government budget.

Box 5: Australia-Indonesia Basic Education Program (BEP)

The objective of BEP is: in partnership with Government and other donors, to contribute to improved equitable access to higher quality and better governed basic education services, especially in targeted, disadvantaged areas. The four pillars of BEP, and their anticipated outcomes, are:

- expanded equitable access: community-led construction of about 2,000 fully operational new and one-roof junior secondary schools and madrasah; creation of at least 330,000 formal school places and a significant number of non-formal places; and an increase in the net enrolment rate of junior secondary school students from the poorest 20% of households from 49.7% to 65%;
- improved quality and internal efficiency: sub-contracted site supervision of construction to professional standards; and better systems for management of school assets, teachers, quality and availability of instructional materials, and school and student performance;
- capacity development for governance of education services: strengthened systems for financial and performance planning and monitoring; and
- increased resource mobilisation in the education sector: increased volume and share of MoNE/MoRA spending directed towards basic education, particularly in poor and under-serviced districts.

The total commitment of funds under BEP is \$355 million, including \$200 million in AIPRD loans, \$100 million in AIPRD grants and \$55 million in DCP grants. All of the AIPRD loans and \$60 million of the AIPRD grants were allocated to construct schools. Construction of the first round of 380 schools was completed by July 2007. More than 90% of these schools are now fully operational with total enrolments exceeding the targets for the first year of operation. According to the recent Mid-Term Review, communities report satisfaction with their new school facilities. Despite unforeseen challenges of building schools in remote areas, and the limited experience of MoRA in managing large construction activities, the target of 2,000 schools is expected to be met by December 2009.

Australian funds for MoNE school construction are channelled straight from the Indonesian Ministry of Finance to School Construction Committees (SCCs). For MoRA madrasah, funds are channelled through the managing contractor. However, evidence to date suggests that this approach has simply raised costs, while doing little to improve GoI's own disbursement system or MoRA's capacity. Overall, according to the Mid-Term Review, the cost per square metre of community-based construction is approximately 60% of contractor-based construction. The Mid-Term Review proposes relaxing the top-down construction model, to make the process district-based and more responsive to community needs and environmental conditions.

The BEP pillars on capacity development and resource mobilization have been funded from the DCP and are outside the scope of this review. However, they are essential parts of the overall program, which often get overshadowed by the large amount of money going into school construction. The Mid-Term Review notes that these are inherently longer-term activities, which will have to be continued well beyond the timeframe of BEP. This should be done in the context of GoI's strategic education plans and the activities of other donors in the sector. To this end, Australia has held consultations with the European Union and the World Bank on options for BEP engagement in the proposed System Improvement through Sector Wide Approaches (SISWA).

Source: Australia-Indonesia BEP Design Summary (15 August 2006), Australia-Indonesia Education Sector Development Mid-Term Review (May 2008), and interviews with MoNE, BAPPENAS and AusAID staff/contractors.

- Both BEP and EINRIP have significant grant components. These enabled Australia to respond flexibly to requests from GoI for technical and policy work, to build capacity within the implementing agencies, and to put in place satisfactory fiduciary safeguards. International Financial Institutions (IFIs) do not have access to large grant funds, and GoI is reluctant to borrow for this type of technical assistance. Therefore Australian grants can make a valuable contribution to improving the performance of sector-wide programs, including those financed by IFIs. This needs to be taken into account in assessing the impact of these AIPRD programs.

Box 6: Eastern Indonesia National Roads Improvement Project (EINRIP)

The objective of EINRIP is to support regional economic and social development, particularly in Eastern Indonesia, by improving the condition of the national road network. Loan funds (\$300 million) were to be used to support the betterment and rehabilitation of more than 2,000 km of national roads in Eastern Indonesia and to replace 4,500 metres of bridges in critical condition throughout the country. Grant funds (\$28 million) will be used to provide capacity building support to strengthen the abilities of the Ministry of Public Works to manage road maintenance, management and design.

In March 2006, a Project Preparation Consultant (PPC) was appointed for EINRIP. The PPC has developed a series of Annual Work Plans (AWP) in close consultation with the Directorate General of Highways (DGH) and AusAID that detail road links that will be the focus of road betterment activities under EINRIP. These links have been subject to detailed economic and environmental feasibility review. The PPC is also producing Final Engineering Design drawings for these links, which will be provided as a full set of tender documents to GoI to enable rapid tendering of the works. Initial works will focus on those links where there are no major land acquisition issues, or environmental and social impacts.

EINRIP preparatory activities are slightly behind schedule and implementation of the first AWP is now expected to commence in mid-2008, eight months later than previously anticipated. This is largely due to delays in agreeing construction supervision arrangements with GoI and finalising the EINRIP Loan Agreement (signed in September 2007). Because of rising costs, and higher design standards than originally planned, it is now expected that EINRIP will be able to finance only 550 km of roads (compared to the original target of 2,000 km). Costs per kilometre are double those on comparable roads financed by GoI, but the expected life of the road is also twice as long (20 years, against the planned life of 10 years for GoI-funded roads, and actual experience which is often much less). The length of bridges to be replaced has also been reduced from 4,500 to 1,000 metres, as it has been found that improved maintenance can extend the life of many existing bridges.

A similar project to be funded by the World Bank will provide support for national roads improvement in Western Indonesia (Java and Sumatra). This has also faced start-up difficulties, and is currently running a little behind the EINRIP schedule. A joint approach has been adopted with the World Bank to improve transparency and efficiency in GoI procurement. This includes the use of a Procurement Agent for consultancy support services (to strengthen DGH's capacity for project management and supervision). All procurement is subject to prior review by AusAID. EINRIP has adopted World Bank standards for environmental and social safeguards, while the World Bank project will benefit from technical design work funded out of AIPRD grants.

Source: EINRIP Project Implementation Plan (18 June 2007), and interviews with DGH, BAPPENAS and AusAID staff/contractors.

28. AIPRD funding for **private sector development and rural productivity** was channelled through the Smallholder Agribusiness Development Initiative (SADI). SADI has built on and integrated three existing programs to improve linkages between smallholder farmers (with the World Bank), small and medium agribusiness firms (with IFC) and adaptive agriculture research (with ACIAR) in four provinces of Eastern Indonesia. Some of the pilot activities are already delivering results (e.g. marketing processed peanuts from Lombok through Garuda Foods). However, major challenges remain in: (1) involving SMEs, especially in East Nusa Tenggara (NTT); (2) providing finance at the community level; and (3) adjusting the engagement with KDP, now that it is being integrated into the National Community Empowerment Program (PNPM). It is too early to judge whether the pilots activities under SADI will generate sufficient benefits in terms of rural growth and household incomes to justify the \$38 million cost. A lot will depend on how effective SADI can be in replicating the pilot activities, and influencing local government policies and programs. The potential for these impacts should be assessed before extending SADI or considering a second phase of activities.

29. Beyond basic education, AIPRD supported **human resource development** through the Australian Partnership Scholarships (APS). APS focused on studies in the areas of economic governance, public sector management and education. Candidates came from a range of government institutions, NGOs and the private sector. While there was a strong focus on merit, the selection criteria also took into account regional coverage (especially Aceh and Eastern Indonesia) and gender balance (at least 50% had to be female). All 600 students have now been selected and placed in Australian universities and 156 have already completed their studies and returned home. Careful selection and placement procedures have ensured a high standard of grades to date.

30. Australia already has a range of scholarship programs, including the Australian Development Scholarships (ADS) and Australian Leadership Awards (ALA). APS effectively doubled the size of ADS over a two-year period to 600 per annum. With the completion of APS, the AIP Country Strategy proposes scaling that level back again to 300 per annum. The review team cannot assess the merits of that decision – against the competing claims on the country program. This is clearly something to be decided jointly by the Governments of Indonesia and Australia. However, the review team does recognize the potential value of the scholarship programs – to both improving relationships between the two countries and contributing to the human capital of Indonesia (even though this is always difficult to track and measure). Going forward, there may be merit in looking more broadly at how to: (1) link up GPF, technical assistance and scholarship programs to strengthen key economic institutions; and (2) strengthen universities in Indonesia – including through financial support and exchange or twinning programs with Australian universities – so that they can take on more of the load in providing higher education to Indonesian students.

31. Overall our assessment of progress on implementation and achievements to date suggests that the performance of AIPRD in terms of ‘achieving development results’ has been positive. The reconstruction effort in Aceh has been effective and provides a solid basis for ongoing development support to the region. The AIPRD investments in core sectoral areas such as education, roads, governance and human development are well aligned with national strategies, fit within and add something distinctive to the (increasingly) coordinated actions of

GoI and the donor community, and are starting to deliver results with some notable examples of significant gains and wider value. While in many cases the pace of progress has been slower than that targeted, this largely reflects the unrealistic expectations at the start of AIPRD about what could be achieved, especially on the two large infrastructure programs.

32. The ‘partnership’ dimension of AIPRD has been strengthened at the top, through the role of the Joint Commission, and at the bottom, where joint teams have worked on the design and implementation of individual initiatives. However, the middle core of the partnership, including inter-ministerial coordination on the Indonesian side, remains relatively weak, constrained by the absence of any clear expectations of what this would look like cascading down from the Joint Commission and thereby what would be required by both partners to make this happen in a substantive way. As noted by the Indonesian Minister of Finance, the Joint Commission can only achieve so much without more active discussion at the official level about Indonesian priorities and what Australia can and cannot do to support them. This process has now moved to another level, with the recent preparation of the new AIP Country Strategy. However, it still has some way to go to move beyond consultation on Australian proposals to a genuine partnership. The absence of a fully developed and active approach to performance monitoring and evaluation has constrained the maturing of this partnership dimension.²⁷

33. Finally, the AIPRD Partnership Framework notes that “opportunities for encouraging people-to-people links between Indonesia and Australia will be investigated with all major activities identified above.” The GPF has progressed this somewhat, including through the Australia Indonesia Governance Research Partnership (AIGRP) and a High-Level Economic Policy Dialogue between the Indonesian Ministry of Finance and Australian economists. The APS has also expanded ties between Indonesian students and Australian universities. However, the review team is not aware of any other significant ‘people to people’ initiatives and therefore is unable to provide an overall assessment of the impact of such initiatives, including their enduring contribution to relations between the two countries. This might be something worth considering before AIPRD comes to an end.

E. IMPACT ON AUSAID STAFF AND SYSTEMS

34. While AIPRD was a whole-of-government program, AusAID took the lead on the bulk of program design and implementation. This came at a time when AusAID staff were already under considerable pressure, trying to scale up the regular DCP while they lived with constant security threats in Jakarta (including the 2004 Embassy bombing, which severely damaged AusAID offices) and handled the initial response to the Tsunami. For many of these staff, having AIPRD set up as a separate ‘program’ was seen to undervalue and sometimes even undermine their ongoing efforts. One example is the Learning Assistance Program for Islamic Schools (LAPIS), which had invested a lot of time in building up demand-driven approaches to

²⁷ The ANAO report (2006) noted that public reports on AIPRD have to date “contained little information on the expected timing of activities, including progress against expectations.”

setting school priorities. There was a risk (subsequently well managed) that the large new AIPRD program for school construction could have swamped these efforts.

Box 7: Reflections of AusAID Staff

A series of interviews with AusAID staff involved with AIPRD programs were conducted as background to this review. They provided valuable insights into the human resource aspects of AIPRD, especially in the early days. Following are some quotes from those interviews:

“We were averaging 70 hour weeks (Allison was averaging more than this). I used to keep my swag in the office, and I’d sleep there occasionally. It was just nuts. It was an amazing thing to be part of, but in a sense it was like rushing down a river. You don’t think about it until you bring your boat to the end. We were drowning almost literally in the work we were doing.” So we asked: “what can we sensibly do in the time that we’ve got? Let’s start with a common-sense approach. So we started with a bunch of ideas. People started to throw ideas in the hat, and we’d go around and talk to a few people. Is this a stupid idea – yes or no?”

“AIPRD was badged differently. There was a bit of pressure to get out there and market AIPRD. So we did have to talk about it as being something separate and different... At first Allison had to put a lot of effort into getting the two offices to talk to each other and just share. People in the DCP program just saw it as something completely separate – and that’s how everyone was talking about it. And they had their own work to get on with. It wasn’t like AusAID was just adding a few new staff to AusAID at the Embassy, and they got welcomed into the family. It was a new location, new staff everything was new. So we set up all the corporate systems from scratch.”

“It was probably very ambitious to respond to a crisis and set up new processes at the same time, and expect that a partnership approach was going to be set up and effective in several months. In Indonesia, you don’t do business that way. Therefore AIPRD relied on the quality of personal relationships with Indonesian Government staff. The first tranche of people that came up here all had knowledge of Indonesia and some of us had language skills. We were really well equipped to build those relationships. But we needed more support from the system, to actually have a large proportion of our work and time about chasing up those contacts, building those relationships. And not just having them based on personal relationships, but building some sort of institutional framework around them.”

“I felt like I was a pawn in a massive experiment of change management. I don’t think you can have too many experiences in life where you go from a unit of two people to a unit of 20 people within 18 months.... Any organisation that goes through that amount of rapid change in a short amount of time is going to have huge issues around staff satisfaction, the need to train new staff that come on board very quickly, the need to establish systems to support a much bigger operation at Post, the levels of support from Canberra and the types of support from Canberra that needed to adapt and change in response to our new program, including around loans.”

“The time in which we’ve got these two loan projects up here has been phenomenal. If you look at the period of time it takes for an ADB or World Bank loan to go from concept note to loan effectiveness, it’s typically in the order of 4-5 years. And yet, we programmed it within a year. But you have to have that in-house expertise. If you don’t resource it properly, you can’t have a partnership or do the project correctly. And that involves buying brains in. You could probably sub-contract bits of it out, but in a sense these consultants will still have to work very closely to us. But I think we’ve now found the technical expertise. It took a long time, but it’s happened.”

Source: Staff interviews by AusAID in February 2008.

35. By contrast, many new staff came on board through AIPRD, highly motivated by the challenge of responding to the humanitarian disaster in Aceh and the opportunities provided by the large financial commitment under AIPRD. However, they also faced the challenge of getting up to speed quickly, often in areas where they had little previous experience. Most AIPRD staff have had to live with heavy workloads and travel schedules for many months on end. The tragic death of Allison Sudradjat, who played such a pivotal role in getting AIPRD off the ground and uniting the two teams in Jakarta, was another major blow. It's a tribute to all involved, that the two teams in Jakarta and Canberra worked together so well, and that both AIPRD and the DCP delivered such good results over this traumatic period.²⁸ The selected quotes from AUSAID staff in Box 7 attempt to capture the human dimension of AIPRD.

36. The combination of a growing DCP and the new AIPRD led to a rapid expansion of AusAID staff working on Indonesia (see Table 3). Consistent with AusAID's policy on decentralization, most of this growth was in the Jakarta Post, which has expanded from 38 staff in 2005 to 136 in 2008. Of particular note is the build up of O-based staff and advisers, many of whom are Indonesian or have experience in Indonesia, which has greatly strengthened the program's country knowledge.²⁹ By contrast, staff working on Indonesia in Canberra initially expanded from 17 in 2005 to 34 in 2006, but has since fallen back to 25.

Table 3: AusAID Staffing for Indonesia Program

	2005	2006	2007	2008
<u>Jakarta</u>	<u>38</u>	<u>96</u>	<u>124</u>	<u>136</u>
A-based	8	23	27	29
O-based	30	69	86	95
Advisers	0	4	11	12
<u>Canberra</u>	<u>17</u>	<u>34</u>	<u>30</u>	<u>25</u>
<u>Total</u>	<u>55</u>	<u>130</u>	<u>154</u>	<u>161</u>

Source: AusAID.

37. The AIPRD experience holds some important lessons for AusAID's approach to human resources (HR) going forward:

- As AusAID takes on a higher profile role in Indonesia, it must have staff that have a 'deep knowledge' of the country and the development issues on which they are working. Country knowledge should be taken into account in recruitment decisions, developed

²⁸ The September 2007 assessment of the Indonesia Country Program Strategy 2003-2006 by ODE concludes that, based on assumptions of intent, the Australian assistance substantially achieved or is on track to achieve its strategy objectives in the three areas of economic management and growth, institutions of democracy, and security and stability, and has partly achieved its objectives in the fourth area of improved service delivery.

²⁹ A-based staff are Australian public servants, while O-based staff are Australian or non-Australian staff recruited overseas.

through longer assignments (high turnover rates among AusAID staff was the most frequent criticism heard by the review team), and passed on when staff rotate. Access to the best sources of information from universities and think tanks in both Indonesia and Australia is a must. Fluency in Bahasa Indonesia will also become an important asset, especially for staff working with local governments and community groups. Under AIPRD, AusAID was able to tap into a large pool of Indonesian consultants and advisers. This valuable resource needs to be maintained – and extended into other areas.

- The review team has been impressed with the commitment and experience of staff who have worked on AIPRD programs. In many respects, the special nature of AIPRD allowed them to do things and develop skills that are quite unique within AusAID. But there is also a concern that many of these staff will now move on or be absorbed back into administrative positions. It is no use having skilled staff if they don't have the time and incentives to apply their skills. This will be a major challenge for the new integrated AIP program. Greater clarity will be needed in the allocation of responsibilities between Canberra, Jakarta and regional offices (such as in Banda Aceh), and between A-based and O-based staff in Indonesia. Government and donor counterparts welcome the recent devolution of AusAID responsibilities to Jakarta, and would like to see this extended to regional offices in the future.
- AIPRD was also part of an evolution in the 'contractor' model. In the past, AusAID has largely used managing contractors to implement well-defined projects. But, under AIPRD, managing contractors have been used to both design and implement programs in the rolling design model. Greater use is also being made of contractors to supplement capacity in both AusAID and in the implementing agencies for AusAID-funded programs. This can be a good way to overcome budget constraints (because contractors can be funded out of project costs) and to fill important gaps in AusAID's own skills base. However, there is a risk that this will create multiple and sometimes confusing layers of management. Greater clarity in the roles of AusAID program managers, contract advisers and team leaders is needed.

38. AIPRD also stretched AusAID's existing systems for managing contracts, overseeing procurement, and monitoring performance. The review team has not looked at these issues in any detail. However, it's clear that much of this capacity was built up at the initiative level. Going forward, AusAID will have to decide which of these functions are best handled in this way, and which could benefit from a more centralized and coordinated approach.³⁰ Similarly, some of these functions could be contracted in or out. As with human resource policy, some of these issues may require corporate decisions by the AusAID Executive. But, in the first instance, AIP managers should decide how they want to proceed, act on options within their authority, and make proposals for systemic changes for consideration at a higher level.

³⁰ The World Bank Office in Jakarta, for example, has a central operational services unit, which supports sector staff and handles much of the procurement (including no-objection letters) and financial management work across the project portfolio.

39. Finally, the review team has found that records on AIPRD activities are not as accessible as they might be. While many documents have been provided to the team, they do not seem to be organised in well-structured project files. In terms of public disclosure, AIPRD did maintain a very complete website through late 2007. However, all of the supporting documents have now been removed – even though AIPRD still has several years to run. And it is very difficult for the public to access hard copies of AIPRD documents through the AusAID Offices in Jakarta or Canberra. This detracts from an otherwise very pro-active and effective public affairs function. There might be a case for AusAID taking a broader look at its record keeping and public information policies to support an expanded aid program in the future.

F. BROADER LESSONS FOR AUSTRALIAN AID

40. The Australian Government is committed to increasing aid to 0.5% of Gross National Income (GNI) by 2015-16.³¹ This represents approximately a trebling of aid flows in little over a decade to around \$8 billion per annum. Including AIPRD, the Indonesian program has expanded by a similar amount over the past five years, from \$152 million in 2003/04 to \$462 million in 2008/09. This experience therefore provides some potentially important lessons for the Australian aid program as a whole, as it is scaled up. Some of the key lessons are:

1. Disaster response requires very special skills and processes, and can warrant establishing separate ‘dedicated’ capacity. However, longer-term development initiatives should always work within an integrated country strategy and program. It is inefficient and confusing to run parallel aid programs within one country.
2. The pace of scaling up has to reflect the realities of country and program conditions. Move quickly when time is of the essence (disaster response) but be more careful when handling longer-term development programs (education, roads). Multi-year budgets, as in the case of AIPRD, clearly facilitate this process – while also providing more predictable funding for the recipient government.
3. There is value in thinking about broad country allocations, aligned with recipient government priorities, before introducing Australia’s own initiatives to the country program. Ultimately, finding the right balance is the role of a strong partnership. But extra time and effort is often needed to ensure that the government feels full ownership of the country strategy and program.
4. To this end, high-level joint commissions can play an important role in guiding the strategic direction and raising the profile of large aid programs, such as in Indonesia. But they need to be consistent with the recipient government’s own donor coordination mechanisms. They also need to be supported by effective inter-ministerial coordination mechanisms at the official level, to inform higher-level decisions and solve problems on a

³¹ The Government’s election commitment is confirmed in the Budget Statement on Australia’s International Development Assistance Program 2008-09.

more regular basis, and thereby provide a substantive core to the partnership. Without this, the value of the joint commission is likely to wane over time.

5. Similarly, whole-of-government structures within Australia impose an important discipline on AusAID and bring multiple perspectives (foreign relations, security, trade etc) to the aid partnership. This process has now been formalized in the Development Effectiveness Steering Committee (DESC). At the same time, it's important to recognize the primary role of AusAID in designing, implementing and evaluating aid programs, and provide enough space for this to be done effectively.
6. There is no one model of how to work with other donors, including IFIs and multi-donor funds. Ultimately, a lot will depend on the preferences of the recipient government and Australia's own assessment of what will be best for aid effectiveness. As Australia's aid program is scaled up, there will be growing expectations that it will play more of a leadership role in policy dialogue and donor coordination at the sector, regional and country levels.
7. A larger aid program also means a higher profile for Australia. This can be a good thing, in so far as it strengthens the relationship between the two countries. But it can also expose the Australian aid program to new political risks and uncertainties. It's important that Australia preserves its reputation as a flexible, pragmatic and reliable long-term partner.
8. Australia's aid program is most effectively delivered through the provision of grants, rather than loans. While the case can be made for loans to support infrastructure in middle-income countries, grants can usually achieve the same objectives without building up debt. As with loans, grants should be recorded on the recipient government's budget – provided this doesn't reduce the speed and flexibility of Australian aid. Procurement should be untied to gain the full benefits of competition.
9. It is worthy in principle to work through the government's budget and systems, but complicated in practice. The Indonesian experience with the two large infrastructure projects provides many lessons – which should be widely shared across country programs within AusAID and with other whole-of-government partners.
10. Good information is needed for real-time program management and for assessing impact over the longer term. AusAID's thinking on performance monitoring has come a long way over the past few years, although it is still to be fully applied by whole-of-government partners. It's essential that appropriate monitoring and evaluation frameworks – reflecting the partnership approach through greater use of government systems for performance monitoring – are established early for new programs, providing a strong results focus to implementation and good baseline data for evaluation and wider shared learning.
11. A substantial scaling up of Australian aid will demand new roles and skills from AusAID staff. A 'deep knowledge' of country conditions (including language skills) will become increasingly important, and should be taken into account in recruitment decisions,

developed through longer assignments, and passed on when staff rotate. Access to the best sources of information – in both the recipient country and Australia – is essential.

12. AusAID's processes and systems will also have to adjust. Consideration should be given to establishing more centralized capacity for managing contracts, overseeing procurement and monitoring performance. Some of this capacity could be contracted in or out, depending on the function. AusAID should also review its record keeping and public information policies, to make sure they are adequate to support an expanding aid program.

41. Overall, Australia can take pride in what has been achieved under AIPRD under difficult conditions. The reconstruction work in Aceh clearly responded to an immediate need, and is highly appreciated by the local population; the GPF has built stronger partnerships between a number of Australian and Indonesian government agencies; and the venture into infrastructure has exposed Australia to sector-wide policy issues and working with Indonesian government systems. It's too early to evaluate the impact of AIPRD and to assess whether the results justify the \$1 billion commitment. That will have to wait another few years, if not longer. Not everything has worked out as planned in terms of delivering substantive development impact within the original five-year timeframe (Aceh mapping, disaster management and road improvement come to mind). However, it seems likely at this stage that the approach taken through AIPRD in terms of the scale, pace and nature of the engagement is on a broadly positive track. Moreover, and perhaps most significantly, AIPRD will have considerable longer-term pay-offs in terms of building capacity for Indonesians to tackle their own problems, and building stronger partnerships that will allow Australia to provide constructive and responsive assistance in the future. These contributions are valuable in their own right – and provide a sound foundation for the new AIP Country Strategy to build upon.