

IMPROVING THE BUSINESS ENABLING ENVIRONMENT FOR POOR FARMERS

AUSTRALIA INDONESIA PARTNERSHIP FOR DECENTRALISATION – RURAL (AIPD-RURAL)

Revised Technical Proposal

Submitted to:

Australian Agency for International Development (AusAID)

Submitted by:



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A. BACKGROUND AND RATIONALE

Stimulating local economic development is one of the main objectives of decentralisation, and economic growth can only be sustainably accelerated if the private sector grows. In Indonesia, while the agricultural sector's share of the economy is declining,¹ it remains an important sector, contributing around 15%-16% of GDP. In rural areas, where more than 60% of the population lives in poverty, around two thirds of the workforce is in the agricultural sector. As indicated in the Australia-Indonesia Partnership for Decentralisation (AIPD)- Rural Draft Design Document, growth of just 1% in the agricultural sector can reduce rural poverty by almost 3%.

The AIPD-Rural program is being prepared to address this issue. The AusAID program aims to increase competitiveness of poor female and male farmers through three key outcome areas: (i) improving farm practices; (ii) improving access to input and output markets; and (iii) improving the business enabling environment at sub-national level.

With regards to the third outcome area, an improved business environment can reduce costs of production and improve productivity that lead to increased incomes for people working in the agriculture sector, which is notable for poor farming practices and limited access to agricultural input and output markets. Factors shaping the business environment for agriculture and the competitiveness of farmers include poor infrastructure, irregular and expensive transportation, lack of access to credit, lack of information and networking, a complex regulatory environment, high taxes and fees, and poor local government planning of extension services and other incentives that could improve the welfare of poor farmers.

The 2011 Local Economic Governance (LEG) Study² found business enabling factors to be generally poor in districts in Eastern Indonesia, as well as in rural areas as a whole. For instance, private sector respondents that were surveyed deemed infrastructure management and development – which they considered the most important aspect of local economic governance – as being of poor quality in Eastern Indonesia. Despite recent improvements in the national regulatory environment, one being Law No. 28/2009 on Local Taxes and User Charges, which promotes reduction of unnecessary taxes and user charges that increase transaction costs, the LEG study found that most local regulations do not comply with the law, and that 17% of local laws actually have a negative economic impact.

The results of the LEG study confirmed that the main findings of SMERU's study on the business climate in West Timor (2007) were still valid. That is, local governments continue to impose various charges on the trade of agricultural commodities, including through third party contributions (donations to the government). In addition, agricultural producers – mostly small scale – bear unofficial charges and bribes, and do not have a strong bargaining power against big inter-island traders.

¹ Agricultural sector in this proposal covers food and estate crops, livestock and fisheries sub-sectors.

² The 2011 LEG Study was implemented by The Asia Foundation and Regional Autonomy Watch (KPPOD) in 2010-2011 with financial support from Australian Aid. The study covers the quality of local economic governance, mainly based on the perception of private sector, in 245 districts/municipalities, including all AIPD-Rural areas.

It is expected that improvements to the business enabling environment will reduce transaction costs for farmers and value chain actors, improve government policies and budget allocations for the agriculture sector, and increase the quality and management of the infrastructure needed by farmers and value chain actors to access input and output markets.

B. OBJECTIVE AND ANTICIPATED OUTCOMES

The Asia Foundation (hereinafter “the Foundation”) proposes to implement “Improving the Business Enabling Environment for Poor Farmers” Program (“the proposed Program”) to identify political economy issues related to the business environment that constrain the competitiveness of farmers and businesses within agricultural product value chains, and to initiate dialogue among key stakeholders in the following districts and provinces: Sampang, Situbondo, Malang and Trenggalek (in East Java), East Lombok, North Lombok, Bima and Dompu (NTB), and North Central Timor, Southwest Sumba, East Flores and Ngada (NTT).

The Foundation plans to include eight districts in West Papua (Raja Ampat, Fakfak, South Sorong, and Manokwari) and Papua (Kerom, Merauke, Yahokimo and Yapen) and the two provincial governments in the proposed Program implementation. Bearing in mind that AusAID’s partner, the Australian Centre for International Agricultural Research (ACIAR) are still in the process of studying agricultural product value chains for those regions, this proposal only includes the assessment of potential local civil society organization (CSO) partners that would implement the proposed Program in the two provinces.

As indicated in the AIPD-Rural program Draft Design Document, the implementation strategies in each province and district supported by the AIPR-Rural program will be developed based on detailed assessments which will include, among others, stakeholders mapping, problem analysis, and public sector/policy analysis. This proposed Program is expected to inform the design of the overall program implementation plan as well as the provincial- and district- level implementation strategies, by identifying local opportunities and potential partners to work with, and analysing specific political- economy challenges that need to be addressed to unlock pro-poor growth. In addition, the proposed Program will initiate networking among various local stakeholders – government and non-government – and facilitate the discussion and analysis of business enabling environment issues by local stakeholders.

The AIPD-Rural Draft Design Document indicates four possible activities to achieve an intermediate outcome of improved business enabling environment at the sub-national level: (i) improve economic governance and regulatory capacity; (ii) improve coordination of public services in the agricultural sector; (iii) improve gender and pro-poor service delivery; and (iv) improve local government infrastructure planning. The proposed program would cover assessments that provide baseline data and information about the four outputs above that can be used by the AIPD-Rural program implementing units once it is implemented.

C. THE PROGRAM'S APPROACHES AND PRINCIPLES

The Foundation will apply several approaches and principles in implementing the proposed Program:

- (1) The proposed Program will be implemented by the Foundation through provincial and local-level civil society partners, including non-governmental organisations (NGOs), research institutions and universities.
- (2) It will seek to enhance both the demand (private sector, civil society organisations (CSOs) and farmers) and supply (government) sides of economic governance in relation to agriculture and poor farmers.
- (3) It will promote partnerships and collaborative relationships among public and private sector actors, namely, financial institutions, vendors, buyers, service providers, extension officers, researchers, farmers' groups and other CSOs concerned with poverty and gender issues in rural areas.
- (4) It will complement a technocratic approach to "evidence-based advocacy" with a "working politically" approach, that starts by understanding the political economy of agriculture in each location, then uses this knowledge to create incentives for problem-solving and reform by policy makers.
- (5) It will promote knowledge development, knowledge sharing and peer learning among civil society, the private sector, researchers and the government, primarily through joint analysis of primary and secondary data by local reform-oriented stakeholders.
- (6) Gender equality and environmental considerations will be mainstreamed in the proposed Program implementation.

D. DESCRIPTION OF ACTIVITIES

There are two very relevant research studies that will complement the proposed Program. The Foundation and its local CSO partners will be coordinating and working closely with two organisations that are currently implementing the research studies to ensure that the proposed Program will benefit and, on the other hand, enhance the two research studies:

- i. *Analysis of Agribusiness Development Opportunities in Eastern Indonesia* ("Value Chain Study") that is currently being conducted by the Australian Centre for International Agricultural Research (ACIAR) in the same geographical areas with the proposed Program.³ The study will identify commodities with the most potential for improving incomes of poor farmers, analyse value chains and identify key factors limiting chain participation, competitiveness and income of poor farmers, and outline agribusiness development opportunities and approach for improving incomes of poor farmers linked to the selected value chains.

³ The current coverage of the Value Chain Study is NTT, NTB and East Java. However, AusAID plans to expand the geographical coverage of the study to also include Papua and West Papua provinces.

- ii. *Public Expenditure and Revenue Analysis (PERA)* that is being implemented by the Knowledge Exchange of Eastern Indonesia Region (BAKTI) to analyse expenditures and revenues of provincial and local governments in five provinces. It is expected that the provincial and local governments' budgets on agriculture and infrastructure sectors will be analysed in PERA.

The proposed Program includes two main components that will be implemented by the Foundation and its local CSO partners that can be grouped into two components. The first component covers two analytical works on political economy and regulatory review. The second one utilizes the results of the first component to initiate discussions among various stakeholders of the business enabling environment for the agriculture sector.

Component 1. Analysis of Business Enabling Environment Issues Constraining Poor Farmers Competitiveness

Activity 1.1 Agriculture Stakeholders Political Economy Study. This study has been designed based on the assumption that development is not solely, or even primarily, about finding the best technical solution, but rather is more often a matter of the willingness and ability of political elites and powerful stakeholders to implement reforms that will benefit the poor. The Foundation proposes using political economy theory to identify and understand the incentives, motivations and policy positions of stakeholders involved in the agriculture policy making and practices at the local level.

The political economy study will use as its starting point the results of the Value Chain Study which provides a socio-economic overview and in-depth look at selected commodities that will be the main focus of AIPD-Rural in each district and province. The market structure and actual "business model" of how agriculture stakeholders interact and influence one another within the commodity-specific value chain will be explored, as well as the private and public benefits created by the value chain, will be analysed. Findings will be used to formulate strategic recommendations for AIPD-Rural program implementation.

The political economy study will cover both provincial and district levels, with one commodity in each district and a maximum of two commodities in each province being the focus of the analysis. For each commodity in each location, interactions between structural features, institutions and stakeholders (agents), as well as between political, economic and social forces, will be reviewed.

In-depth interviews will be the main data collection method for completing the political economy study. Individuals (or groups) involved in or informed about the existing policy and business practices related to a certain commodity in each district will be interviewed, with interview guides tailored to their backgrounds and roles. Informants will include government policy makers (executive and legislative), local government technical-level staff, farmers, individuals/companies involved in value chains related to the commodity, NGOs (particularly those that will receive small grants from the AIPD program), community groups involved in the National Community Empowerment Program (PNPM), development partners, consumer groups and other stakeholders such as journalists and academics. Wherever possible, focus group discussions (FGDs) will be conducted to discuss less sensitive issues and/or for a group of stakeholders that considered having similar positions. FGDs will also be used to triangulate information obtained through interviews. Special attention will be given to the role of women and their interaction with other groups.

Relevant secondary data such as minutes of meetings, newspaper articles, policy notes, government statistics, long- and medium-term development plans and programs, wherever applicable, will also be collected and reviewed to complement the results of the in-depth interviews and FGDs. Current studies and reports relevant to the political economy and business enabling environment of the agriculture sector and will also be collected and reviewed. This will include various interim reports of the value chain study and PERA discussed above, as well as the 2011 LEG Survey, a study on access to finance by the International Finance Corporation (IFC), a study on transportation of goods in NTT⁴ as well as relevant studies conducted by local researchers, particularly those involved in the Eastern Indonesia's Researcher Network (JiKTI). In addition, the results of the regulatory mapping and review (see **Activity 1.2** below) will also inform the political economy study.

The study will test several initial hypotheses about the political economy of the business environment for agricultural commodities at the local level:

- (a) Elections do not create incentives for heads of districts, governors or local budget council (*Dewan Perwakilan Rakyat Daerah* or DPRD members to create policies that improve the business-enabling environment for poor farmers.
- (b) Politicians who have the financial backing of wealthier business owners reward their supporters with policies that create a monopolistic/oligopolistic market structure for key commodities, rather than those benefitting poor communities that actually have more electoral power.
- (c) Poor farmers and small-scale businesses within the agricultural value chain are not organised, have limited bargaining power, and have limited access to decision-making processes. Limited local business institutions that have capacity and experience to involve in agricultural value chains.
- (d) There is limited to nonexistent adequacy between the demand for improved policies and services from the poor farmers and small businesses and the provision of such services by the public sector (supply and demand gap) because of the lack of consultation (limited forums allowing interactions between the government and businesses to identify issues and reform agendas) and of incentives for the public sector.
- (e) Limited numbers of formalized businesses (and pay taxes and other legal charges) makes the demand for government policies and programs reform is limited.
- (f) The limited local budget allocated for agriculture and infrastructure development is co-opted by the interest of politicians to reward those who have backed them during the election, in addition to limited capacity of the executive and legislative in budget planning.
- (g) The government provided limited supports – agriculture extension services, training, and other business development services – to improve agricultural production and access to technology.
- (h) Infrastructure development needed to support the agricultural sector and the distribution of commodities is constrained by corrupt practices in procurement and project implementation.

⁴ The study was conducted by the Institute for Economic and Social Research, Faculty of Economics, University of Indonesia (LPEM-FEUI) in 2009-2010 under the Business Enabling Environment – Australia-Nusa Tenggara Assistance for Regional Autonomy (BEE-ANTARA) program funded by AusAID.

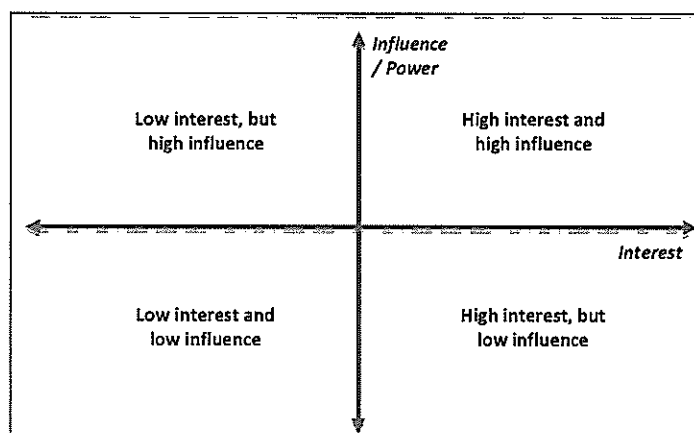
- (i) Civil servants in departments related to agriculture and infrastructure do not have incentives, in addition to lack of appropriate skills and knowledge, to improve their performance in public service provision.
- (j) Interest in generating locally-generated revenues (*Pendapatan Asli Daerah* or PAD) encourages provincial and local governments to issue local regulations on various taxes, user-charges and donations (third party contributions) that are burdensome to private sector. Local politicians (executive leaders and DPRD members) have personal incentives to raise PAD as a part of their performance indicators for election campaign.
- (k) Law No. 28/2009 on Local Taxes and User Charges is not well disseminated or enforced, so burdensome local regulations are still enforced at the local level.
- (l) Local governments have limited power to abolish illegal charges, particularly those supported by the police and military.
- (m) Small businesses that could potentially be involved in agricultural value chains are constrained by cumbersome and costly business licensing processes that impede their ability to be formally licensed, access credit, or see support from government programs.
- (n) The agricultural value-chain competitiveness suffers from the additional costs caused by the impediments mentioned above, limiting its capacity to create jobs and alleviate poverty)

The analysis that will be undertaken to produce each case study will include the following:

- a. *Stakeholder analysis.* The purpose of this analysis is to identify all key stakeholders in agriculture sector, and to map their relative interest and influence/power over other stakeholders and local policies and practices (“business model”) of the selected value chains, and how it changed over time. The Foundation’s local CSO partners will take an inventory of key stakeholders, at both the institutional and the individual level (i.e., the local agriculture department/*dinas* may appear on the map, as well as individual champions within the agency, producers, businesses within the value chains, as well as consumer groups, if any).

Identified key stakeholders will be placed on the map (see **Figure 1** below) according to their influence (power to facilitate or impede reform) as well as their interest (high interest being pro-reform and low interest being resistant to reform). If there are initiatives of various forms of reform in the broadest sense, an analysis of stakeholder position “prior to reform” and “after reform” will be drawn to illustrate how champions of reform gained more influence and/ or those resistant to reform lost influence or changed their interest. A discussion on the impact of reform to each institution and/or individual (positive/negative, short and long-term) will also be included.

Figure 1. Sample of Interest v. Influence Map



b. *Politics of Development Framework Analysis.*⁵ The study will employ the Politics of Development framework to further analyse how specific policy decisions were made in each district. The Politics of Development framework conceptualizes the structure of a political system in terms of a series of components and dynamics between them. The framework enables the analysis of pressure points from both formal and informal groups who influence, make, or potentially spoil policy decisions. When possible, the team will explore gender dimensions of the stakeholders' positions and levels of influence. The analysis includes:

- *Inputs (by agents):* Inputs made by agents as identified through stakeholder mapping will include both *demands* (for a specific agricultural policy reform) and *oppositions* to such demands. "Inputs" may also be identified as more general public expectations – such as equity and transparency – that drive policy formation. The range of agents will include both external agents (primarily the farmers and individuals/companies within the selected value chains, but also NGOs and other communities) as well as internal agents (local executive and legislative) – as identified through stakeholders mapping.
- *Modes of influence:* This includes the methods by which agents express their demands and use their influence. Modes of influence may include above-board policy requests, as well as threats and political bargaining.
- *Gatekeepers:* Some stakeholders will be identified as important gatekeepers, such as those who offer access to influential politicians, and may include business people related to the local agricultural industry. The media, NGOs and academics may also become gatekeepers by promoting or repressing certain positions during the time that policy is being considered, even though they may not directly make demands as agents.
- *Lobbying:* While these overlap to some extent with demands and gatekeepers, lobbying may take a variety of forms. There may be external lobbying, for instance, by donor-funded programs or national-level players. There may also

⁵ Leftwich, A. 2006. Drivers of Change: Refining the Analytical Framework. Part 2: A Framework for Political Analysis.

be political “deals” cut, or internal lobbying between parts of government trying to steer a specific policy decision.

- *Policy formation*: This area is trying to look at the processes through which different interests, influences, demands and oppositions interacted in the contestation of policy decisions. It is informed by the stakeholders map, and will be applied to a specific policy decision related to the business environment for agricultural commodities studied.
- *Outputs*: It may be in the form of a local-level regulation (bylaws/*perda* or head of region decrees),⁶ protection of specific individuals/companies within the value chains, or business licenses issued (or blocked), as examples.
- *Environmental factors*: These include external events or critical junctures that “trigger” or influence policy outcomes, such as local elections and high-profile media coverage that dramatically changes public support for reform.

Activity 1.2 Regulatory Mapping and Review. The Foundation’s local CSO partners will collect provincial and district-level regulations (bylaws/*perda* and head of regions decrees) relevant to private sector development in general and, in particular, those related to selected value chains. Wherever possible, local stakeholders interested to review the local regulations will be involved in the review process to increase their capacity and ensure sustainability of the process. The *perda* collected by the Regional Autonomy Watch (KPPOD) as a part of the 2011 LEGS and by LPEM-FEUI for the goods transportation in NTT study will be the starting point of the review, but other relevant *perda* in the three provinces and 12 districts will also be collected and reviewed.

The review will measure indicators of principles that include free domestic trade, healthy competition, positive economic impact, public access and interest, and the authority of the provincial and local governments. In addition, the review will identify whether local regulations correctly reference relevant and up-to-date higher-level regulations (such as national laws and government regulations).

This activity will produce a map of the potential problems local *perda* can create as related to business development, particularly agricultural development. In addition, national-level regulations related to specific commodities that are considered to be important for rural poverty reduction will also be reviewed. The review will conclude with specific recommendations about the regulatory reform needed to improve competitiveness of poor farmers and small businesses within the commodity value chains studied, and identify whether problematic regulations need to be repealed or revised.

The results of the regulatory mapping and review will be consulted to various stakeholders through at least two public-private dialogues under **Component 2** of the proposed Program.

⁶ A bylaw or local regulation is approved by the local legislative council (DPRD) while head of region decree does not have DPRD approval.

Component 2. Initiating Public-Private Dialogue (PPD) on the Business Enabling Environment for the Agriculture Sector

The main objective of this component is to initiate discussions among stakeholders on various agriculture sector business enabling environment issues, including the results of relevant research, and of the regulatory mapping and review implemented under **Component 1** above. The Foundation will carefully design and implement the PPD to ensure that the activity will not create negative reaction from the government and elected officials (executive and legislative) or from other stakeholders to the AIPD-Rural program. Discussions are intended to help constructive coalitions between the various agents, create or accelerate momentum for reform and/or define a reform agenda that can be followed-up by the long-term AIPD-Rural program.

To illustrate the kind of momentum that might be built through PPD, ideas for potential issues to be discussed include the following:

- Dissemination of the results of 2011 LEG Study in the provinces of NTB and NTT, which could initiate positive response from stakeholders (including the government) about the importance of accelerating infrastructure development.
- Through the Australia-Nusa Tenggara Assistance for Regional Autonomy (ANTARA) program, the Foundation and its local partners supported several districts in NTT to review local regulations using the regulatory impact assessment (RIA) method in 2008-2010. PPDs of the findings stimulated interest by the provincial government to use the RIA method to review all existing business regulations.
- Results of the central government review of local regulations, as well as more intensive dissemination of the Law No. 28/2009, could create incentives for provincial and local governments to conduct regulatory reviews that will identify and address regulations that constrain growth.
- Local executive elections can create opportunities to advocate for inclusion of a pro-poor agenda in the campaign platforms of candidates, and the mid-term development plan (RPJMD) when the Regent's/Governor's new term begins.
- Exposure of corruption in infrastructure development can encourage provincial and local governments to take steps to improve transparency and accountability of procurement and project implementation.
- Discussion of the results of the 2011 LEG study may create positive inter-district competition and encourage local governments to take steps to improve their business enabling environment.

In general, the Foundation and its local CSO partners will use an incremental and “bottom-up” approach to plan and facilitate PPD on the business enabling environment of the agriculture sector in AIPD-Rural target provinces and districts. After key stakeholders in the agriculture business and their relative influence, interests, and interactions are identified through **Activity 1.1** above, the Foundation's local CSO partners will start facilitating small discussions on various agriculture business enabling environment issues. This may include for example, discussions on the quality of local economic governance as compared to neighbouring districts utilising the results of 2011 LEGS. In addition, initial results of the regulatory review (see **Activity 1.2** above), value chain study (by ACIAR), access to finance study (by the International Finance Corporation), PERA study (by BAKTI),

and the NTT goods transportation study (LPEM-FEUI and the Foundation: 2010) will also be used to generate PPD discussions.

Further development of the PPD will depend on the level of acceptance of the government, degree of conflicting interest among local stakeholders, availability of positive momentum to discuss reform, and emergence of “quick wins” among the issues discussed. Hence, there is a possibility that the PPD in one locality will be conducted through small-scale meetings between stakeholders that have similar interests, without trying to bring them together with “anti reform” stakeholders. In these localities, the output produced will include coalition/s of reformers with specific advocacy agenda/s. On the other hand, there is also possibility that through dialogue both government and non-government stakeholders will reach agreements on a specific detailed action plan for reform, which can then be implemented through the main AIPD-Rural program.

The dialogues could lead to the selection of a few issues that can be address within a relatively short period of time. For example, removal of local regulations that are not indicated in the positive list of the Law No. 28/2009 on Local Taxes and User Charges and/or considered as problematic and burdensome for agriculture sector value chains can be done quickly, as long as the local executive and legislative bodies have strong commitment to do so.

The results of the political economy analysis will not be openly discussed with stakeholders with competing interest and influence/power, but rather be used by the Foundation and its local CSO partners to develop a strategy to facilitate the PPD. On the other hand, the dynamics and results of the PPD will be well-recorded and inform the political economy study. Hence, these activities can be considered as the operational or applied component of the overall research.

E. INSTITUTIONAL ARRANGEMENTS

The Foundation proposes to engage with various local CSO partners and consultants to implement the Improving the Business Enabling Environment for Poor Farmers program. In each province, a local CSO partner is proposed to implement all components of the Program – conducting the political economy study and regulatory review, as well as facilitating local stakeholders to initiate the PPD, and liaising with the provincial and local governments as well as other relevant sub-national program units, such as AIPD provincial offices.

The Foundation and its local CSO partners will engage with provincial and local governments, particularly in implementing **Activity 1.2** (Regulatory Mapping and Review) and **Component 2** (Initiating PPD on the Business Enabling Environment for the Agriculture Sector). For those activities, provincial and local governments will be facilitated to establish (a) counterpart team(s) that will directly work with the Foundation and its local CSO partners to review the regulations and to hold dialogues with the private sector. With regards to **Activity 1.1** (Agriculture Stakeholders Political Economy Study), however, since it would need an objective external view of the existing political economy situation, the provincial and local governments will not be involved in the study implementation.

The following local CSO partners are proposed to assist the Foundation to implement the program at the provincial level: (i) Association for Small Businesses or *Perkumpulan Untuk Usaha Kecil* (PUPUK) in East Java; (ii) Budget Care Council or *Dewan Peduli Anggaran* (DPA) in NTB; and (iii) Citizen Information Centre or *Pusat Informasi Rakyat* (PIAR) in NTT. The work of DPA and PIAR will engage members of the Eastern Indonesia Network of Researchers (*Jaringan Peneliti Kawasan Timur Indonesia* or JiKTI) in NTB and NTT.

The Foundation will retain overall responsibility for Program implementation, and for maintaining the quality of deliverables, providing capacity building and technical support to local CSO partners, and liaising with AusAID and other institutions such as ACIAR, BAKTI, IFC, the AIPD “Governance” program, as well as national government partners, if necessary. In addition, the Foundation will hire consultants to ensure that intensive monitoring and technical support are provided to local partners as well as sub-national governments, if necessary.

The local CSO partners will be responsible for implementing the political economy study, and initiating the PPD on the business enabling environment for the agricultural sector. They will also be responsible for liaising and coordinating with respective provincial and local governments, as well as with the provincial/local level officers of the institutions/programs mentioned above.

F. DELIVERABLES AND REPORTING

The Foundation will report on the progress of the Program to AusAID through the following deliverables:

- (a) Quarterly reports will be submitted by the Foundation a month after the end of each quarter (i.e., the first report will be submitted at the end of Month 4 of the Program). Three quarterly reports will be submitted and include information about the progress and challenges in the program implementation, as well as the initial findings of the political economy and regulation review studies.
- (b) A study on the political economy of the business enabling environment for commodities in each district will be submitted at the end of Month 8.
- (c) A report on findings of regulatory mapping and review will be submitted at the end of Month 7.
- (d) A final report will be submitted by the end of the program. The final report will cover all activities conducted, particularly those under the second component of the program, as well as provide update of the political economy and regulation mapping studies, when relevant.
- (e) A simple report on the results of assessments of potential local CSO partners and feasibility of conducting political economy and regulatory mapping researches and facilitating PPD in Papua and West Papua will be submitted to AusAID by the end of Month 2.

G. MONITORING AND EVALUATION

In addition to the reports discussed above, The Foundation will be responsible for monitoring and evaluating program implementation. Using the Foundation's well-established systems, local CSO partners will be continuously monitored – both through regular reports as well as intensive site visits by the Foundation's staff and consultants. A kick-off workshop and training will be held at the beginning of the program with all local CSO partners. In addition, a mid-term coordination meeting and a final evaluation workshop will also be held.

Table 1. Monitoring and Evaluation Framework

Objectives	Indicators and Targets	Sources of Information
Outcome-Level Indicators		
Improve enabling environment at sub-national level (AIPD-R Intermediate Outcome 3)	<ul style="list-style-type: none"> Baseline information and reform action plans on the quality of economic governance and regulatory capacity identified 	<ul style="list-style-type: none"> Political economy analysis and regulatory map and review reports of 12 districts and 3 provinces
	<ul style="list-style-type: none"> Baseline information and reform action plans on the coordination of public services in the agricultural sector (e.g., on agricultural extension) are identified 	<ul style="list-style-type: none"> PPD reports of 12 districts and 3 provinces
	<ul style="list-style-type: none"> Baseline information and reform action plans to improve gender and pro-poor service delivery are identified 	<ul style="list-style-type: none"> Political economy analysis and regulatory map and review reports of 12 districts and 3 provinces
	<ul style="list-style-type: none"> Baseline information and reform action plans to improve local government infrastructure planning are identified 	<ul style="list-style-type: none"> The Foundation's final reports
Output-level Indicators		
Identify local political economy constraints to the business environment and the competitiveness of poor farmers and related businesses within the value chains for specific commodities	<ul style="list-style-type: none"> Political economy constraints are identified and specific policy reform action plans are identified in 12 districts and 3 provinces Stakeholders maps - potential agents of change (and the potential "blockers") - are identified in 12 districts and 3 provinces 	<ul style="list-style-type: none"> Political economy report of 12 districts and 3 provinces
	<ul style="list-style-type: none"> Local regulations that need to be repealed or revised to improve the business environment are identified in 12 districts and 3 provinces Recommended action plans are identified 	<ul style="list-style-type: none"> Local regulatory map and review reports of 12 districts and 3 provinces
Initiate public-private dialogue on the business enabling environment for specific commodities	<ul style="list-style-type: none"> Multi-stakeholders discussions on the results of the 2011 LEG study, regulatory mapping and review, and other studies are held in 12 districts and 3 provinces Coalitions to advocate for reform in the business enabling environment are established in 10 districts/ provinces Action plans on specific policy reform needed to improve agricultural commodities are agreed in 5 districts/ provinces 	<ul style="list-style-type: none"> The Foundation's quarterly and final reports Field monitoring by AusAID staff

As shown in Table 2 below, there are several risks identified that may impact the program implementation. However, there are several mitigation strategies identified for each of the risk and The Asia Foundation will mainly be responsible to implement those. There are also several actions that may be taken by AusAID to mitigate some of the risks, particularly those related to the provincial and local governments.

Table 2. Risks Assessment and Mitigation Matrix

Risk	Likelihood	Impact	Mitigation Strategy	Responsible Party
1. Local stakeholders, particularly the government, are not willing to discuss specific issues	Low	High	<ul style="list-style-type: none"> Local CSO partners that have a good reputation and capability to understand and work through local political dynamics are selected CSO partners will be given sufficient time to conduct the analysis based on capacities AusAID will formally inform the provincial/local governments about the proposed Program prior to field-level implementation 	<ul style="list-style-type: none"> The Asia Foundation AusAID
2. Lack of capacity of local CSO partners to conduct the analysis and to facilitate PPD	Medium	Medium	<ul style="list-style-type: none"> Simple tools are developed to enable local CSO partners to conduct the study Intensive capacity building and monitoring from TAF staff and consultants 	<ul style="list-style-type: none"> The Asia Foundation
3. Accessibility to local-level regulations is limited	Medium	Medium	<ul style="list-style-type: none"> Law No. 14/2010 on Transparency of Public Information will be used Utilization of <i>perda</i> database of KPPOD 	<ul style="list-style-type: none"> The Asia Foundation
4. Local stakeholders, particularly the government, are resistant to cooperate and to be facilitated in PPD	Low	High	<ul style="list-style-type: none"> Stakeholder mapping will inform the identification of those willing to cooperate, and a "snowball" process used to fill out numbers If necessary, an MoU with the provincial/ local government will be signed in the beginning of the program AusAID will formally inform the provincial/local governments about the proposed Program prior to field-level implementation and may involve in discussing the issue with the government 	<ul style="list-style-type: none"> The Asia Foundation AusAID

H. TIMEFRAME AND GENERAL WORKPLAN

The proposed Program will be implemented from April 2012 to March 2013 with the following schedule.

Table 3. Workplan and Implementation Schedule

Activity	Implementation Schedule
1. Preparation	
1.1. Sub-grant agreements with local CSO partners, contracts with consultants	Month 1
1.2. Kick-off training and workshop with all CSO partners	Month 2
1.3. Assessments of potential partners and feasibility of conducting research and facilitating PPD in Papua and West Papua Province	Month 2
2. Business enabling environment political economy study	
2.1. Stakeholders identification and mapping	Months 2-3
2.2. Provincial-level workshops to review the results of the stakeholders mapping	Month 4

Activity	Implementation Schedule
2.3. Data collection and analysis using Politics of Development framework	Months 4-5
2.4. Provincial-level workshops to review the results of political economy analysis	Month 6
2.5. National-level workshop to synthesise the results of political economy analysis	Month 7
2.6. Business enabling environment political economy report preparation	Months 7-8
3. Regulatory mapping and review	
3.1. Identification and collection of local-level regulations	Months 2-3
3.2. Provincial-level workshops to review the results of the regulation mapping	Month 4
3.3. Analysis of the local regulations (with recommendations to be repealed or revised)	Months 4-5
3.4. National-level workshop to review and synthesise the results of the regulation review	Month 6
3.5. Regulation mapping and review report preparation	Month 6-7
4. Public Private Dialogue on Business Enabling Environment in Agriculture Sector	
4.1. Discussions on the results of the 2011 LEG Study	Months 2-3
4.2. Discussions on the results of the regulatory mapping	Month 4
4.3. Discussions on the results of the regulatory analysis	Month 7
4.4. Facilitation of pro-reform stakeholders to establish coalitions for business enabling environment reform	Can be started in Months 5-7, but will be more intensive in Months 8-11
4.5. Discussions on the results of Value Chain Study and/or PERA (specifically for agriculture and infrastructure sectors), if applicable	Months 8-9
4.6. Facilitation to establish agreement on business-enabling environment reform action plans, if possible	Months 8-11
5. Closing	
5.1. National-level workshops/seminars	Month 11
5.2. Evaluation workshop	Months 11
5.3. Final report preparation	Month 11-12

I. INSTITUTIONAL CAPACITY AND PAST PERFORMANCE

The Asia Foundation is a non-profit, non-governmental organization committed to the development of a peaceful, prosperous, just, and open Asia-Pacific region. The Foundation supports Asian initiatives to improve economic reform and development; governance, law, and civil society; women's empowerment; sustainable development and the environment; and international relations. Drawing on nearly 60 years of experience in Asia, the Foundation collaborates with private and public partners to support leadership and institutional development, exchanges, and policy research.

The Foundation has 18 offices throughout Asia, an office in Washington, D.C., and headquarters in San Francisco, and has been operating in Indonesia as a development partner through a permanent in-country office since 1954. The Foundation has a proven track record in managing multi-million dollar, multi-year, cross-sectoral agreements with multilateral and bilateral organizations including the AusAID, World Bank, the United States Agency for International Development (USAID), the Canadian International Development Agency (CIDA), and the Department for International Development (DFID) of the Government of United Kingdom. In 2010, the Foundation provided more than \$98 million in program support and distributed nearly one million books and journals valued at over \$42 million.

The Foundation's Economic Reform and Development (ERD) programs support Asian initiatives that enhance economic governance aimed at accelerating and sustaining broad-based economic growth. These programs focus on reform of the regulatory and structural constraints to investment, enterprise, and participation. The Foundation also has extensive experience working on local governance policy in Indonesia and across Asia. As a long-time partner of both government and civil society in Asia, the Foundation pursues a range of tailored strategies to improve local governance across different country contexts. Moreover, the Foundation's longstanding presence in the region and its deep understanding of the local context of each Asian country provide a comparative advantage for effective program design and implementation.

In Indonesia, the Foundation's economic reform programs mostly interface with the Foundation's local governance initiatives, working with government and non-governmental organizations and partners to promote regulatory reform that fosters business investment and enterprise development alongside initiatives to improve governance, reduce poverty, assist service delivery, and strengthen rule of law. The Foundation's current programs work in partnership with more than 50 local governments that span more than half of Indonesia's provinces. The Foundation and its local partners implemented Local Economic Governance Surveys, Local Budget Studies, and Cost of Transportation of Goods in Sulawesi and NTT.

The Foundation participates in the Developmental Leadership Program (DLP), which is supported by AusAID and brings together partners to explore the critical role played by leaders, elites, and coalitions in development, and to address the policy and operational implications of politics, political leadership, elites, agencies, coalitions, and state institutions on development programming. In the past two years, the Foundation has undertaken three studies of the political economy of local governance issues:

- *Study of How Civil Society Organizations (CSOs) Work Politically to Promote Pro-poor Policies:* This study examined two municipalities in Central Java (Semarang and Pekalongan), who had successfully passed legislation to expand district-funded health insurance for the poor. Foundation staff conducted ethnographic interviews of policy making agents from the executive and legislative bodies, civil society, academia, and the media. The paper was presented at a regional conference on "Decentralization and Urban Transformation in Asia" organized by Asia Research Institute of the National University of Singapore (March 2011), as well as during a DLP-hosted "Seminar on Innovations in Monitoring and Evaluation 'as if Politics Mattered'" in Canberra in October 2011. An "one-year" update of how the CSOs continue to work politically on pro-poor policy was presented at a DLP-hosted Workshop on Civil Society Coalitions in Sydney in February 2012
- *Study on the Political Economy of Land Use, Land Use Change and Forestry at the Local Level in Indonesia* – In 2011, the Foundation completed a study of the "drivers of change" as related to land use and licensing in three districts in North Sumatra, Central Kalimantan and Papua. Contracted by DFID as a diagnostic to inform the design of their GBP 50 million climate change program, the analysis explored where politics and economics interact with regard to land licensing and subsequent environmental impact. The study utilized interviews and network mapping methodologies to gather information from a broad range of government, NGO, private sector and community stakeholders. The study mapped decision-makers, the extent of their authority, as well as power relations between them, and tested several hypothesis about the political and economic incentives related to land use

change and forestry. The study was used to design a GBP 9 million environmental governance program.

- *Case Studies of Procurement Practices at the Sub-National Level in Indonesia.* In 2011-12, the Foundation has been undertaking case studies of procurement practices at the sub-national level in Indonesia, to inform World Bank strategies for improving the volume and quality of procurement-related spending at the provincial and local government level. Having researched eight sites, the Foundation and its partner B-TRUST have produced in-depth case studies that describe the constraints faced by local governments in improving their procurement practices, focusing on political and economic incentives promoting and impeding reform. The study relied on data from in-depth interviews with government and elected officials and business and civil society leaders involved in supporting or monitoring procurement reform in each locality. The analysis provides insight on the drivers of reform, the coalitions of support, and the challenges implementing reform. The study also sheds light on the extent to which local spending is constrained by procurement practices, and provide recommendations for reform efforts.

The Foundation has received 51 awards from Australian Government agencies including AusAID, Australian Embassies and High Commissions, and the Department of Foreign Affairs and Trade in ten countries across Asia since 2004. A full list of these awards is attached as Annex 3. In addition, in 2010, AusAID and the Foundation formed a strategic partnership to deepen and expand the strategies of AusAID, the Foundation, and the international community to deliver aid and security in regions where the pace of development has fallen dramatically. AusAID is currently considering an expansion of its strategic partnership with the Foundation. In August 2011, a team from the global audit, tax and advisory firm KPMG conducted a comprehensive due diligence review of the Foundation for AusAID as an essential step of the expansion of institutional support.

Specifically, in Indonesia, AusAID has awarded 10 awards totalling nearly AUD 28.3 million to the Foundation in the past six years. These include: (1) a project to provide technical assistance to the Counter Corruption Commission and Attorney General's Office (AUD 500,000, via AIPJ); (2) a study on the regulatory framework of elections in Indonesia (AUD 892,000); (3) a survey on local economic governance in 19 provinces (AUD 1.1 million); (4) the Knowledge Sector pilot program (AUD 3 million); (5) Prison Reform Phase 2 (AUD 2 million); (6) Support for the business enabling environment in East Nusa Tenggara (AUD 1.3 million, via ANTARA); (7) the Islam and Democracy project (AUD 2 million); (8) elections monitoring for the 2005 national elections (AUD 6.5 million); (9) 2008 elections monitoring (AUD 2 million); (10) founding of the People's Voter Education network (JPPR) leading up to the 2005 national elections (AUD 2 million) and (11) the Australia-Indonesia Electoral Support program 2012-16 (AUD 9,000,000)

Citizen Information Centre (*Pusat Informasi Rakyat, PIAR*)- is a Kupang-based NGO with missions to improve democracy, fulfilment of human rights and social equality through enhancement of citizen participation in advocating policy changes in NTT. Since it was established in 2002, PIAR has been working in the area of good governance, local budget reforms, citizen participations, human rights, policy advocacy, poverty reduction, and environmental conservation. PIAR's works have been ranging from community organising, analytical activities, police and regulatory reviews and formulation, anti-corruption

movements, facilitation and technical assistance to local governments and community, conflict resolutions and media campaign. PIAR has developed strong network with CSOs, community associations, and government institutions across NTT and also at the national level. PIAR has implemented various program funded by national and international development agency such as Partnerships for Governance Reform, Yappika, Ford Foundation, Oxfam GB, AusAID, the World Bank, and The Asia Foundation. PIAR was the Foundation's local partners in implementing Business Enabling Environment component of ANTARA program (AusAID funded) in Kupang, Timor Tengah Selatan and Rote Ndao from 2009 to 2010. It is currently implementing Democratic Local Government in Kupang under ACCESS program of AusAID.

Budget Care Council (*Dewan Peduli Anggaran, DPA*) was established in Mataram in June 2007, facilitated by The Asia Foundation, as a coalition between NTB-based NGOs – Community Solidarity for Anti Corruption (*Somasi*), Legal Aid Institute (LSBH), Humanity Study Institute (*Lensa*), YPKM, and Legitimed – and five prominent Islamic Mass-Based Organisations (MBOs) – Nahdlatul Waton (NW), Nahdlatul Ulama (NU), Muhammadiyah, NTB Islamic schools partnership forum and Darul Muhajirin Islamic School in Praya. The objective of the DPA is to introduce governance issues, particularly on transparency, public participation and pro-poor budgets and policies to Islamic MBOs and utilise their political clout to influence policies at provincial and district levels. DPA was the Foundation's local partner under the DFID-funded Civil Society Initiative Against Poverty (CSIAP) in 2005-2011 and has been conducting budget analysis, issuance of budget manual for religious leaders, Islamic-based short courses (*madrasah*) on budget issues, establishment of complaint handling centres for the poor under the program. The council participated in Local Budget Study (LBS) that covered five districts – West, Central and East Lombok as well as West Sumbawa and Dompu – and the Provincial Government of West Nusa Tenggara and another study on public perception of road quality in West and East Lombok, West Sumbawa and Dompu, also under CSIAP program in the period of 2010-2011. The Council have been working collaboratively with AusAID-funded programs such as AIPD and ACCESS.

Association for Small Businesses (*Perkumpulan Untuk Usaha Kecil, PUPUK*) Surabaya. Established in 1984, PUPUK Surabaya has been working on local governance, particularly on economic issues. PUPUK has been supporting the development of small and medium enterprises (SMEs), advocating better public policy and helping the implementation of corporate social responsibility (CSR) programs. It also has wide experiences in conducting researches and surveys, conducting training, particularly for the SMEs, agricultural producers and farmers, and in advocating local business enabling environment through regulatory and business licensing reforms. PUPUK has been working with international development partners such as the World Bank, International Finance Corporation (IFC), GTZ, European Union. PUPUK Surabaya has been a long partner of the Foundation, including in implementing programs on one stop shop for business licensing, regulatory impact assessment, and procurement reform in various districts/municipalities in East Java Province.

J. MANAGEMENT AND KEY PROGRAM PERSONNEL

The Foundation's office in Jakarta will assume overall responsibility for implementing the program, both in programmatic and administrative aspects, as well as coordinating with the Government of Indonesia at all levels and with the other institutions/programs. The Foundation will be accountable to AusAID for all program funds, and for ensuring that the program is achieved in accordance with Australian AID regulations, procedures, and guidelines. The Foundation's Country Representative for Indonesia, Dr. Sandra Hamid, will have overall institutional responsibility for the program, and provide strategic guidance alongside Laurel MacLaren, Deputy Country Representative.

The Foundation's Local and Economic Governance Director, Erman A. Rahman, will have direct management responsibility for the program, with support of a program officer, Hari Kusdaryanto. In addition, there will be three consultants that will monitor the program implementation and provide technical supports to the three local CSO partners, Agus Ediawan, Nasokah, and Early Rachmawati. Although there is no strict division of labour among the three consultants, but Agus Ediawan will be leading the supports on political economy study, while Nasokah and Early will be providing supports on regulation review and initiation of the public-private dialogue. Biographical descriptions for these program and management personnel are provided below.

Erman A. Rahman – Mr. Rahman currently serves as the Director for Local and Economic Governance for the Foundation's Indonesia office, where he manages various programs with funds from USAID, AusAID, the World Bank, and DFID. He has 15 years of experience in economic reform and development, governance and decentralisation, and public service reform. Mr. Rahman has extensive skills in designing, implementing, supervising and evaluating development programs in the areas of local governance reform (access to information, public participation, public financial management and procurement); streamlining business licensing, regulatory reform, and investment climates; public service delivery, logistics, bureaucracy reform; and community-driven development. He has been a leader in the development of the Foundation's local capacity to undertake political economy analysis, and involved in all three studies undertaken by the Indonesia office. Prior to joining the Foundation, he supervised a USD 49 million local governance portfolio at the World Bank. He holds a Master of Science in Transportation from Northwestern University, Evanston, Illinois.

Hari Kusdaryanto – Mr. Kusdaryanto has been a Program Officer of the Economic Programs Unit of the Asia Foundation office in Jakarta, Indonesia since 2005. He is a development management specialist by training and has been building his expertise in local budget analysis and advocacy, freedom of information, decentralisation policy and local economic development. He was a key member of the CSIAP program and was responsible to oversee six national and local partners working in 17 locations promoting pro-poor and gender responsive budgets and local good governance. He has also been responsible in facilitating the establishment of 17 district/municipal-level OSS, providing technical assistance on Regulatory Impact Assessment (RIA) implementation to 11 district/municipal governments and to Ministry of Trade and Ministry of Finance at the national level. He is well experienced in delivering training, particularly on one stop shop (OSS) for business licensing establishment, RIA implementation, technology of participation and participatory budgeting, to local government officials and CSO representatives.

Agus Ediawan – Mr. Ediawan has fifteen years of experience in business enabling environment, regulatory reform, local governance and decentralisation. He spent most of his professional career with the Centre for Economic and Social Studies (CESS) Jakarta, with experiences in conducting socio-economic research, regulatory review, RIA training and technical assistance. He has been supporting various local CSO partners of the Foundation in implementing numerous local economic governance reform programs in Indonesia. He holds a Bachelor Degree in Agricultural and Resources Economics Study Program, Agricultural Socio-Economic Sciences Department, Bogor Agricultural University (1994), and a Master degree in Agricultural Economics, Bogor Agricultural University (2003).

Early Rahmawati – Ms. Rahmawati has ten years of experience in governance and decentralisation, economic reform and development and civil society engagement. She has been with PUPUK for ten years, with extensive experiences in conducting PPD activities, which brought together regulatory reviews, analytical skills, advocacy and technical assistance. She was the Director of the OSS Centre of PUPUK Surabaya in 2004-2009 that managed the Foundation's economic reform and development program in East Java. She has also been consultant to the Foundation, GTZ and SwissContact on providing technical assistance to local CSO partners, local governments, business associations and other CSOs. She holds a BA degree in Economy Faculty from the University of Airlangga, Surabaya (1998), and an MA in Hochschule Osnabrueck Germany (2011).

Nasokah – Mr. Nasokah has seven years of experience on business enabling environment, local governance, and legal reform in Indonesia. He worked on The Asia Foundation's programs supporting the establishment of the OSS for business licensing and implementation of RIA method in regulation review in 11 districts. He supported improvement of public service provision and corruption reduction through various interventions such as establishment of ombudsman and implementation of citizen perception survey/report card through programs of Partnership for Governance Reform in Indonesia. He served as a Program Director of the Indonesian Legal Aid Foundation (YLBHI) – the most prominent legal aid NGO in Indonesia – in 2010-2011. Mr. Nasokah holds master and bachelor degrees in Law.

