

AIPEG – GPF Joint Advisory Board Papers

Board agenda item 1: Revenue

Purpose:	To inform the board of recent developments in Australian assistance on taxation issues and request feedback and endorsement of proposed work programs to 2018.
Recommendation:	The board endorse the proposed work programs for AIPEG and GPF.
Proposals:	<ol style="list-style-type: none">1. GPF partnership between:<ol style="list-style-type: none">a. the Australian Treasury and the Fiscal Policy Agency (BKF).b. the Australian Taxation Office (ATO) and the Indonesian Directorate General of Taxation (DGT).2. AIPEG revenue engagement area design document.

Executive Summary

Indonesia's revenue challenges are in the spotlight following the tax amnesty, with institutions under pressure to deliver tax receipts necessary to finance rising spending needs, while maintaining the three percent of GDP legal deficit limit.

To support the Indonesian government's efforts to increase revenue outcomes and taxpayer compliance, Australia will continue to build on long-term efforts with partner agencies in the Ministry of Finance (MoF), particularly BKF and DGT.

Australian support for this area will continue to focus on improving revenue policy and tax administration. Policy support aims to enhance the capacity of government agencies to formulate and implement policies that efficiently secure revenue streams, over the medium-to-long term, while taking account of tax administration capacity and wider economic implications. Support for improving tax collection and administration is in line with the government's agenda to reform tax administration, including through support through this areas: redevelopment of the DGT's core tax system; business process redesign and improving capacity for change management; project management and risk management.

Background

Indonesia faces a significant revenue challenge. Voluntary compliance is low, with only 12.7 million individuals paying tax in 2016, significantly lower than the 32.8 million registered taxpayers and population of almost 260 million. The government has made increasing tax revenue a policy priority, with the President actively promoting the recently completed tax amnesty. Parliament is scheduled to debate a number of tax laws, including legislation covering the Value Added Tax, Income Tax, and General Tax Provisions and Procedures.

To address the significant revenue challenge facing Indonesia, the Minister of Finance, Sri Mulyani Indrawati, announced the establishment of a Tax Reform Team in December 2016. The team's goal is to increase the tax ratio to 14 percent of GDP by 2020 (from its current level of around 11 percent). This will require strengthening capabilities for tax administration, policy advice and institutional governance within MoF.

The Minister has requested Australia's support to strengthen DGT's capacity to deliver and administer the Government's reform agenda. This includes the development of a modern core tax system, which along with improvements in business processes, will significantly improve the effectiveness and efficiency of tax administration while also reducing compliance costs.

Recent accomplishments

Revenue Policy

Australian Treasury and AIPEG advisers are working with MoF to strengthen revenue policy and BKF's advisory capabilities. Advisers provided several inputs related to several tax policy issues, including analysis on the planned amendment of the VAT Law, a study on the proposed excise tax on plastic bottles, as well as a study on the medium-term tax reform vision. Australia also supported the *in-house* revenue policy capacity of BKF through secondments, workshops, training, and regular discussions.

Capacity strengthening activities helped to promote better collaboration and coordination between BKF and DGT, as well as strengthen the corporate foundations of MOF. Examples of these types of activities include joint workshop for DGT and BKF on Integrated Tax Policy Design, as well as the secondment of three MOF officials to the Corporate Services Group in the Australian Treasury. GPF Treasury has also started supporting the Vice Minister of Finance through direct high-level policy and technical advice, including on revenue policy and administration matters.

Revenue Collection and Administration

Australia's support for improving business process in DGT increased in 2016 with the deployment of a senior Australian Taxation Office (ATO) officer. Significant investment was made in mapping DGT business processes and identifying opportunities to improve efficiency and increase revenue. This work will also support the redevelopment of a core tax system. GPF ATO also placed seven secondees from DGT into specialist areas of the ATO for up to three months. These secondees returned to DGT with new ideas and implemented changes that delivered operational improvements.

AIPEG invested heavily in supporting DGT's Public Relations area to improve its communication strategy. A study with consultants, Edelman Indonesia, provided DGT with a list of recommendations, which were well received by DGT and adopted for several programs including the Tax Amnesty. Together with GPF ATO, AIPEG has also encouraged DGT to involve relevant stakeholders in their business process redesign. After conducting several users experience workshops, DGT's Directorate of Business Transformation considers this an important part of DGT's Transformation and is preparing to train their staff more in this area. In 2016, DGT and BKF travelled to Australia to study protocols and practical arrangements instituted by the Australian Treasury and the ATO for an integrated approach to tax design and the efficient management of risks associated with the administration of VAT.

Proposed 2017 and 2018 Work Program

Revenue Policy

Australia continues to support the MOF to formulate and implement policies that improve the revenue outlook by providing technical assistance and capacity development. Assistance will also continue to identify opportunities that encourage cross-agency collaboration. Through AIPEG program, Australia will continue to provide analytical support on key tax policy and administrative reforms. This includes supporting and leveraging the delivery of the Fiscal Reform development policy loan; providing technical advice and support on the amendments of income tax, VAT, and excise tax laws; as well as supporting international tax policy and regulations. Australia will also deliver a work program that supports BKF's development of Indonesian Tax

Expenditure Statement framework. Australia will continue to support ‘on-demand’ tax policy advice and analytical work. This will include a policy dialogue and the development of a medium-term tax policy reform vision and tax architecture.

Building on the successes in 2016, Australia will also continue to maintain its focus on development partner and cross-agency collaboration in delivering capacity development activities. Capacity development in revenue policy will occur through formal and informal training, workshops, and secondments to Australia. Through GPF and AIPEG, Australia will continue to support the MOF’s Central Transformation Office (CTO), BKF and DGT with the transformational challenges associated with delivering an integrated tax system. AIPEG, supported by GPF, will finalise a development plan for strengthening BKF’s tax policy functions, which will include an overview of the supporting systems required.

Revenue Collection and Administration

Responding to the Minister’s request, AIPEG will support the development of a core tax system, including the provision of a consulting firm to prepare an analysis document and the technical requirements. This period’s work will focus on preparing DGT’s systems and processes to support the delivery of the core tax system reform. Preparatory work will include providing consultancy services in developing a system development and implementation roadmap, advising on a procurement strategy and implementation plan, technical assistance on the preparation for data migration, and capacity building to strengthen reform and change management.

GPF ATO will support the DGT Contact Centre to expand its scope and authority so it can provide faster and greater range of services to the community. AIPEG will support DGT in its relationship with the tax agent community through encouragement of a formal consultation forum and the review of current tax agent supervision regulations with DGT’s Organization and Governance Unit. AIPEG also plans to support DGT in improving opportunities and processes for tax agent and other stakeholder consultation in tax administration and policy development.

Risks and other issues

Inter-agency collaboration remains a challenge, especially in achieving an integrated tax system. The proposed activities are designed to mitigate this risk by creating opportunities for agencies to collaborate on higher level matters, such as organisational transformation, and ways to enhance their respective roles. Australian assistance will work with MOF to ensure coordination with development partners who are also prioritising revenue assistance.

Major and strategic policy decisions, including the ongoing legal reform, could be delayed if they cannot be completed before legislators shift their attention to the Parliamentary and Presidential election in 2019. However, this delay could also provide opportunities for Gol to better prepare and improve the design of tax policy reform and focus on the institutional reform.

Gol is seeking to deliver an ambitious reform agenda and there is risk that there will be reform fatigue. Australian assistance will continue to seek ongoing guidance on MOF priorities and will align its support to those areas where most value can be added.

Consultation

This paper has been informed by the three proposals noted above. The heads of DGT and BKF, the Departments of Treasury and the Australian Taxation Office have been consulted and support the proposed work programs associated with this board paper. They will provide resources to support implementation of the proposed activities.

Board agenda item 2: Economic policy and cross-cutting activities	
Purpose:	To inform the board of recent developments in AIPEG’s economic policy and cross-cutting activities, and request feedback and endorsement of work programs to 2018.
Recommendation:	That the board endorse the proposed work program for AIPEG ‘s Economic Support Team.
Proposal:	AIPEG Economic Support Team engagement area design document.
Executive Summary	
<p>Following the endorsement of the Board in 2015, AIPEG established the Economic Support Team (EST) to provide economic policy and analytical work. EST is now well established and producing economic analysis to support all AIPEG engagement areas, respond to counterparts with “just-in-time” advice, and to address emerging policy issues.</p> <p>EST also supports Tim Asistensi, a team of Senior Indonesian Advisers working across CMEA, MoF and Bappenas to improve coordination and evidence-based policy making. Tim Asistensi is proving to be an important vehicle for bringing policy analysis into the decision-making process at the most senior levels of government. Examples of their work include preparation and advocacy of a medium term fiscal framework that has been shared with the Coordinating Minister for Economic Affairs, the Minister of Finance and Minister for Planning and Development and integrated into a range of activities with officials across the economic Ministries.</p> <p>EST also delivers analysis and policy advice in three cross-cutting areas – institutions, gender, and infrastructure. Work activities in these cross-cutting areas is increasingly integrated with engagement area activities, such as support for business process mapping to develop the Revenue Centre in BKF (Institutions); considering the impact of gender on tax registration and payments (Gender); and analysis of the infrastructure gap and the need for medium term as opposed to single-year contracting (Infrastructure).</p> <p>EST will also draw together existing support to CMEA to improve coordination in an AIPEG CMEA office. The AIPEG CMEA office will draw together existing support to CMEA to:</p> <ul style="list-style-type: none"> • Support CMEA as co-chair of GPF and AIPEG; • Coordinate requests for Tim Asistensi (chaired by the Coordinating Minister for Economic Affairs); and • Provide greater strategic coordination of support to CMEA, including in Indonesia’s regional engagement as required by CMEA Deputy VII, analysis of proposed economic packages as requested, and institution strengthening. 	
Background	
<p>As part of the AIPEG diagnostic and design process undertaken in 2014, the need for an “economic support hub” was identified to strengthen economic analysis across AIPEG engagement areas, to inform policy advice, and to look ahead to challenges on the horizon. This work program has been implemented through the Economic Support Team.</p> <p>The former Coordinating Minister for Economic Affairs also requested assistance from Australia to help establish a group of Indonesian policy analysts to deliver timely, evidence-based support. These individuals would continue to draw on AIPEG and GPF advice as well as other DFAT programs (and other development partners) to provide support for the government’s reform program and other emerging issues. This request has been formalised in Tim Asistensi.</p>	

Recent accomplishments

Policy advice delivered by Indonesian experts

Australia has accommodated requests from CMEA, MoF and Bappenas for analysts to work in a range of areas. This has included quick responses to the Tim Asistensi Steering Committee, macro and other projections informing APBN revisions, macroeconomic policy advice informing the government's target of 6.1% growth by 2018, modeling the impact of tax amnesty on budget outlook, reviewing economic policy package proposals and technical advice on tariff/excise review mechanisms and other proposals.

Bolstering analytical support

The AIPEG program has built in-house capability for policy analysis in the Economic Support Team. This team has worked in tandem with technical advisers from both AIPEG and GPF programs to strengthen the evidence base for their policy advice and capacity building. One example of this includes supporting Tim Asistensi in the delivery of Financial Programming Training for MoF, Bappenas, and CMEA staff and Executive, which has led to follow up capacity building in individual economic agencies.

Support in cross-cutting policy areas

Through the establishment of cross-cutting teams in gender, institutions and infrastructure, AIPEG has improved the evidence base for policy advice and supported deliverables by engagement areas and other programs. Examples of this include the Female Labour Force Participation study (which is informing other programs policy work in the areas of child care) the INFRA-dashboard developed with Bappenas (which will provide detailed information on Indonesia's capital stock for the first time), and detailed institutional reviews in a range of institutions to support streamlined business processes.

Proposed 2017-2018 Work Program

Strengthening Indonesian-led policy advice

AIPEG will continue to deliver high quality economic analysis through EST and Tim Asistensi, as well as improve coordination through the AIPEG CMEA Office. EST will continue to provide economic policy advice, ranging from economic projections, analysis of proposals, and policy advice as requested by GoI. This work will include analysis of fiscal projections, financial programming training, medium term policy advice, analysis of the maritime sector, and other advice as requested. Tim Asistensi will continue to be governed by a Steering Committee, made up of the Secretary to the Coordinating Minister, the Head Fiscal Policy Agency, and the Planning Ministry's Deputies for Economy and Finance. The Steering Committee meet to coordinate activities, receive reports on research, and determine future priorities. Support for the Steering Committee will be enhanced through greater coordination in the AIPEG CMEA Office. Studies to be undertaken by Tim Asistensi in 2017-18 are expected to include skills policy and informality.

Support for cross-cutting areas of gender, infrastructure and institutions

Activity programs have been developed in the cross cutting areas, in consultation with GoI counterparts. These are reflected in the attached Engagement Design Document for the Economic Support Team. There is also potential for greater support for both AIPEG Engagement Areas and the GPF program through these cross cutting teams, such as the infrastructure teams supporting the Indonesia Australia Partnership for Infrastructure (KIAT) as it develops in coming

months; the institution teams support for reform in DGT and BKF Revenue Centre; and promoting gender awareness across program activities.

Risks and other issues

There is a large need for technical analysis and policy advice across the economic ministries placing significant demand on the resources of EST. Recruiting technically capable and experienced staff is challenging, particularly where there is program uncertainty. AIPEG has managed to attract and retain high quality applicants, but this will continue to be a challenge.

For Tim Asistnesi to be sustained in the longer term, further work on the enabling environment and APBN funding will be needed. This work is largely beyond the scope of the economic governance program, but may be an area in which the Knowledge Sector Initiative continues to work.

Consultation

The elements covered in this note reflect direct inputs from AIPEG and counterpart agencies. In the case of the Economic Support Team (including Tim Asistnesi and the AIPEG CMEA Office), this is a response to a direct request from the Coordinating Minister for Economic Affairs, which has been agreed by senior officials at the Ministry of Finance and the Planning Ministry.

Board agenda item 3: Financial sector	
Purpose:	To inform the board of recent developments in Australian assistance on financial sector issues, and request feedback and endorsement of work programs to 2018.
Recommendation:	That the board endorse the proposed work program and associated budget envelopes for AIPEG and GPF.
Proposals:	<ol style="list-style-type: none"> 1. GPF partnerships between: <ol style="list-style-type: none"> a. Australian and Indonesian Financial Transaction Reports and Analysis Centres (AUSTRAC and PPAATK). b. The Australian Prudential Regulation Authority (APRA), the Indonesian Financial Services Authority (OJK) and Bank Indonesia (BI). c. The Australian Securities and Investment Commission (ASIC) and OJK. d. The Reserve Bank of Australia (RBA) and BI 2. AIPEG Finance engagement area design document.
Executive Summary	
<p>Established GPF and AIPEG programs will continue to promote bilateral partnership, significant policy changes and strengthen the capabilities of Indonesian financial sector regulators. Key GPF achievements include new Memorandums of Understanding, contribution to regulatory change and several high-level exchanges, including at the Ministerial level. AIPEG played an important role in supporting the <i>Financial System Crisis Prevention and Mitigation Law</i> (PPKSK) and contributing to regulatory change.</p> <p>GPF support will not change in scope or focus, though the impending change in the Chairman of OJK presents some uncertainty, with the current Chairman a major supporter and driver of high-level engagement. AUSTRAC will help Indonesia to prepare for the scheduled Financial Action Task Force mutual evaluation scheduled for this year.</p> <p>AIPEG support will also build on recent progress. Key themes will be support for implementation of the PPKSK law and further development and deepening of the Indonesian financial sector, including through promoting new market instruments and the enabling environment for financial technology.</p>	
Background	
<p>Financial stability has been a defining issue for Indonesian economic policy over the past few decades. The 2016 passage of the PPKSK law marks an important step in strengthening the resilience of the economy. The law provides a legal backing and ‘rules of the game’ for the key government financial agencies in preventing and handling financial crises. The effectiveness of the law will depend significantly on the related implementing regulations as well as the capacity of the key financial agencies.</p> <p>Australia has been supporting financial system stability through involvement with the financial system stability forum, and its predecessors, across all of its constituent agencies. Support on regulatory reform to OJK and the Deposit Insurance Agency (LPS) is underway. Strengthening of supervision and market conduct have made good progress.</p> <p>In addition to stability, financial sector development is a pressing need. Indonesia’s financial sector needs to be deeper and more diverse. Only 36% of the population has access to a</p>	

financial account and 96 million Indonesians living on less than USD 1.90 a day are considered too risky for loans or live in locations too remote for formal financial services. An ongoing improvement in supervision of the banks, non-banks, and capital markets underpins both stability and development.

Indonesia has recently undergone several major international reviews of its financial system, including: the Financial Sector Assessment Programme (FSAP) by the IMF and World Bank, a Regulatory Consistency Assessment Program (RCAP) by the Basel Committee and mutual evaluation by the Financial Action Task Force (FATF - the international body that sets standards for anti-money laundering and combating terrorist financing). These reviews have provided an opportunity for Australia and Indonesia to work together to identify areas of vulnerability and collaborate where appropriate to strengthen capacity and policies for the financial sector.

The importance of Australia's support for financial sector issues has been repeatedly confirmed at the highest levels of counterpart agencies. There is a high level of trust and sustainability built into workplans, with the Indonesian government often contributing to activities to widen their scope, for example self-financing participants for study visits.

Recent accomplishments

Enhancing OJK supervisory capacity

APRA and ASIC have been providing considerable assistance to OJK, and AIPEG has played a complementary embedded advisory role and also acted as an in-country bridge for these Australian institutions. OJK staff have benefited from mentoring, focused technical visits and secondments that have up-skilled staff in supervision techniques, and allowed peer-to-peer learning in live environments.

Anti-money laundering and counter-terrorism financing

PPATK, with the support from AUSTRAC, has supported Indonesia in its endeavour to be removed from FATF's "black list". The partnership has been a model for successful cooperation between financial intelligence units, and an extension to other ASEAN countries is being considered. The GPF AUSTRAC-PPATK partnership recently went through an independent review, which was highly complementary of its success, approach and the value for money it offered in light of the significant outcomes achieved.

Stability and passage of the financial crisis prevention and management law

Among international partners, Australia provided the primary on-the-ground support for development of the law. This included technical input and drafting support. In collaboration with other partners, a series of simulations designed to test Crisis Management Protocols were conducted that helped shape the law. Field visits to review international procedures for bank resolution were also instructive. The Gol's Financial System Stability Coordination Forum now develops and delivers its own simulations, with AIPEG acting as an observer. Australia is supporting development of follow-up regulations on bank resolution and recovery planning.

Financial Sector Development

Support has been provided to the Fiscal Policy Agency to build institutional capacity and for policy development. More recently, progress has been made on an asset securitisation pilot in partnership with Indonesia State Electricity Corporation (PLN). This work presents a potential first for Indonesia in delivering an innovative policy solution to expand financial instruments. The passage of the first FinTech regulations in Indonesia was also supported by GPF and AIPEG,

including a new Memoranda of Understanding between Indonesian and Australian regulators to share market trends and regulatory issues, as well as promoting local innovation.

Proposed 2017 and 2018 Work Program

Financial Sector Supervision and Regulation

GPF ASIC will continue to shift from institutional support towards supervision of market conduct and a consistent risk-based approach to supervision. APRA continues its support to bank and non-bank supervision in OJK. These activities will be done in close collaboration with AIPEG.

Anti-money laundering and counter-terrorism financing

Australia will continue to support PPATK to prepare Indonesia for the FATF mutual evaluation in 2017, will facilitate an analyst exchange program (possibly including a third party Financial Intelligence Unit) and enhance PPATK's International Funds Transfer Instructions system and capacity. In addition to PPATK, AUSTRAC will also support BI and OJK as key regulators in anti-money laundering and counter-terrorism financing to achieve common regulatory platforms and strategic risk based approaches.

Financial sector stability

Support will continue for the Financial System Stability Forum and its secretariat. Work will focus on early warning indicators, crisis management simulations (and protocols) and working to integrate the lessons learned into legal documents. Support for the implementation of the PPKSK law, and testing of the new arrangements will continue. Australia will also assist with the development and implementation of responses to address deficiencies noted in the IMF Financial Sector Assessment Programme and Basel Committee Regulatory Consistency Assessment Programme in 2016. RBA will continue to support the strengthening of the capacity of BI's staff to implement effective macroeconomic policies, including policies promoting financial stability.

Financial Sector Development

AIPEG will continue to provide support for analysis and development of specific market segments and will provide capacity building around market analysis. This includes in the areas of FinTech and asset securitisation, as well as the governance of pension funds. Activities promoting improved financial literacy and consumer protection aim to ensure better market conduct by firms and awareness by consumers in the financial sector.

Risks and other issues

Ongoing effort is required to ensure the full benefits of the financial crisis management law are realised. This will require passage of implementing regulations and stronger coordination between authorities. This is a focus of AIPEG's support going forward.

Changes in the OJK Board will result in a period of change and uncertainty, with potential risks of reducing OJK's momentum. However, ongoing priorities in bank supervision, market conduct and consumer protection, will likely progress well with the senior executive taking up the running.

Consultation

The BKF, the Deposit Insurance Agency, OJK, BI and PPATK were consulted and support the proposed work. They will make available resources (such as staff time and venues) to support the implementation of the proposed activities.

Board agenda item 4: Trade, competition and investment	
Purpose:	To inform the board of recent developments in Australian assistance on trade, competition and investment issues, and request feedback and endorsement of work programs for 2017 and 2018.
Recommendation:	That the board endorse the proposed work program for AIPEG.
Proposals:	1. AIPEG markets engagement area design document.
Executive Summary	
<p>AIPEG will continue to support traditional partners at the Ministry of Trade and the Coordinating Ministry for Economic Affairs (CMEA). Institutional relationships will also continue to expand with the Ministry of Finance (MoF), the Investment Coordination Board (BKPM) and the Competition Commission (KPPU). There is no relevant GPF activity.</p> <p>There will be greater focus on supporting the Indonesian government’s agenda to improve the ease of doing business. This includes reducing barriers and costs to market entry, operation and exit; and improving the overall business climate. Other economic reform priorities of the Indonesian government include promoting trade and investment reform, as well as providing impetus to the productivity and competitiveness agenda. AIPEG’s work will continue to promote evidenced based policy reform in key economic sectors to promote open trade and investment.</p>	
Background	
<p>The government’s approach to trade and investment has changed considerably since the last board meeting. Re-engagement in international trade negotiations and ambitious plans to improve Indonesia’s ease of doing business ranking have been key themes of economic reform.</p> <p>Despite the government’s positive reform intent, many significant policy changes are required to improve Indonesia’s low levels of productivity and competitiveness. The growth and job creation resulting from Indonesia’s relatively high levels of investment (as a share of GDP) is far from its potential. Markets are not functioning as well as they might, private sector development is lagging, and opportunities for participation in global markets have yet to be taken.</p> <p>Policy in the areas of competition, investment and trade are key considerations in these missed opportunities and explain the focus of Australia’s support. Reform in these areas is an important element of the Indonesian government’s agenda. The government has issued a series of reform packages focussed on addressing obstacles to doing business and trade. The government is also signalling that deregulation and streamlining administration will continue to be a focus.</p> <p>Strong interest in ASEAN, RCEP and bilateral trade agreements may provide opportunities for AIPEG to assist the government to develop specific trade and investment policy reforms. The apparent end of the Trans-Pacific Partnership, changing regional trade patterns and approaches to trade provide an opportunity for a new impetus to trade and investment policy reform.</p> <p>AIPEG’s work on trade and investment aligns with the broader goal of strengthening the economic partnership between Indonesia and Australia, complementing separate work underway through Indonesia Australia Comprehensive Economic Partnership negotiations.</p>	

Recent accomplishments

Revisions to the Negative Investment List

A Presidential Regulation enacted in 2016 opened more business sectors to foreign investment. In May 2016, revised investment regulations came into force, enabling increased foreign investment in sectors ranging from food and beverage, to agriculture, transportation and entertainment. The regulation formalised changes announced as part of the 10th Economic Policy Package in February 2016. AIPEG conducted training, research and policy briefing in support of this reform, while ISD advocated for this reform. As an upper estimate, AIPEG modelling suggests this reform could increase GDP by up to 2.3 percent (around USD 20 billion) and employment by 1.3 percent (around 1.5 million jobs).

Ease of Doing Business

Indonesia moved from 106 (as revised) in 2016 to 91 in the World Bank's Ease of Doing Business (EoDB) Index (up 15 places). Indonesia was in the top 10 most improved countries, with Indonesia's ranking improving for 7 out of 10 indicators. AIPEG contributed to some areas reflected in the index – including measures to improve trade across borders (through the removal of some non-tariff barriers) and creating momentum for change (with research showing Indonesia was deteriorating faster than the EoDB results) - which was presented to BKPM and motivated a range of subsequent work. AIPEG's direct work on Doing Business commenced in April 2016 and is likely to contribute to improvements in the 2018 EODB report. This includes improving processes for gaining construction permits, registering a business, improving insolvency and contract enforcement procedures, and educating respondents to the EoDB survey to ensure GoI's reform efforts are reflected in future surveys.

Analysis and coordination of regional trade policy

The President's announcement of an intention to join the TPP saw a significant improvement in the development and coordination of multilateral trade policy in 2015 and 2016. AIPEG supported this work with detailed analysis of the legal and regulatory reforms required to comply with TPP and econometric modelling of the potential gains from joining the agreement. This work has improved the government's institutional capacity to coordinate policy responses on regional trade opportunities, as well as deepen understanding of the reforms required for greater trade and investment.

Indonesian Services Dialogue

The Indonesian Services Dialogue (ISD) brings together Indonesia's leading services firms, business associations (KADIN and APINDO) and academia in a coalition for reform. It is considered by many in government and the private sector as the most prominent forum for discussion of services sector reform in Indonesia. The first economic policy package included a list of regulations targeted by ISD. These include simplifying guidelines on labelling in Bahasa Indonesia at the point of origin for imports and streamlining screening of imported shipments at Indonesian ports in compliance with National Standards. ISD also worked with the Indonesian Employer's Association and others to reverse inefficient Manpower regulations to impose quotas of Indonesian workers per foreign workers, and revise ineffective regulations around short stay visas. ISD advocacy contributed to the negative investment list revision in 2016 (see above). ISD also successfully engaged with the government to align a Ministry of Public Works Regulation on market entry requirements for foreign construction services providers with the revised investment list.

Proposed 2017 and 2018 Work Program

Doing Business

In line with Indonesia's priorities, AIPEG has developed a significantly expanded activity stream in the area of Doing Business, including with counterparts at BKPM, CMEA, regional government of DKI Jakarta and other agencies. The work program includes: policy advice on selected EoDB indicators; regulatory simplification, including the transition from manual to online processes in construction permits; support to develop other ICT based solutions; work with courts to improve contract enforcement and insolvency resolution; and benchmarking against top performers in the region.

Trade and Investment

AIPEG proposes to continue providing policy advice, analysis and support on the constraints to trade and export success, including non-tariff measures and participation in global value chains (GVC). This area is particularly important as Indonesia could stand to significantly improve its growth and development performance by more effectively participating in global trade. Unfortunately to date, policy makers have not been able to introduce the kind of policies necessary (for example by liberalising services trade to help improve the competitiveness of exports). AIPEG proposes to undertake sector-specific studies in a number of priority areas. These studies will be undertaken in consultation with counterparts and aim to improve policy outcomes and build capacity to address regulatory and other constraints to trade and investment. A larger study on digital economy and other sector specific research linked to the Doing Business agenda is planned.

Indonesian Services Dialogue

Support for ISD is proposed to continue but with a new campaign focus that more effectively targets service sector reform. This will entail a greater focus on advocacy, expanding membership, and deepening engagement on select service sector policy issues.

Risks and other issues

Closer economic integration and increased participation in global value chains has become more challenging in a more protectionist global environment. However, opportunities for advocating reform are still likely to arise from unilateral domestic reform, as well as regional and bilateral trade discussions.

High-level goals for lifting Indonesia's ease of doing business ranking are ambitious (number 40 by 2019). Australia will continue to follow a demand-driven approach supporting agencies that take leadership and apply resources for change.

Consultation

The following persons have specifically requested this support and were consulted:

- The Director General for Research and Development at the Ministry of Trade,
- the Deputy Minister for International Economic and Financial Cooperation at CMEA,
- the Deputy Chairman for Investment Climate Development at BKPM and
- the Head of the Ministry of Finance's Fiscal Policy Agency (BKF).

All parties support the proposed work and are willing to make available resources (such as staff time and venues) to support the implementation of the proposed activities.

Board agenda item 5: Planning, budgeting and audit	
Purpose:	To inform the board about recent developments in Australia’s support for Indonesia’s public financial management reforms and request feedback and endorsement of work programs to 2018.
Recommendation:	The board endorse the proposed work programs for AIPEG and GPF.
Proposals:	<ol style="list-style-type: none"> 1. GPF partnerships between: <ul style="list-style-type: none"> • The Australian National Audit Office (ANAO) and the Audit Board of Indonesia (BPK). • The Australian Department of Finance (DoF) and the Indonesian Ministry of Finance (MoF) (<i>NB: full proposal not submitted, but parties have endorsed a revised partnership</i>). 2. AIPEG Spending engagement area design document.
Executive Summary	
<p>Australia’s support is focussed on practical measures to increase the quality of spending. Significant revenue constraints mean there is a need to deliver more services from given outlays. Furthermore, a limited payoff from large spending increases in some areas underscores the importance of improving the quality of spending.</p> <p>AIPEG’s assistance will not change significantly in scope. AIPEG’s work plan includes: policy advice, capacity building and technical support for budget analysis; improving IT systems and fiscal transparency; as well as strengthening the evidence base for prioritising spending. AIPEG has been working with DG Budget, DG Treasury, Fiscal Policy Agency (BKF), Bappenas and increasingly with the Coordinating Ministry for Economic Affairs (CMEA).</p> <p>GPF DoF will scale back its assistance, moving away from a deployed officer model to a partnership based on fly-in fly-out exchange. GPF DoF and AIPEG will continue to work on better processes for planning and allocating budgets, as well as improving financial transparency and accountability. GPF ANAO deployed a senior official in 2016. This partnership will continue to focus on strengthening financial and performance auditing capabilities in order to promote the transparent and accountable management of public funds.</p>	
Background	
<p>Realising Indonesia’s potential, especially through private sector development, calls for a major build up in public infrastructure and substantial public investment in human capital. At the same time, further demands on the government budget are growing through an emerging social insurance system and rapidly increasing grants to other levels of government. Infrastructure and human development outlays pose significant challenges in terms of the level of public outlays and, equally importantly, all areas of the budget raise important challenges for the quality of public outlays.</p> <p>The return of Sri Mulyani as Finance Minister in July 2016 resulted in a significant change in budget policy. Expenditure control measures and cuts have helped to reduce the budget deficit and put the spending on a more sustainable footing. There has been greater focus on scrutinising the quality of spending and maintaining budget credibility. The transition towards accrual accounting has also helped to improve government financial reporting and encourage better spending practices. Notwithstanding recent progress in some areas, long-standing problems remain, including a lack of clarity around the overlapping roles of budget authorities,</p>	

negative feedback from human resource incentives to budget systems, and an excessive focus on rules and regulations rather than better outcomes for citizens.

Against this background, strengthening the public financial management system is a government priority. MoF and Bappenas have received increased government funding, the responsibilities for budgeting and planning are being revised through regulations, and oversight of Bappenas has been elevated to the President's Office.

Recent accomplishments

Planning and budgeting

AIPEG supported MoF in the development of a budget application designed to improve budget processes and reporting. This application has been adopted and is being used by all line ministries to prepare their 2017 budgets. The application will integrate a number of currently disparate, unlinked planning and budgeting processes and IT applications.

Indonesia adopted a new budget measure to incentivise local governments to connect more poor households to improved water and sanitation, based on AIPEG and the Indonesia Infrastructure Initiative (INDII) demonstration of a workable model. In 2016, an extra 191,354 households could have access to an improved water source and 20,087 households better sanitation under a new performance-based budget grant.

Financial transparency and accountability

Australia has played an important role in helping Indonesia transition from cash to accrual accounting for public financial reporting. Managing government finances on an accrual basis rather than a cash basis is generally considered to be a better practice in public sector administration by recognising expenses when they are incurred rather than when they are paid. GPF ANAO helped to improve BPK's capacity to audit on accrual basis through technical workshops, consultations, and other engagements. GPF DoF also supported the capacity of MoF in relation to accounting procedures, reporting practices, as well as with the implementation of accrual accounting reforms.

Asset management and organisational transformation

GPF DoF and AIPEG have assisted MoF with technical advice and assistance on the effective management of state assets, culminating in the establishment of a State Owned Asset Management Agency (Lembaga Manajemen Aset Negara/LMAN) in 2016. This new agency has already put several buildings, land allotments, and two former oil refinery complexes into operation generating IDR 26 billion (AUD 2.6 million) in revenue.

Movement from financial to performance audit

Increasing capabilities for financial and performance audit is a clear priority of BPK in order to allow the government of Indonesia to better assess the effectiveness of its programs. GPF ANAO supported this priority through the deployment of a performance audit specialist to BPK. The audit specialist deployed to BPK has supported this priority area through analytical work and technical advice provided to BPK officials at various levels.

Proposed 2017-18 Work Program

Continuing work on budget frameworks, financial transparency and other reforms

Australia will continue to support improving the effectiveness, efficiency and transparency of government spending, which is critical for Indonesia's growth prospects. GPF DoF has played a valued role in providing assistance in these areas through its extensive experience with similar public sector reforms in Australia. GPF DoF will continue to support this partnership through a modality of short-term visits for focused capacity building on agreed topics and high-level delegation visits. However, GPF DoF is currently going through a process of reshaping its international activities and will cease the deployee modality from 30 June 2017. AIPEG advisers have been working with GPF DoF for many years and will support the transition process to ensure continuity of support and engagement during this transition period.

Audit Reform

Through visits, workshops and secondments, ANAO will strengthen BPK's capabilities for financial and performance audit and provide support to improve strategic management and planning. However, there will be a shift from technical training in previous years, to a model incorporating a focus on senior management and organisational development and two-way learning between organisations.

Expanded work on budget policy

AIPEG will support efforts to strengthen linkages between budget allocations and development outcomes. Initial work has been around improving budget documentation and transparency and analysis of efficiency of spending across priority areas of infrastructure, health and education, as well as across regions. Future work will develop policy advice to improve the quality of spending in priority areas. Support will also be provided to facilitate the transformation of staff from budget administrators to budget analysts. This work is focused on MoF, and is increasingly also being shared with Bappenas and CMEA as coordination across central economic ministries evolves.

Other issues

Tighter fiscal conditions are an opportunity for budget reform, although preparations for the next presidential election may slow down the pace. Australia's support will seek to capitalise on momentum through the 2017 and 2018 budget processes to cement progress.

Consultation

The DG of State Asset Management, Treasury and Budget support the continuation of their partnership with the Australian Department of Finance (DOF) and were consulted on AIPEG's work plan. DoF has written to the MoF setting out its plans to end the deployed modality. Discussion of the future work program is underway.

The Chairman of the Audit Board of Indonesia and Deputy Minister at the Ministry of Planning have been consulted and support the proposed work.

All parties are willing to make available resources (such as staff time and venues) to assist with the implementation of the proposed activities.

Board agenda item 6: Institutional reform	
Purpose:	To inform the board of recent developments in Australian assistance on Indonesia's Institutional Reform agenda; and request feedback and endorsement of work programs to 2018.
Recommendation:	That the board endorse the proposed work program and associated budget envelopes for GPF.
Proposals being considered	<p>GPF partnerships between:</p> <ul style="list-style-type: none"> • Australian Public Service Commission (APSC), the Indonesian Civil Service Commission (KASN), the Indonesian Ministry of Administrative and Bureaucratic Reform (KemenPAN) and the National Financial and Development Supervisory Agency (BPKP). • Australian Bureau of Statistics (ABS) and Statistics Indonesia (BPS). • Office of the Commonwealth Ombudsman (OCO) and the Ombudsman of the Republic of Indonesia (ORI).
Executive Summary	
<p>GPF partnerships in this sector help build the trust of the Indonesian public and business community in public services. The success of partnerships in this area is reflected in the active engagement from leadership through high-level exchanges and visits.</p> <p>Bureaucratic reform is critical for promoting a public service that is motivated and promoted based on merit, as well as accountable, skilled and able to deliver public services efficiently. GPF APSC is working with Indonesian agencies responsible for bureaucratic reform to help implement the 2014 Civil Service Law.</p> <p>Accurate, timely and accessible statistics are important for public policy and business decision-making. GPF ABS completed an evaluation of activities delivered in recent years, finding that they were influential. Going forward, GPF ABS will help to support BPS' modernisation plans.</p> <p>GPF OCO aims to strengthening complaint handling mechanisms and the capabilities of ORI to process and investigate claims. Recent training has helped to improve professional practices and better equipped ORI staff to investigate complaints.</p>	
Background	
<p>The evidence on the importance of institutional reform and capacity strengthening for productivity and competitiveness improvements is clear. Across our economic governance portfolio, institutional constraints are among the most critical barriers to reform.</p> <p>Bureaucratic reform is one of nine reform priorities in the Medium Term Development Plan 2015-19 (RPJMN). It a priority for President Widodo's administration, crucial for improving public service delivery and reducing corruption. However, following the passage of the Civil Service Law in 2014, implementation has been slow, with some important regulations still not passed. Despite the slow pace of bureaucratic reform, GPF APSC has managed to have some success and is highly regarded within the Indonesian government as a trusted advisor. GPF APSC has undertaken twinning-style program</p>	

activities with GoI since 2006. The primary objective of the GPF APSC partnership is to support the implementation of the Civil Service Law. KASN Chairman, Pak Sofian, is keen to broaden this partnership to include other relevant ministries.

The ABS-BPS partnership, which began in 1995, has helped build BPS capacity to collect, compile and report statistical information. In 2016 the ABS-BPS partnership for the period 2013-15 was evaluated. The evaluation found that while ABS-BPS partnership is small in the scope of BPS's overall operations, it 'punches above its weight' in terms of contributing to key methodological improvements in the collection of macroeconomic statistics and assisting BPS' readiness to absorb the large infrastructure and institutional changes that will be introduced through its bureaucratic reform program.

Effective management of complaints drives public trust in institutions, public sector reforms and accountability. However, the number of complaints is low given the size of Indonesia's population. The reform program of the ORI aims at strengthening the quality of public sector leadership, developing effective internal complaint management systems within the Indonesian public sector and formulating a national complaint handling mechanism, supported by the OCO.

Recent accomplishments

Bureaucratic and institutional reforms with central civil service agencies

In November 2016, Vice President Jusuf Kalla met with the APSC Commissioner, Mr John Lloyd. Mr Lloyd also met with Minister Administrative and Bureaucratic Reform, Asman Abnur, and the leadership of KASN and KemenPAN-RB. This high-level engagement signifies the mutual value of the GPF partnerships. It also signifies renewed political momentum to progress bureaucratic reform in Indonesia. Importantly, the visit of the APSC Commissioner reaffirmed ties at a senior level with KemenPAN-RB, which will support APSC's work assisting with the implementation of the Civil Service Law.

In 2016 the APSC-KASN partnership has delivered workshops on merit-based recruitment; an executive exchange from the KASN with the Merit Protection Commissioner; and a strategic dialogue in Australia. The APSC-BPKP partnership has assisted BPKB to undertake Capability Reviews to identify strengths and development opportunities in Indonesian government agencies. The APSC has also collaborated with a number of GPF partnerships to share knowledge and develop capacity.

Improving statistical collection and dissemination

ABS is improving BPS's capacity to produce and disseminate quality statistics for evidence-based policy making in Indonesia, both in macroeconomic management and public expenditure. ABS-BPS partnership encouraged best practice approach in producing accurate GDP figures for Indonesia. With ABS support, BPS is now the lead agency within the Association of South East Asian Nations assisting in their implementation of internationally recognised national accounting methodologies.

Supporting a sound complaint handling mechanism

In May 2016 there was a high level visit of ORI officials (including the new Chief of ORI) to OCO. A key outcome was the approval of the strategic plan of the partnership for 2016-

17. In 2016, the OCO-ORI partnership contributed to changes to professional practices in national and regional Ombudsman offices following the rollout of training. The investigation training conducted as part of this program allowed ORI officers to conduct effective investigations, identify the issues that are causing concerns, and make more targeted recommendations for significant policy reform.

Proposed 2017 Work Program

Bureaucratic and institutional reforms with central civil service agencies

GPF APSC-KASN-KemenPAN-BPKP proposal is focused on a high level vision of a civil service free from corruption, collusion and nepotism. In 2017-18 the partnerships will focus on: a) strengthening partnerships and institutional links, b) enhance capability of government institutions and civil service officials through programs of work that support the professionalisation of the civil service, including transparent recruitment processes and finalisation of associated regulations, and c) improve governance systems and processes, building an effective, ethical and efficient civil service.

Improving statistical collection and dissemination

The ABS-BPS partnership will focus on improving Indonesian official macroeconomic data, and supporting BPS management to enhance statistical leadership skills to shape institutional governance and support the BPS modernisation program. This is a continuation from 2016 and builds on key themes and priorities identified collaboratively by ABS and BPS to achieve the overall objective of building BPS' statistical capability in accordance with BPS priorities. The key themes across the areas of statistical production, statistical use and statistical leadership align directly with the ABS' Statistical Capability Framework.

Supporting a sound complaint handling mechanism

OCO will continue supporting ORI in strengthening public sector accountability by increasing the knowledge and skills of ORI staff in investigation, early dispute resolution and complaint handling methodologies across ORI's 33 regional offices; and enabling ORI to fulfil a role as a regional leader in the Asia Pacific region.

Risks and Other Issues

Historically, civil service reform has been a difficult area to realise immediate results. Despite the enactment of the Civil Service Law in 2014 and establishment of a highly regarded institution, bureaucratic reform remains challenging. While there is higher likelihood of success at the Ministerial level, there are constraints created by whole-of-government rules, which if unchanged, limit the potential for reform. Another risk lies in the difficulty of creating and backstopping activities across a number of institutions in both Australia and Indonesia. This will require careful consideration as this engagement area develops.

Consultation

This paper has been informed by the three proposals noted above. The activities have been designed and prioritised in collaboration with KASN, BPKP, KemenPAN-RB, BPS, and ORI. The Indonesia government partners have all endorsed the partnership work programs. All parties are willing to make available resources (such as staff time and venues) to support the implementation of the proposed activities.

Board agenda item 7: Transport Safety	
Purpose:	To inform the board of recent developments in the Indonesia Transport Safety Assistance Package (ITSAP) and request feedback and endorsement of the work program until 2018.
Recommendation:	That the board endorse the proposed work program for GPF.
Proposals being considered	ITSAP is managed by the Australian Department of Infrastructure and Regional Development and includes several government partnerships.
Executive Summary	
<p>The Government of Indonesia (GoI) recognises the role of the transport sector in achieving high economic growth. The Strategic Plan of the Ministry of Transportation (MOT) 2015-2019 highlights improvements to connectivity and urban transport as key strategic issues. To improve these areas, a focus of the MOT is transport safety. A safer transport system will improve the economy by reducing risks of deaths and injuries, encourage investment, and provide an efficient means for good and services to reach communities and markets safely and on schedule. This proposal is for cooperation deliver targeted transport safety assistance in the aviation and maritime sectors. ITSAP cooperation can be grouped into six categories:</p> <ol style="list-style-type: none"> 1. Aviation Safety: Australia’s aviation portfolio agencies will continue to work with their Indonesian counterparts to improve aviation safety in the region. 2. Maritime Bilateral Relationship: Indonesian and Australian agencies will work together to improve the prevention and response to environmental threats caused by pollution in the marine environment. 3. Maritime Safety: ITSAP continues to address regulatory and human resource issues related to maritime safety by developing and disseminating improved regulations, standards, codes, resources and other operational tools. 4. Search and Rescue (SAR): ITSAP will help Indonesia establish a Joint Rescue Co-ordination Centre and address areas of improvement identified during the 2014 ICAO Universal Safety Oversight Audit Programme. 5. Maritime Pollution: Proposed activities include a marine pollution exercise, allowing partner agencies from Indonesia, Australia, Timor-Leste and PNG to observe each other’s response capabilities in a controlled environment. 6. Accident Investigation: ITSAP will help to build Indonesia’s investigation and transport recorder capabilities. 	
Background	
<p>Australia has provided targeted transport safety assistance to Indonesia under ITSAP since 2007, with a primary focus on long-term capacity building in a technically complex area. ITSAP was developed following the tragic Garuda accident in Yogyakarta on 7 March 2007, which claimed 21 lives, including five Australians. Since 2007, with total funding of AUD \$51 million, the ITSAP program has been successful in providing support that has resulted in necessary reforms in areas affecting transport safety. Close relations have been developed between the Australian agencies and their Indonesian counterparts. These links support operational activities such as air navigation that involves daily cooperation between both countries, and events such as search and rescue operations and accident investigations that occur on an occasional basis.</p>	

Through the ITSAP program, Airservices Australia’s partnership with AirNav Indonesia has significantly enhanced Indonesian air traffic management capability, and improved aviation safety for international air traffic through both countries. The Australian Maritime Safety Authority (AMSA) works closely with the Directorate General of Sea Transportation (DGST) to improve maritime safety practices, helping to improve safety of lives at sea and supporting trade and economic activity dependent on maritime transport. Under ITSAP, AMSA SAR has delivered training and skills development along with technological enhancement, broadening capability across BASARNAS’s SAR areas. The Australian Transport Safety Bureau (ATSB) continues to build the transport safety investigation capability of the Indonesian National Transportation Safety Committee (KNKT) so that Indonesia can meet international standards in transport safety investigation.

A 2015 formal ITSAP review found that a major benefit of the program is that Australian government agencies operate within a similar (governmental) environment to their Indonesian peers conducting the same work. For this reason, the Australian agencies understand the opportunities and many of the constraints on the Indonesian agencies. Overall, the review found ITSAP was strategically relevant, effective and had a positive impact.

Recent accomplishments

Airservices has in place a long-standing relationship with Indonesia. The **establishment of AirNav Indonesia**, as the single Indonesian air navigation service provider, affords the opportunity to strengthen and further develop the existing strategic partnership. Most recently, Airservices has worked with AirNav Indonesia to develop an air navigation pricing strategy which involved sharing Airservices’ experiences in constructing a pricing agreement and subsequent negotiations with industry.

On August 15, 2016, the **United States cleared Indonesian airlines to fly to the United States following a near decade long ban** imposed for safety reasons. The United States considers Indonesia’s aviation sector meets international standards and its safety rating has been upgraded accordingly. This is a very positive outcome for Indonesia and highlights the effectiveness of ITSAP in building the capacity of the Indonesian aviation sector.

Since 2007, SAR cooperation under ITSAP has delivered training and skills development and technological enhancements, broadening capability across BASARNAS’ SAR responsibility area. This has enabled continued growth in Indonesia’s SAR capability, as demonstrated by BASARNAS’ use of ITSAP delivered outcomes in the **successful response to the Air Asia incident over December 2014 and January 2015** and all maritime SAR incidents since.

AMSA is assisting DGST in the improvement of maritime safety practices, in particular **for passenger ferries**. This provides direct benefit to Indonesia by minimising loss of life and property and by realising economic potential.

ATSB continues to build the transport safety investigation capability of the NTSC, including through the development of a flight data recorder facility to download and analyse information from aircraft **Flight Data Recorders (black boxes)**.

Proposed Work Program

Aviation Safety: Australia’s aviation portfolio agencies will continue to work with their Indonesian counterparts to improve aviation safety in the region. Recognising the Indonesian Government’s focus on developing eastern Indonesia, and its anticipated growth, the Civil

Aviation Safety Authority (CASA) will focus on practical activities including tropical mountainous terrain flying and aerodrome standards, as well as wildlife hazard management. Airservices Australia will support AirNav Indonesia in developing systems and procedures that are robust, future proofed and effective within its unique operating environment. This will include assisting AirNav Indonesia to evolve to a technology based Air Navigation Service Provider in line with the International Civil Aviation Organization's (ICAO) *2016-2030 Global Air Navigation Plan*.

Maritime Bilateral Relationship: Maritime co-operation with Indonesia is a key priority for the Australian Government. The *Indonesia-Australia Joint Maritime Declaration* was signed by the Indonesian and Australian foreign ministers on 26 February 2017. The key element of the Declaration that applies to ITSAP is paragraph 6, 'to work together, including through bilateral and regional mechanisms, to improve maritime safety and to strengthen their commitment and efforts in preventing and responding to environmental threats caused by pollution in the marine environment'.

Maritime Safety: In relation to marine safety, ITSAP continues to address regulatory and human resource issues by developing and disseminating improved regulations, standards, codes, resources, and other operational tools. The program also assists by developing the professional and technical skills, knowledge, expectations and attitudes of stakeholders including inspectors and harbourmasters; owners, officers and crew; shippers and the travelling public. Training and capacity building will also focus on the implementation of the Non-Convention Vessel Standards, which Indonesia has developed and promulgated.

Search and Rescue: The next phase of work in the search and rescue (SAR) area will build on the foundations of ITSAP for strengthening effective SAR to assist Indonesia with establishing a fully operational Joint Rescue Co-ordination Centre and address areas of improvement identified during the 2014 ICAO Universal Safety Oversight Audit Programme.

Maritime Pollution: Australia and Indonesia are progressing a regional MoU to address an ongoing and increasing risk of transboundary pollution incidents in and around Australia, Indonesia, Timor Leste, and Papua New Guinea with key outcomes including improved transboundary marine pollution response capability and the mitigation of the environmental and economic costs of a pollution incident. ITSAP will play a key role in the development of the bilateral relationship in this area with proposed activities to include a marine pollution exercise, which will allow AMSA and DGST to observe each other's response capabilities in a controlled environment.

Accident Investigation: The ongoing program of Australian Transport Safety Bureau (ATSB) and the National Transport Safety Committee (NTSC) will be directed at ensuring that capability is maintained and further developed in three key areas: NTSC investigator training and professional development; NTSC investigator and specialist staff placements at the ATSB; and development of the NTSC transport recorder capability.

Risks and Other Issues

Within Asia, Indonesia has the fastest growing emerging market in aviation. Indonesia's domestic market grew by 16% in 2011 to 60 million passengers. Growth is projected to continue at an annual rate approaching 20%, reaching 180 million passengers in 2021. With the extraordinary growth of the aviation industry, there remains significant work to improve the overall aviation safety level in Indonesia. Despite significant improvements in aviation

safety and security standards, Indonesia recently failed to secure enough votes to become an International Civil Aviation Organization (ICAO) member.

Consultation

The Department of Infrastructure and Regional Development and Indonesian MOT have agreed to the ITSAP program for July 2017 to June 2018. A Transport Safety Forum meets annually chaired by Infrastructure's Secretary and the Secretary General of the Indonesian MOT. The most recent forum was held in Indonesia in April 2017.