



**Australia Indonesia Partnership
for Reconstruction and Development**
Program Kemitraan Australia Indonesia
untuk Rekonstruksi dan Pembangunan



Partnership framework



www.ausaid.gov.au



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For further information about the
Australian overseas aid program, contact:

AusAID Public Affairs Group

AusAID

GPO Box 887

Canberra ACT 2601

Phone 02 6206 4727

Facsimile 02 6206 4695

Internet www.ausaid.gov.au

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1 Governance, objectives and guiding principles of the partnership

THE JOINT COMMISSION IS THE PEAK DECISION MAKING BODY OF THE AUSTRALIA INDONESIA PARTNERSHIP FOR RECONSTRUCTION AND DEVELOPMENT (AIPRD). THE COMMISSION'S WORK IS JOINTLY OVERSEEN BY THE HEADS OF GOVERNMENT OF AUSTRALIA AND INDONESIA. MEMBERSHIP OF THE JOINT COMMISSION COMPRISES THE FOREIGN MINISTERS OF AUSTRALIA AND INDONESIA, AS WELL AS ECONOMIC MINISTERS FROM EACH COUNTRY. THE PRINCIPAL MANDATE OF THE JOINT COMMISSION IS TO SET BROAD STRATEGIC DIRECTIONS FOR THE PARTNERSHIP AND AGREE MAJOR ACTIVITIES FOR FUNDING UNDER THE AIPRD.

Australian and Indonesian Ministers comprising the AIPRD Joint Commission have agreed that the AIPRD's primary objective is to support Indonesia's reconstruction and development efforts, both in and beyond tsunami-affected areas, through sustained cooperation focused on the Indonesian Government's programs of reform, with an emphasis on economic and social development.

At the first Joint Commission meeting on 17 March 2005 in Canberra, Ministers agreed that, in pursuing the objectives of the Partnership, Australia and Indonesia will work together in a spirit of genuine partnership that will:

- > demonstrate Australia and Indonesia's shared interest in a strong, stable and prosperous Indonesian economy and society
- > recognise the Government of Indonesia's responsibility for setting the priorities for national social and economic development and reform
- > take account of the special characteristics and needs of tsunami-affected areas and those of other areas of Indonesia
- > support Indonesia's development efforts
- > focus on areas where Australia has a comparative advantage in expertise and the delivery of reconstruction and development assistance; with

special emphasis on the development of linkages between Australian Government agencies and institutions and their Indonesian counterparts as well as the strengthening of people-to-people links

- > identify activities for funding based on merit according to their relative contribution to recovery and reconstruction as well as longer-term economic and social development, with a special emphasis on human resource development and good governance, both in tsunami-affected and other areas of Indonesia
- > implement a partnership approach in the joint identification of funding priorities, the joint identification of activities for implementation, and the joint selection of implementing bodies with decision-making based on principles of transparency and accountability, open and competitive tendering and robust performance monitoring and evaluation systems, and
- > coordinate with the activities and planning of other international development partners and, where effective and consistent with the objective of the partnership, utilise a range of international and domestic aid delivery mechanisms, including multilateral agencies and non-governmental organisations.

2 The AIPRD partnership framework

AT THE FIRST JOINT COMMISSION MEETING MINISTERS ALSO AGREED THAT AUSTRALIAN AND INDONESIAN OFFICIALS WOULD DEVELOP A PARTNERSHIP FRAMEWORK TO GUIDE THE PROCESS OF JOINT IDENTIFICATION OF PRIORITY ACTIVITIES FOR FUNDING UNDER THE AIPRD. THIS PARTNERSHIP FRAMEWORK HAS BEEN ENDORSED BY THE AIPRD JOINT COMMISSION.

The Partnership Framework presented here outlines the main considerations in setting priorities under the AIPRD, including Indonesia's development priorities and practical program management issues. Drawing on this, the paper outlines a program structure for the AIPRD, based on two main themes of economic growth and emergency preparedness/response. Potential areas of cooperation related to these themes are also identified, together with early follow-up work to assist detailed program planning.

3 Setting priorities under the AIPRD

INDONESIA'S ECONOMIC AND SOCIAL DEVELOPMENT PRIORITIES

Indonesia's economic and social development priorities are summarised in Indonesia's Medium Term Development Strategy 2004 to 2009. The Medium Term Development Strategy focuses on three key agendas:

- > creating an Indonesia that is safe and peaceful
- > establishing justice and democracy for all citizens
- > creating a prosperous Indonesia.

The Medium Term Development Strategy identifies a wide range of priorities relating to those key agendas that help to inform priority setting under the AIPRD. As articulated in the Medium Term Development Strategy, Indonesia and its key international development partners are agreed on Indonesia's main development needs and challenges, in particular:

- > the continuing very large numbers of people with incomes just above the formal poverty line who are vulnerable to being pushed into poverty if economic or personal circumstances change
- > high unemployment rates and large numbers of youth joining the labour force each year, requiring rates of growth of 6-7 per cent just to absorb new entrants to the labour market
- > continuing weak levels of investment in infrastructure a major impediment to higher growth rates

- > severe under-funding of basic services such as health and education
- > the poor quality of Indonesia's education outcomes by regional standards, affecting the supply of skilled workers to meet the needs of a growing economy
- > the need for major improvements in governance, including in legal and judicial reform, economic and financial management, public administration, business regulation, and tackling corruption, in order to improve the enabling environment for private sector growth
- > continuing weakness in the implementation of decentralisation, with implications for basic service delivery and budgetary planning/management
- > a moribund agricultural and rural economy, with implications for the bulk of Indonesia's poor.

The key to sustained reduction in poverty levels in Indonesia is a rate of economic growth in excess of 6 per cent per year. While this should be the AIPRD's major focus, the quality of that growth is also important. Growth needs to be broad-based, promote functioning markets and be supported by effective institutions of government and public administration that will provide an enabling environment for the private sector. This requires a balance between efforts to improve governance and direct support for infrastructure development and basic service delivery, human resource development and assistance to improve rural productivity and encourage private sector growth.

PROGRAM MANAGEMENT AND ADMINISTRATION

Given the size of Australia's \$1 billion AIPRD pledge, the timeframe for its implementation (2005 to 2009) is relatively short. It is therefore planned to focus the AIPRD on a relatively small number of areas where Australia can fund interventions of a scale and nature that will have a substantial developmental impact for Indonesia. While the AIPRD offers the opportunity to scale up substantially some high priority areas of support under Australia's existing development cooperation program (e.g. in economic governance and education and training) it will add to management costs and reduce impact if the AIPRD program is widely dispersed between multiple, unconnected activities in a large number of sectors and sub-sectors. A program spread broadly across many sectors will be slower to design and implement effectively. Taking such considerations into account, some areas of work will be left to be carried forward primarily through Australia's existing development cooperation program. This should not in any way be seen as suggesting these areas are of lesser importance in development terms. In areas such as health promotion and communicable disease prevention, security sector capacity building, support for legal reform and democratic institutions, significant support will continue to be provided through the existing aid program.

Working level coordination meetings will be held regularly between representatives of relevant Indonesian Government agencies and Australian Government representatives in Jakarta. These meetings will provide a forum for discussion and agreement on practical arrangements for program management and administration and to consider possible new activities for funding under the AIPRD.

4 AIPRD program structure

TAKING INTO ACCOUNT THE ABOVE CONSIDERATIONS, THE PROGRAM STRUCTURE FOR THE AIPRD IS BASED ON TWO MAIN THEMES:

- (1) EMERGENCY PREPAREDNESS AND RESPONSE; AND
- (2) PROMOTING BROAD-BASED ECONOMIC GROWTH.

This is summarised at **Appendix A**. The first theme reflects Australia's commitments to assist with reconstruction and emergency response in the wake of the 26 December tsunami while the second theme reflects Indonesia's broad development challenges.

The major proposed areas of cooperation under the first theme of emergency preparedness and response are already partly determined by agreements reached at the 17 March 2005 Joint Commission meeting, namely Aceh reconstruction/rehabilitation, responses to other disaster-affected areas, and efforts to build Indonesia's emergency/disaster preparedness and management systems.

The major proposed areas of cooperation relating to the second theme of broad-based economic growth are: technical assistance and other programs to

promote improved economic governance and public sector management; a loans program to finance high priority economic and social infrastructure; basic education, scholarship and training programs to develop Indonesia's human resource base; and targeted assistance aimed at improving rural productivity and generating increased incomes and employment through private sector development.

Appendix A shows activities already endorsed for funding by the AIPRD Joint Commission, major proposed areas of cooperation and indicative activities for further investigation. As new activities are jointly identified and endorsed for funding by the Joint Commission, Appendix A will be amended to provide an up-to-date summary of commitments under the AIPRD.

5 Major areas of cooperation

ACEH RECONSTRUCTION

The response from international donors and NGOs to the needs of tsunami-affected areas in Indonesia has been generous and appears to broadly match estimated basic reconstruction costs. Economic and social development needs elsewhere in Indonesia are also acute and it is important that future Australian assistance to Aceh be considered as part of a balanced program to address Indonesia's national economic and social development priorities.

Joint Commission Ministers have already agreed a number of immediate programs to help rehabilitate essential health, education and local government services, to help restore rural livelihoods and to undertake priority physical reconstruction projects. Funding needs will be kept under careful review during the reconstruction phase and funds for further priority rehabilitation and reconstruction work will be allocated progressively, in close collaboration with the Indonesian Rehabilitation and Reconstruction Agency in Aceh and Nias (BRR – Badan Rehabilitasi dan Rekonstruksi). Further Australian contributions to reconstruction in tsunami affected areas will be carefully coordinated with the work of other international donors to ensure highest priority needs are met efficiently and effectively.

Aceh and other tsunami-affected areas will also be eligible to benefit from other Australian development cooperation activities under the AIPRD and Australia's existing bilateral development

cooperation program. For example, Australian programs of education and training, including long-term postgraduate scholarships and short-term training courses, will also be available to individuals from Aceh.

IMPROVED GOVERNANCE

Ministers at the 17 March 2005 Joint Commission agreed to implement a \$50 million Government Partnerships Fund to support the exchange of skills, knowledge and expertise between Australian Government agencies and their Indonesian Government counterparts. Implementation of the Government Partnerships Fund is now underway, with Australian public sector agencies with expertise in economic and financial management developing practical programs of cooperation with Indonesian counterpart agencies. Further cooperation is being planned between Australian and Indonesian government agencies with responsibility for improved public sector management.

In addition to the very substantial support already committed to assistance with improved economic and financial management and legal sector development under Australia's existing bilateral development cooperation program, there is scope to consider further support for improved governance at a later stage under the AIPRD. Programs of assistance in other areas (for example, education and training) will also provide opportunities for further governance-related support.

LOANS / INFRASTRUCTURE DEVELOPMENT

It is planned that the \$500 million in concessional loans available to be drawn down under the AIPRD be allocated predominantly to infrastructure projects, with a focus on those that augment growth by improving and facilitating the functioning of local and regional economies. This is consistent with Indonesia's need for substantial new public as well as private investment in infrastructure to maintain/increase growth rates. Further detailed investigations will be undertaken to identify high priority areas where Australia has strong capacity to assist, and where projects can be designed, agreed and implemented within the relatively short timeframe of the AIPRD. A significant focus on basic economic infrastructure (e.g. transport infrastructure such as road and bridge rehabilitation) is likely, but other areas of social and economic infrastructure (e.g. school buildings, basic water supply and sanitation, rural power and energy) may also be considered.

Australia and Indonesia will move quickly to jointly identify and design a small number of relatively large infrastructure projects for funding under the AIPRD loan program. In doing so Australia will work closely with other international development agencies such as the World Bank to identify prospective areas for collaboration with existing high priority development programs, thus expediting project development and helping to reduce the costs of design, supervision and monitoring. It should be noted that, in addition to the \$500 million loan program, additional grant aid funding will be available to support essential design, supervision and monitoring costs for loan projects.

HUMAN RESOURCE DEVELOPMENT/ SKILLS DEVELOPMENT

Education and training in Indonesia is seriously under-funded and is a critical area of public investment in terms of the skills needs associated with a modern, growing economy. Research indicates that investment in primary and secondary education provides significant public return, leading to a better quality workforce and more sophisticated consumers. A significant scaling up of

Australian support in this sector is planned and will complement the 600 new Australian Partnership Scholarships already agreed to be funded under the AIPRD.

Australia has committed significant resources to improving primary and lower secondary education in government schools in Indonesia in recent years, including in partnership with UNICEF and through a \$30 million Learning Assistance Program for Islamic Schools (LAPIS). Australia's current support for technical and vocational education in Indonesia is concluding and follow-on activities will be considered. Australia is a recognised leader in technical skills development and models for linking skills training to market needs. Significant additional Australian support for improvements in basic education and skills development will build on Australia's strengths and respond to priority areas of need in Indonesia.

Areas of potential support under the AIPRD for education and training will be identified and designed jointly with Indonesia. Given Indonesia's human resource development needs, funding under the AIPRD may include both grants and loans for high priority education infrastructure and materials. Australia will work closely with other international donor agencies providing support to the education sector in Indonesia to ensure Indonesia's priority needs are met efficiently and effectively and in a well-coordinated fashion.

PRIVATE SECTOR DEVELOPMENT/ RURAL PRODUCTIVITY

Australia has experience working in collaboration with the private sector development arm of the World Bank (the International Finance Corporation) in Indonesia and in promoting economic livelihoods as part of Bali's recovery from the 2002 terrorist attacks. While this area of work is not able to absorb large amounts of funding effectively at this stage, the development challenges surrounding private sector growth are significant and merit further investigation. Agriculture and rural development play critical roles in employment and income generation in Indonesia and are areas where Australian skills and experience (e.g. in boosting

rural productivity through targeted agricultural research and extension) can make a significant contribution.

The Australian Centre for International Agricultural Research (ACIAR) will have a major role in working jointly with Indonesian partners to improve rural productivity. The Joint Commission has already endorsed a \$25 million Smallholder Agribusiness Development Initiative. The development of programs of cooperation in these areas will also take account of progress and lessons learned in the implementation of Australia's \$30 million, five year program of support for decentralised development in Eastern Indonesia (ANTARA) as part of Australia's existing bilateral development cooperation program.

PEOPLE-TO-PEOPLE LINKS

Opportunities for encouraging people-to-people links between Indonesia and Australia will be investigated in association with all major activities identified above. Examples may include: the use of volunteer English language teachers in the education program; twinning or other arrangements to help improve the quality of economic and financial management and public administration at the local government (district) level in Indonesia; academic linkages and exchanges in association with education and governance programs and more extensive use of Australian business volunteers in association with efforts to develop SMEs.

6 The AIPRD and Australia's existing development cooperation program

THE AIPRD WILL BE COMPLEMENTED BY AUSTRALIA'S EXISTING BILATERAL DEVELOPMENT COOPERATION PROGRAM WITH INDONESIA. EXPENDITURE UNDER THIS PROGRAM IN 2004/05 WAS ALMOST \$260 MILLION (INCLUDING TSUNAMI RELIEF FUNDING). EXPENDITURE IN 2005/06 IS ESTIMATED AT ALMOST \$170 MILLION.

Australia's existing development cooperation program is operating under a strategy approved by the Government of Indonesia in late 2003. Its main objectives and its main elements are summarised in Appendix B.

Considering anticipated expenditure under Australia's existing bilateral development cooperation program with Indonesia and the pledged \$1 billion funding under the AIPRD, Australia's overall contribution to Indonesia's economic and social development is estimated at approximately \$2 billion over the five year period 2004/05 to 2008/09.

Taking into account the focus of Australia's existing bilateral development cooperation program with Indonesia and the planned focus of the AIPRD as set out in this Partnership Framework, Australia's overall contribution to Indonesia's economic and social development will be governed by the following objectives:

- > increase and sustain economic growth by strengthening economic and financial management, developing human resources and financing essential public infrastructure
- > help build the institutions of democracy, particularly through Australia Indonesia partnerships
- > promote stability and security while building national emergency management and response capacity, and
- > improve the quality and accessibility of government service delivery, particularly in the poorest and most remote provinces.

7 Appendix A

AIPRD PROGRAM STRUCTURE TO SUPPORT INDONESIA'S RECONSTRUCTION AND DEVELOPMENT EFFORTS, BOTH IN AND BEYOND TSUNAMI-AFFECTED AREAS, THROUGH SUSTAINED COOPERATION FOCUSED ON THE INDONESIAN GOVERNMENT'S PROGRAM OF REFORM, WITH AN EMPHASIS ON ECONOMIC AND SOCIAL DEVELOPMENT

EMERGENCY PREPAREDNESS & RESPONSE			PROMOTING BROAD-BASED ECONOMIC GROWTH			
Aceh Reconstruction	Emergency Preparedness	Responding to Other Disasters	Improved Governance	Economic & Social Infrastructure	Private Sector Development /Rural Productivity	Human Resource Development
Rehabilitation of hospital, health, education and local government services; rebuilding community and economic infrastructure; restoring livelihoods and private enterprise; other reconstruction and humanitarian assistance as required.	Capacity building of government & local emergency response organisations.	Including Papua & NTT reconstruction; Nias earthquake relief.	Government Partnerships Fund to support collaboration between Australian and Indonesian agencies on improved economic, financial and public sector management. Other support (e.g. district level training; academic twinning & targeted research).	Highly concessional loans and grants (e.g. for road transport infrastructure improvement; education infrastructure upgrading; other infrastructure to boost local and regional economies).	Smallholder agribusiness development; regional enterprise development.	Up to 600 Australian Partnership Scholarships for masters level study in Australia; short-term training & skills development; improving quality and access to basic education in state & Islamic schools.

8 Appendix B

MAJOR COMPONENTS OF CURRENT AUSTRALIA — INDONESIA DEVELOPMENT COOPERATION PROGRAM (ESTIMATED EXPENDITURE \$169.9 MILLION IN 2005/06)

The agreed objectives of Australia's existing bilateral development cooperation program with Indonesia are:

- > **Improve economic management** through support to accelerate structural reform including assistance for revenue enhancement, financial sector restructuring and supervision, and debt management.
- > **Support the transition to democracy** by strengthening democratic institutions and practices, through assistance for legal and judicial reform, the institutions of human rights and public accountability, electoral and parliamentary processes and institutions, and civil society.
- > **Enhance security and stability** through support for law enforcement and counter-terrorism capacity building, conflict and disaster prevention and humanitarian assistance for vulnerable groups.
- > **Increase the accessibility and quality of basic social services** through policy engagement at the national level and support for planning and implementation at the district level, and support for community-based approaches.

The main elements of Australia's existing bilateral development cooperation program jointly agreed with Indonesia to achieve these objectives are listed below:

- > A 5-year, \$26 million program of **support for improved economic governance** working with the Ministry of Finance and other agencies in support of the Government of Indonesia's economic reform program objectives including improving revenue administration and public expenditure management, developing a comprehensive strategy for public debt management, reforming budgeting processes, strengthening bank and

financial institution supervision and encouraging infrastructure investment. Previous activities under the program have had major impacts in terms of increased tax revenues (over \$500 million from the establishment of a Large Taxpayers Office), avoiding the imposition of FATF sanctions (through the establishment of Indonesia's Financial Intelligence Unit), developing systems for state bank supervision (readying state banks for sale), developing Indonesian debt management capacity (saving an estimated \$12.5 million per annum) and strengthening national government audit systems (including their first application to off-budget military expenditure).

- > A 5 year, \$22 million program of **support for legal reform and development**, working initially with the Indonesian Supreme Court and human rights institutions. In its first year this program has supported key government reforms in the legal and human rights area with a focus on the courts system, human rights institutions and the prosecution service.
- > **Electoral assistance** (worth \$15 million in 2004-05) including for grassroots electoral monitoring of voting and vote counting associated with the successful Presidential and legislative elections and new support for other important democratic institutions such as the Ombudsman and the Anti-Corruption Commission.
- > A 5 year, \$20 million program of **assistance to build Indonesia's counter-terrorism capacity** including through the Indonesian National Police, assistance with legislative drafting, combating money laundering and terrorist financing, enhancing travel security and training prosecutors and judges in the management of complex crimes of violence.
- > Major programs of **short and long term training** (\$47 million in 2004-05), including AusAID's largest post-graduate scholarship program

providing 300 new awards each year for study in Australia, and a major program of specialised short-course training in Indonesia targeting mid-career professionals (approximately 80 courses delivered per year) in the fields of economic and financial management, public administration and health and education service delivery.

- > Programs of **assistance to basic education** worth \$15 million in 2004-05 in both state and Islamic school systems targeting school management, teacher training and the provision of teaching materials: the Learning Assistance Program for Islamic Schools (LAPIS) which commenced in June 2004 is the first significant international donor program focussed on the Islamic school system. These programs will be expanded significantly over the coming years.
- > A growing range of activities aimed at **building partnerships with mainstream Islamic organisations** that are committed to promoting pluralism and religious tolerance, including in election monitoring and voter education, through dialogues involving religious leaders and academics, with the women's arm of the Islamic welfare organisation Muhammadiyah and in education and training initiatives.
- > Assistance to strengthen Indonesia's **planning and response mechanisms to counter the spread of communicable diseases**, especially HIV/AIDS and Avian Influenza.
- > Support for economic and social development in Indonesia's poorest eastern provinces, including through **improved maternal and child health care**, developing **effective water and sanitation services** for poor rural communities and a \$30 million, 5 year program to promote **regional development** through improved governance and service delivery in a decentralised environment and activities to increase rural and peri-urban incomes.

More than \$7 million on average each year to provide **essential humanitarian relief** to vulnerable populations affected by natural disasters, terrorist violence or inter communal conflict.

