

# 22 INDONESIA

## INTRODUCTION

INDONESIA IS AN ARCHIPELAGO OF SOME 17 000 ISLANDS with a population of 223 million. In 2006, the country had a gross national income (GNI) per capita of USD 3 950 (in purchasing power parity terms). Indonesia is a middle income country, but poverty is still a significant issue. The most recent poverty survey, conducted in 2007, estimated that nearly 6.7% of the population lived below the one-dollar-per-day poverty line; 45.2% lived below the two-dollar-per-day level. Along with several other Asian countries, Indonesia experienced a major financial crisis in 1997/98; the road to recovery – a road that has included the transition to democracy – has been difficult.

According to the OECD's Aid at a Glance data, total net official development assistance (ODA), provided by members of the OECD's Development Assistance Committee (OECD-DAC), amounted to USD 1405 million in 2006; Japan, the World Bank and Australia were the top three donors for 2005-06. Indonesia was not included in the 2006 Baseline Survey for the Paris Declaration. Therefore, the Paris Declaration 2010 targets will be based on the results of this round of monitoring.

DIMENSIONS	2007	CHALLENGES	PRIORITY ACTIONS
Ownership	Moderate	Relatively weak linkages between national plans, strategies and aid	Address priorities at a detailed level; communicate better with donors
Alignment	Moderate	Some donors remain unconvinced that country systems will meet their accountability requirements	Strengthen country systems, including the procurement regime; encourage their use by donors
Harmonisation	Moderate	Heavy burden placed on government by large number of donor missions	Share information about planned missions, with government and amongst donors
Managing for results	Low	Need for improved systems for reporting and performance assessment	Donors to work with government to establish such systems
Mutual accountability	Low	Lack of agreement on how to implement mutual accountability	Government and donors to work together to produce a roadmap for meeting targets on aid effectiveness

## OVERVIEW

### Box 22.1:

### Challenges and priority actions

Twenty donors responded to the 2008 Survey, with their aid constituting 97% of total ODA. However, as a middle income country, aid accounts for less than 1% of GNI. Donors have been increasingly active in Indonesia, particularly since the devastating tsunami and earthquakes of 2004. At the same time, decentralisation has been a government priority. Thus, progress on aid effectiveness – including at sub-national levels – is of great importance.

## OWNERSHIP

**OWNERSHIP IS CRITICAL TO ACHIEVING DEVELOPMENT RESULTS** and is central to the Paris Declaration on Aid Effectiveness. Aid is most effective when it supports a country-owned approach to development; aid is less effective when countries feel that aid policies and approaches are driven by donors that provide assistance. In the context of the Paris Declaration, ownership specifically concerns a country's ability to carry out two, inter-linked activities: exercise effective leadership over its development policies and strategies; and co-ordinate the efforts of various development actors working in the country.

Ownership has many dimensions. Indicator 1 – assessed as part of the World Bank's review on *Results-Based National Development Strategies: Assessments and Challenges Ahead* – provides an entry point to the issue. The World Bank assesses the operational value of a country's development strategy and policy against three criteria, all of which are essential features of any serious effort to harness domestic and external resources for development purposes: the existence of an authoritative, country-wide development policy which clearly identifies priorities and is well costed.

The World Bank rates the operational value of a country's development strategy against a five-point scale running from A (highest score) to E (lowest score). The Paris Declaration 2010 target is to raise, to at least 75%, the proportion of partner countries having operational development strategies – *i.e.* meriting a rating of A or B.

Indonesia's Long Term Development Plan runs from 2005-25 and lays out the framework for the country's development. This plan is complemented by a medium-term development plan (MTDP) that runs from 2004-09, and by annual government plans. The MTDP provides the basis for the government's borrowing strategies and sets the development trajectory with which aid should be aligned. The Ministerial Strategic Plan, as well as a series of sector-specific strategies, synchronises the plans of individual ministries with the MTDP.

Executing the MTDP presents a number of challenges, particularly since prioritisation is lacking. Further efforts are also needed to translate objectives into clear strategies, programmes and activities. Progress could be made in four key areas: further clarification of the roles of key stakeholders in aid management; the development of standard operating procedures for aid management; improving co-ordination within the government and between relevant stakeholders for aid management; and, building governmental capacity at national and sub-national levels. ■

### INDICATOR 1

Do countries have operational development strategies?

## ALIGNMENT

FOR AID TO BE EFFECTIVE, it must be aligned with national development strategies, institutions and procedures. The Paris Declaration envisions donors basing their support fully on country partner aims and objectives. Indicators 2 through 8 examine several dimensions of aid to assess the degree to which partner countries and donors achieve alignment.

The data suggest that Indonesia is well-placed on some dimensions including use of country systems, co-ordinated capacity development and in-year predictability of aid. However, there is substantial room for progress as regards the reliability of country systems, the recording of aid on budget and the alignment and integration of project implementation units (PIUs) into government systems. Making progress will require the government to exercise stronger leadership.

### BUILDING RELIABLE COUNTRY SYSTEMS

Indicator 2 covers two aspects of country systems: public financial management (PFM) and procurement. In each case, the focus is on the degree to which these systems adhere to broadly accepted good practices – or to which there is in place a reform programme to promote improved practices. If countries have reliable systems, donors will be encouraged to use such systems for the delivery and management of aid. This helps to align aid more closely with national development strategies and enhances aid effectiveness.

Indicator 2a of the Paris Declaration assesses the degree to which partner countries either have public financial management (PFM) systems that are in line with broadly accepted good practices or have credible reform programmes in place to establish reliable PFM systems. The assessment is based on the World Bank's Country Policy and Institutional Analysis (CPIA) score for the quality of PFM systems, which uses a scale running from 1 (very weak) to 6 (very strong) with half-point increments. To score highly, a country needs to meet all three of the following criteria: a comprehensive and credible budget linked to policy priorities; effective financial management systems to ensure that the budget is implemented as intended in a controlled and predictable way; and, timely and accurate accounting and fiscal reporting, including timely and audited public accounts. The 2010 target is that each country will move up at least one measure (*i.e.* 0.5 points) on the CPIA scale for measuring the quality of PFM systems.

Indonesia received a rating of 3.5 for its PFM systems in 2005. Had the country been a participant in the 2006 Baseline Survey, this rating would have placed Indonesia around the middle of the range for participating countries. Indonesia did not receive a rating for the CPIA for 2007.

Substantial progress had been made in recent years in reforming Indonesia's PFM systems. Several pieces of legislation have been introduced in relation to budgeting and financial management including the State Finance Law, the State Treasury Law and the State Audit Law. These laws introduce a range of new planning, budgeting and accounting, and financial management principles, as well as procedures that will affect all government entities.

Full implementation of these new standards and principles will, however, take several years and will require the sustained support of donors. With the government pursuing an ambitious agenda of decentralising public financial management, such support must encompass efforts to build capacity and financial management systems at the sub-national level.

### INDICATOR 2a

How reliable are country public financial management systems?

**INDICATOR 2b**

How reliable are country procurement systems?

At the time of the 2006 Baseline Survey, no mechanism was in place to systematically assess and quantify the quality of procurement systems in partner countries. Thus, it was impossible to set country-level targets on progress towards Indicator 2b.

In the context of the 2008 Survey, the quality of a country's procurement system is assessed through the Methodology for the Assessment of National Procurement Systems, which was developed by the Joint Venture on Procurement. The methodology includes two components: the baseline indicators compare the country's systems to internationally-accepted good practice; and a new set of indicators assess overall performance of the system and compliance with national legislation and standards. The results of the procurement system self-assessment are expressed as grades on a four-point scale running from A (the highest) to D (the lowest).

The reliability of Indonesia's procurement systems was assessed for the first time in 2007, using the methodology for self-assessment developed by the Joint Venture on Procurement. The assessment concerns the degree to which existing procurement systems adhere to broadly accepted good practices or to which there is a reform programme in place to promote improved practices. Along with 8 of the 12 countries assessed for the first time in the 2008 Survey, Indonesia received a rating of C on a scale running from D (weak) to A (strong).

The Center for the Development of Public Procurement Policy, within the National Development Planning Agency, has been the Indonesian government's focal point for work on procurement. Indonesia has taken important steps to improve its procurement systems, including a presidential decree that provides guidelines on the procurement of goods and government services and promotes basic principles of transparency, open and fair competition, efficiency and accountability. A further development is the establishment, in 2008, of a National Public Procurement Office.

Continued efforts will be required to improve Indonesia's systems for procurement and reduce corruption. This should include the submission (in 2008) of the draft Procurement Law by the government to the Parliament, the establishment of effective enforcement mechanisms, and efforts to build the capacity of government agencies to understand and adhere to the requirements of the presidential decree.

### ALIGNING AID FLOWS ON NATIONAL PRIORITIES

**INDICATOR 3**

Comprehensive and transparent reporting on aid, and how it is used, is an important means of ensuring that donors align aid flows with national development priorities. The degree to which development assistance to the government sector is fully and accurately reflected in the budget provides a useful indication of the degree to which serious effort is made to connect aid programmes with country policies and processes. It also allows partner country authorities to present accurate and comprehensive budget reports to their parliaments and citizens.

Indicator 3 is a proxy for alignment. It measures the percentage of aid disbursed by donors to the government sector that is included in the annual budgets for the same fiscal year. The indicator is a joint measure of two components: the degree to which donors report aid flows comprehensively to partner countries; and the degree to which partner countries accurately record aid.

	Government budget estimates of aid flows for 2007 (USD m)	Aid disbursed by donors for government sector in 2007 (USD m)	2007*	
	a	b	c = a / b	c = b / a
Asian Development Bank	625	1 146	55%	
Australia	37	246	15%	
Canada	0	9	0%	
European Commission	12	25	48%	
France	0	6	0%	
Germany	38	149	25%	
Global Fund	0	10	0%	
IFC	0	0	--	
IMF	0	2	0%	
Japan	1 005	1 023	98%	
Korea	25	25		98%
Netherlands	37	19		52%
New Zealand	0	2	0%	
Norway	0	1	0%	
Spain	44	1		2%
Sweden	0	2	0%	
United Kingdom	0	0	--	
United Nations	1	164	1%	
United States	5	97	5%	
World Bank	849	1 093	78%	
(Unallocated donors)	136	--	--	
Average donor ratio	--	--		26%
<b>Total</b>	<b>2 814</b>	<b>4 021</b>		<b>70%</b>

\* Ratio is  $c=a/b$  except where government budget estimates are greater than disbursements ( $c=b/a$ ).

The final figure highlights any discrepancy between the government's budget estimates and actual disbursements by donors. The discrepancy (or gap) can be in either direction: budget estimates can be higher or lower than disbursements by donors. In order to have a single measure of discrepancy under 100%, the ratio is inverted when budget estimates are higher than donor disbursements. The 2010 target is to halve the proportion of aid flows to the government sector that is not currently reported on government budget(s), ultimately arriving at a point where at least 85% of aid is reported on the budget.

On aggregate, 70% of aid disbursed by donors to the government sector in Indonesia was accurately estimated in the government budget; for the average donor, only 26% of aid was accurately recorded in the budget. However, the Government of Indonesia takes the view that this figure points, at least in part, to problems of information flow and recording on the part of the government and donors. It does not necessarily indicate a lack of alignment between aid and policy priorities as expressed in the budget.

Several factors contribute to the substantial gap between aid disbursements and budget estimates including differences between government and donor reporting systems and fiscal years, and the fact that not all grants are recorded. Thus, there is a need to improve the system for managing and reporting on grants and to establish a systematic approach to capturing data on planned and actual disbursements. The government is committed to making progress in this regard as part of its broader effort to assume a stronger leadership role in the design and delivery of aid.

The Paris Declaration 2010 target for Indicator 3 is for countries to have 85% of aid accurately estimated on budget or to halve the gap, whichever is the more ambitious. Thus for Indonesia, the 2010 target is to see 85% of aid included in the budget. Achieving this target will require a considerable effort by both government (to make realistic budget estimates) and donors (to share information about disbursements).

TABLE 22.1:  
Are government budget  
estimates comprehensive  
and realistic?

## CO-ORDINATING SUPPORT TO STRENGTHEN CAPACITY

## INDICATOR 4

Capacity constraints significantly undermine the ability of partner countries to capture, co-ordinate and utilise aid flows more effectively. Under the Paris Declaration, donors committed to providing technical co-operation in a manner that is co-ordinated with partner country strategies and programmes. This approach aims to strengthen capacities while also responding to the needs of partner countries. Likewise, there is greater recognition that successful capacity building is endogenous – *i.e.* is led by the partner country. To this end, the partner country defines clear objectives to ensure that existing capacities are used effectively and that external support is harmonised within this framework.

Indicator 4 focuses on the extent to which donor technical co-operation – an important input into capacity development – is moving towards this country-led model. It measures the degree of alignment between donor technical co-operation and the partner country's capacity development needs and strategies. The Paris Declaration 2010 target is that 50% of technical co-operation flows are implemented through co-ordinated programmes that are consistent with national development strategies.

Table 22.2:  
How much technical  
co-operation is co-ordinated  
with country programmes?

	Co-ordinated technical co-operation (USD m) a	Total technical co-operation (USD m) b	2007 c = a / b
Asian Development Bank	0	9	1%
Australia	15	81	18%
Canada	0	26	0%
European Commission	0	10	0%
France	3	6	58%
Germany	51	51	100%
Global Fund	0	0	--
IFC	0	9	0%
IMF	0	2	8%
Japan	58	58	100%
Korea	5	5	100%
Netherlands	5	21	26%
New Zealand	0	0	--
Norway	0	0	0%
Spain	0	0	0%
Sweden	3	3	85%
United Kingdom	0	8	0%
United Nations	139	140	100%
United States	0	97	0%
World Bank	103	105	98%
(Unallocated donors)	--	--	--
<b>Total</b>	<b>382</b>	<b>632</b>	<b>60%</b>

Data for 2007 show that 60% of technical co-operation to Indonesia was co-ordinated with country programmes. The government recognises the importance of aligning technical co-operation with the country's needs and has taken a number of initiatives to enhance alignment. A National Framework for Capacity Development has been established although it has not been well implemented by government agencies and donors. The MTDP also covers capacity development including technical assistance. Donors, for their part, consult with the government on its capacity development priorities when they are preparing country assistance strategies and programmes.

However, as the number of civil servants able to effectively perform functions related to planning, design, delivery and reporting on government programmes is limited, challenges remain. This is most acute at the sub-national level, in areas such as health and education in which there are high demands for service delivery.

The Paris Declaration 2010 target for Indicator 4 is that 50% of technical co-operation is co-ordinated with country programmes. The data suggest that Indonesia has already exceeded this target, although for almost one-half of donors less than 10% of technical co-operation is aligned with country programmes. Some donors perform well; for others, further progress is possible and desirable.

## USING COUNTRY SYSTEMS

Donor use of a partner country's established institutions and systems increases aid effectiveness by strengthening the partner's long-term capacity to develop, implement and account for its policies – to both its citizens and its parliament. The Paris Declaration encourages donors to increase their use of country systems that are of sufficient quality, and to work with partner countries to strengthen systems that are currently weak. In this respect, Indicator 5 is directly linked to Indicator 2 on the quality of PFM and procurement systems, and measures the use of both.

Indicator 5a measures the extent to which donors use partner country PFM systems when providing funding to the government sector. It measures the volume of aid that uses partner country PFM systems (budget execution, financial reporting, and auditing) as a percent of total aid disbursed to the government sector. The 2010 target is relative to Indicator 2a on the quality of PFM systems.

## INDICATOR 5

**TABLE 22.3:**  
How much aid for  
the government sector  
uses country systems?

	Aid disbursed by donors for government sector (USD m) a	Public financial management (PFM)				Procurement	
		Budget execution (USD m) b	Financial reporting (USD m) c	Auditing (USD m) d	2007 avg (b,c,d) / a	Procurement systems (USD m) e	2007 e / a
Asian Development Bank	1 146	1 136	236	236	47%	177	15%
Australia	246	246	246	3	67%	55	23%
Canada	9	0	0	0	0%	0	0%
European Commission	25	0	0	0	0%	0	0%
France	6	5	5	5	91%	5	91%
Germany	149	98	98	98	66%	98	66%
Global Fund	10	0	0	0	0%	8	81%
IFC	0	0	0	0	--	0	--
IMF	2	0	0	0	0%	0	0%
Japan	1 023	938	938	938	92%	938	92%
Korea	25	15	15	15	60%	15	60%
Netherlands	19	0	0	0	0%	0	0%
New Zealand	2	0	0	0	7%	0	20%
Norway	1	0	0	1	32%	0	0%
Spain	1	0	0	0	0%	0	0%
Sweden	2	0	0	0	0%	0	0%
United Kingdom	0	0	0	0	--	0	--
United Nations	164	6	6	19	6%	12	7%
United States	97	0	0	0	0%	0	0%
World Bank	1 093	1 093	1 093	1 093	100%	939	86%
(Unallocated donors)	--	--	--	--	--	--	--
<b>Total</b>	<b>4 021</b>	<b>3 538</b>	<b>2 638</b>	<b>2 409</b>	<b>71%</b>	<b>2 249</b>	<b>56%</b>

Indicator 5b measures the volume of aid, as a percent of total aid disbursed to the government sector, that uses partner country procurement systems. The 2010 target is relative to Indicator 2b; thus, targets are indicated only for those countries that established scores for Indicator 2b in the context of the 2006 Baseline Survey.

Data for Indonesia show an impressive 71% of aid making use of the country's PFM systems, with the budget system used rather more than the systems for financial reporting and auditing. However, despite the improvements being made to the country's PFM systems, some donors remain reluctant to use them. There is also a need to improve the skills of government officials in dealing with the accountability requirements of some donors. In order to persuade donors to make greater use of these systems, Indonesia will need to make further improvements in internal controls, accounting processes, and punctuality of reporting.

The Paris Declaration 2010 target for countries scoring a 3.5 for the reliability of their PFM systems (Indicator 2a) is a one-third reduction in the percentage of aid to the government sector not using the country's PFM systems. For Indonesia, a first-time participant in the monitoring process, a 2010 target of 76% represents a suitable level of ambition.

At present, 56% of aid to the government sector makes use of the country procurement systems. This figure reflects donor concerns about both the implementation of procurement regulations and the possibility of corruption. In addition, some donor systems for accountability make it difficult for them to use national procurement systems. Indeed, those donors using the country's procurement systems apply safeguards such as independent audit, payments in tranches (subject to satisfactory progress), and the use of country procurement systems within multi-donor trust funds (MDTFs). Indonesia received a rating of C for the reliability of its procurement systems; thus, no 2010 target is set for their use. However, as the reliability of procurement systems improves, donors are expected to make greater use of them.

### AVOIDING PARALLEL IMPLEMENTATION STRUCTURES

#### INDICATOR 6

When providing development assistance, some donors establish specific project implementation units (PIUs), *i.e.* dedicated management units designed to support development projects or programmes. A PIU is said to be "parallel" when it is created at the behest of the donor and operates outside existing country institutional and administrative structures.

In the short term, parallel PIUs can play a useful role in establishing good practice and promoting effective project management. However, in the long run, parallel PIUs often tend to undermine national capacity building efforts, distort salaries and weaken accountability for development.

To make aid more effective, the Paris Declaration encourages donors to "avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes." Indicator 6 is a count of the number of parallel PIUs being used in partner countries. The 2010 target is to reduce by two-thirds the stock of parallel PIUs in each partner country.



The survey process generated discussion amongst donors to Indonesia as to what constituted a parallel PIU. Ultimately, they recorded 86 parallel PIUs in 2007. The vast majority of these were established by a small number of donors; several were established in order to rapidly provide assistance in the aftermath of the tsunami and earthquakes of 2004.

The Paris Declaration 2010 target for Indicator 6 is to reduce the stock of parallel PIUs by two-thirds. For Indonesia, a first-time participant in the survey (with only three years to meet the target), reducing the number of parallel PIUs to a target of 60 is an appropriate level of ambition. To meet this target, donors will have to work hard to phase out existing parallel PIUs. At the same time, the government must exercise more effective leadership to mainstream existing parallel PIUs, moving PIUs along the continuum from parallel to aligned.

#### PROVIDING MORE PREDICTABLE AID

For many countries, development assistance constitutes a vital source of revenue and resources. Being able to predict aid disbursements – in terms of both how much aid will be delivered and when – is as an important factor in the ability of countries to manage public finances and undertake realistic planning for development. It is particularly crucial to enabling partner countries to implement medium- to long-term development plans and to optimise the allocation of resources within and across sectors. In this regard, the Paris Declaration calls on donors to provide reliable, indicative commitments of aid over a multi-year framework, and to disburse aid in a timely and predictable fashion according to agreed schedules.

Indicator 7 examines in-year predictability of aid to the government sector, measuring the proportion of planned disbursements (as reported by donors) that are recorded by governments in the national accounting system as actually disbursed. Indicator 7 assesses predictability from two angles. The first angle is the combined ability of donors and government to disburse aid on schedule. The second is the ability of donors and government to record comprehensively disbursements made by donors to the government sector.

Indicator 7 is designed to encourage progress in relation to both angles, with the aim of gradually closing the predictability gap – by one-half – by 2010. The ultimate goal is to improve not only the predictability of actual disbursements, but also the accuracy of how disbursements are recorded in government systems – an important feature of ownership, accountability and transparency.

	2007 (units)
Asian Development Bank	0
Australia	15
Canada	4
European Commission	13
France	0
Germany	2
Global Fund	0
IFC	0
IMF	0
Japan	0
Korea	0
Netherlands	0
New Zealand	1
Norway	0
Spain	0
Sweden	0
United Kingdom	0
United Nations	17
United States	34
World Bank	0
(Unallocated donors)	--
<b>Total</b>	<b>86</b>

TABLE 22.4:  
How many PIUs are parallel  
to country structures?

#### INDICATOR 7

In 2007, on aggregate, 25% of scheduled disbursements to Indonesia were accurately recorded by the government; for the average donor the ratio was a less encouraging 10%. This reflects the fact that some donors failed to notify government about disbursements and/or that the government failed to consistently record disbursements. Clearly, challenges remain in improving the predictability of aid. With actual disbursements exceeding scheduled disbursements by some USD 440 million, it should be noted that this overall figure obscures a more complex reality.

The Paris Declaration 2010 target is to close the predictability gap by a half. For Indonesia, a first-time survey participant (with three, rather than five, years to meet the target), an appropriate level of ambition would be to increase predictability to 85% by 2010. Meeting this target should be possible, but will require a concerted effort. Donors need to reduce the gap between planned and actual disbursements and to notify government about disbursements. The government needs to accurately record disbursements. This might include several initiatives related to: training and certification of project managers to support project implementation and monitoring; improving co-ordination between stakeholders and sharing information about planned disbursements; synchronising the budget cycles of donors and government; moving towards a smaller number of larger projects; and establishing longer-term projects (with funding horizons of three to five years).

**TABLE 22.5:**  
Are disbursements  
on schedule and recorded  
by government?

	Disbursements recorded by government in 2007 (USD m)	Aid scheduled by donors for disbursement in 2007 (USD m)	Aid disbursed by donors for government sector in 2007 (USD m)	2007*	
	a	b	for reference only	c = a / b	c = b / a
Asian Development Bank	747	747	1 146	100%	
Australia	66	246	246	27%	
Canada	0	10	9	0%	
European Commission	0	27	25	0%	
France	1	1	6		45%
Germany	19	2	149		10%
Global Fund	0	39	10	0%	
IFC	0	0	0	--	
IMF	0	2	2	0%	
Japan	0	1 023	1 023	0%	
Korea	0	11	25	0%	
Netherlands	0	21	19	0%	
New Zealand	0	3	2	0%	
Norway	0	1	1	0%	
Spain	0	2	1	0%	
Sweden	0	3	2	0%	
United Kingdom	0	0	0	--	
United Nations	0	167	164	0%	
United States	0	218	97	0%	
World Bank	0	1 060	1 093	0%	
(Unallocated donors)	61	--	--	--	
Average donor ratio	--	--	--		10%
<b>Total</b>	<b>893</b>	<b>3 581</b>	<b>4 021</b>	<b>25%</b>	

\* Ratio is c=a/b except where disbursements recorded by government are greater than aid scheduled for disbursement (c=b/a).

## UNTYING AID

Aid is said to be “tied” when it is provided on the condition that the recipient country will use it to purchase goods and services from suppliers based in the donor country. Experience shows that aid with such conditions attached increases the costs of goods and services provided to partner countries; it also increases the administrative burdens on both donors and partners. By contrast, untied aid helps build a country’s capacity to provide goods and services.

Country figures for untying aid are based on voluntary self-reporting by donors that are members of the OECD Development Assistance Committee (OECD-DAC). The 2010 target is to continue progress towards untying aid over time.

According to a survey covering 87% of aid to Indonesia provided by OECD-DAC donors in 2006, some 73% of the aid provided was untied. The average level of untying for countries that participated in the 2006 Baseline Survey was 75%. The Paris Declaration 2010 target for untying aid is for continued progress over time. Several donors are taking steps to increase the proportion of their aid that is untied. This, along with the increased use of MDTFs, could lead to progress on untying. ■

### INDICATOR 8

How much aid is untied?

## HARMONISATION

DECADES OF DEVELOPMENT EXPERIENCE show that poor co-ordination of aid increases the cost for both donors and partner countries, and significantly reduces the value-added of aid. Harmonisation of aid delivery procedures and adoption of common arrangements help reduce duplication of effort and lower the steep transaction costs of managing aid. The Paris Declaration focuses on two dimensions of aid as a proxy for assessing overall harmonisation: the use of common arrangements within programme-based approaches (PBAs) and the extent to which donors and partner countries conduct joint missions and share analysis.

Donor harmonisation is very much on the agenda in Indonesia. Regular meetings bring the government and donors together to share information and co-ordinate the implementation of current and forthcoming programmes. It is hoped that this will lead to an increase in the number of missions conducted jointly and to an increase in the use of programme-based approaches (PBAs).

### USING COMMON ARRANGEMENTS

Aid effectiveness is enhanced when donors use common arrangements to manage and deliver aid in support of partner country priorities. A sound mechanism for aid co-ordination can be described as one that builds on shared objectives and that reconciles, in a constructive manner, the various interests of stakeholders.

Indicator 9 assesses the degree to which donors work together by measuring the proportion of total ODA disbursed within PBAs. In practice, there are many different modalities for implementing PBAs, which operate at various levels. At one level, the partner country is responsible for defining clear, country-owned programmes (*e.g.* sector policy) and

### INDICATOR 9

TABLE 22.6:  
How much aid is  
programme based?

	Programme-based approaches (PBAs)			Total aid disbursed (USD m) d	2007  e = c / d
	Budget support (USD m) a	Other PBAs (USD m) b	Total (USD m) c = a + b		
Asian Development Bank	900	0	900	1 146	79%
Australia	87	0	87	246	35%
Canada	0	0	0	40	0%
European Commission	0	0	0	32	0%
France	0	0	0	6	4%
Germany	0	4	4	149	2%
Global Fund	0	0	0	10	0%
IFC	9	0	9	9	100%
IMF	0	0	0	2	15%
Japan	397	2	398	1 024	39%
Korea	0	0	0	25	0%
Netherlands	0	0	0	34	0%
New Zealand	0	0	0	2	0%
Norway	0	0	0	2	0%
Spain	0	0	0	7	0%
Sweden	0	0	0	3	0%
United Kingdom	0	0	0	8	0%
United Nations	2	38	40	181	22%
United States	0	0	0	97	0%
World Bank	600	83	683	1 106	62%
(Unallocated donors)	--	--	--	--	--
<b>Total</b>	<b>1 994</b>	<b>127</b>	<b>2 121</b>	<b>4 129</b>	<b>51%</b>

establishing a single budget framework that captures all resources (both domestic and external). At the second level, donors are responsible for taking steps to use local systems for programme design and implementation, financial management, monitoring and evaluation. Finally, partner countries and donors are jointly responsible for donor co-ordination and harmonisation of donor procedures. The 2010 target is that 66% of aid flows are provided in the context of PBAs.

Data for 2007 show that 51% of aid to Indonesia makes use of PBAs. The vast majority of the aid that uses PBAs is budget support. In other words, very little aid that is not provided as budget support makes use of PBAs.

The Paris Declaration 2010 target is for 66% of aid to make use of PBAs. For Indonesia, a first-time participant in the Survey, meeting this target will be a challenge. However, there is some ground for optimism due to efforts to increase donor use of MDTFs (particularly in education, health, environment, decentralisation and community development) and the desire of the government to exercise greater leadership.

## CONDUCTING JOINT MISSIONS AND SHARING ANALYSIS

One of the most frequent complaints of partner countries is that donors make too many demands in relation to their limited resources: country authorities spend too much time meeting with donor officials and responding to their many requests. The Paris Declaration recognises that donors have a responsibility to ensure that, to the greatest extent possible, the missions and analytical work they commission are undertaken jointly – *i.e.* that the burden of such work is shared.

Indicator 10 measures the extent to which donors are merging their missions (Indicator 10a) and analytical work (Indicator 10b) at the country level – either with country partner authorities or amongst the donor community (or both). It calculates the proportion of missions to the country undertaken jointly (*i.e.* by more than one donor) and the share of country-analysis exercises undertaken on a joint or co-ordinated basis. The 2010 target is that 40% of donor missions to the field are conducted jointly and that 66% of country analytical work is carried out jointly.

### INDICATOR 10a

	Co-ordinated donor missions* (missions) a	Total donor missions (missions) b	2007 c = a / b
Asian Development Bank	10	80	13%
Australia	7	38	18%
Canada	0	19	0%
European Commission	0	43	0%
France	0	7	0%
Germany	13	34	38%
Global Fund	0	2	0%
IFC	0	0	--
IMF	1	30	3%
Japan	2	146	1%
Korea	0	26	0%
Netherlands	0	6	0%
New Zealand	0	1	0%
Norway	1	1	100%
Spain	2	3	67%
Sweden	2	2	100%
United Kingdom	0	5	0%
United Nations	43	64	67%
United States	0	33	0%
World Bank	33	50	66%
(Unallocated donors)	--	--	--
<b>Total</b>	<b>74</b>	<b>590</b>	<b>13%</b>

\* The total of co-ordinated missions has been adjusted to avoid double-counting. A discount factor of 35% is applied.

In 2007, only 13% of a total of 590 donor missions in Indonesia were conducted jointly (this figure takes account of potential double-counting). The low number of joint missions places a heavy burden on government. In addition, some donors conduct a large number of missions with very few of them conducted jointly.

The Paris Declaration 2010 target is that 40% of donor missions are conducted jointly. For Indonesia, meeting this target – while also reducing the total number of missions – will be a challenge. However, this target is achievable if a small number of key donors change practices and donors improve information sharing about planned missions (both amongst themselves and with government).

**TABLE 22.7:**  
How many donor missions  
are co-ordinated?

**INDICATOR 10b**

For Indonesia, in 2007, 45% of country analytical work was undertaken jointly. This figure is close to the 2010 target of 66% and reflects the fact that analysis has been shared or undertaken jointly in relation to a number of key sectors, supported in many cases by MDTFs. ■

**TABLE 22.8:**  
How much country analysis  
is co-ordinated?

	Co-ordinated donor analytical work* (analyses) a	Total donor analytical work (analyses) b	2007  c = a / b
Asian Development Bank	2	5	40%
Australia	4	4	100%
Canada	0	1	0%
European Commission	1	8	13%
France	0	0	--
Germany	9	17	53%
Global Fund	0	1	0%
IFC	0	0	--
IMF	1	2	50%
Japan	1	4	25%
Korea	0	3	0%
Netherlands	0	1	0%
New Zealand	0	0	--
Norway	0	0	--
Spain	0	0	--
Sweden	0	0	--
United Kingdom	0	0	--
United Nations	35	45	78%
United States	2	6	33%
World Bank	11	13	85%
(Unallocated donors)	--	--	--
<b>Total</b>	<b>50</b>	<b>110</b>	<b>45%</b>

\* The total of co-ordinated analytical work has been adjusted to avoid double-counting. A discount factor of 25% is applied.

## MANAGING FOR RESULTS

**INDICATOR 11**

Do countries have  
results-based monitoring  
frameworks?

**THE PARIS DECLARATION CALLS ON** donors and partner countries to make a joint commitment to managing for development results – *i.e.* to manage resources according to desired results. This implies defining desired results and measuring progress toward them, as well as using information on results to improve decision making and performance. It also implies strengthening capacity to undertake such management and helping to increase the demand for a focus on results (*i.e.* adopt a results-based monitoring framework).

Indicator 11 utilises data collected as part of the World Bank's review on *Results-Based National Development Strategies: Assessments and Challenges Ahead*. The review focuses on three particular aspects of a robust results-based monitoring framework: the quality of the information generated; stakeholder access to the information; and the extent to which such information is utilised within a country-level monitoring and evaluation system.

The assessments are expressed in scores running from A (high) to E (low), with B representing a “largely developed results-based monitoring framework.” The 2010 target is to reduce by one-third the proportion of countries lacking transparent, results-based monitoring frameworks (*i.e.* reduce by one-third the number of countries not attaining at least a B rating).

As a middle-income country, Indonesia is not part of the World Bank’s assessment. The country report makes clear that donors, PBAs and many projects do have transparent and monitorable performance assessment frameworks. However, the government itself has yet to put in place a reliable and comprehensive system for monitoring and evaluation. The government is working with several donors to establish a system and to build the capacity needed for its effective use. ■

## MUTUAL ACCOUNTABILITY

THE PARIS DECLARATION RECOGNISES that for aid to be truly effective, stronger and more balanced accountability mechanisms are required at all levels. In particular, aid is more effective when both donors and partner country governments are accountable – to their respective publics and to each other – for the use of resources and management to achieve development results. The Paris Declaration calls for donors and partner countries to jointly assess (through existing country-level mechanisms) mutual progress in implementing agreed commitments on aid effectiveness, including commitments made under the Paris Declaration.

Indicator 12 is concerned with the specific question of whether there is a country-level mechanism for mutual assessment of progress on the partnership commitments arising from the Rome or Paris Declarations, or from local harmonisation and alignment plans. The 2010 target is for all partner countries to have in place such mechanisms.

Donors to Indonesia are increasingly involving government in the monitoring and evaluation of projects. However, no mechanism has been established for the mutual assessment of progress on aid effectiveness. Effecting such a mechanism will require government and donors to acknowledge the value of mutual assessments and abide by their Paris Declaration commitment to mutual accountability. The government’s plans to develop a roadmap for achieving the Paris Declaration 2010 targets could provide a effective basis for enhancing mutual accountability and a country-level mechanism for mutual assessment. ■

### INDICATOR 12

Do countries have reviews of mutual accountability?

## PROGRESS SINCE 2005 AND PRIORITIES FOR 2010

THE STATE OF AFFAIRS AS REGARDS AID EFFECTIVENESS IN INDONESIA is mixed. Government and donors are committed to aid effectiveness, but meeting the Paris Declaration 2010 targets will be a challenge. If strong progress is to be made, donors will need to work with the government to build its capacity for effective leadership, and then respect the leadership exercised by the government. In particular, the government and donors should prioritise the implementation of systems for monitoring and performance assessment, and for mutual assessment of progress towards aid effectiveness. ■

### SUMMARY

TABLE 22.9

INDICATORS		2007	2010 TARGET
1	Operational development strategies	Not available	Not applicable
2a	Reliable public financial management (PFM) systems	3.5	4.0
2b	Reliable procurement systems	C	B
3	Aid flows are aligned on national priorities	70%	85%
4	Strengthen capacity by co-ordinated support	60%	50%
5a	Use of country PFM systems	71%	76%
5b	Use of country procurement systems	56%	Not applicable
6	Strengthen capacity by avoiding parallel PIUs	86	60
7	Aid is more predictable	25%	85%
8	Aid is untied	73%	More than 70%
9	Use of common arrangements or procedures	51%	66%
10a	Joint missions	13%	40%
10b	Joint country analytical work	45%	66%
11	Results-based monitoring frameworks	Not available	Not applicable
12	Mutual accountability	No	Yes

### CONTRIBUTORS

National Co-ordinator: Lukita D. Tuwo

Donor Focal Point: Patricia McCullagh (Canada)

### ACRONYMS

CPIA	Country Policy and Institutional Analysis (World Bank)
GNI	gross national income
MTDP	medium-term development plan
ODA	official development assistance
OECD-DAC	OECD Development Assistance Committee
PBA	programme-based approaches
PFM	public financial management
PIUs	project implementation units