

National Indicative Programme

2005-2006

Indonesia

Country/Region:	Indonesia
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Budget Lines:	1910
Legal Base:	ALA Regulation
Cost of Order:	€72 million
Programming Service:	DG Relex H5
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Abbreviations

ALA – Asia Latin America
APBN - Annual National Budget
BAPPENAS - National Planning Development Agency
CSP – Country Strategy Paper
DEPLU – Department of Foreign Affairs
EFA – Education for All
ESR – Education Sector Review
FDI – Foreign Direct Investment
FLEGT – Forest Law Enforcement, Governance and Trade
GAM – Gerakan Aceh Merdeka (Free Aceh Movement)
GoI – Government of Indonesia
ICRC – International Country Risk Guide
IDR – Indonesian Rupiah
IMF – International Monetary Fund
MDG – Millennium Development Goals
MONE – Ministry of National Education
MORA – Ministry of Religious Affairs
MTR – Mid-Term Review
NIP – National Indicative Programme
PJM – Perencanaan Jangka Menengah
PROPENAS - Program Pembangunan Nasional
PRSP – Poverty Reduction Strategy Paper
SMEs – Small and Medium Enterprises
SPSP – Sector Policy Support Programme
SWAP – Sector-Wide Approach
TRTA – Trade-Related Technical Assistance
WB – World Bank

1 Preamble

1.1 Introduction

1.1.1 The ALA Regulation

The Council Regulation (EEC) N° 443/92 of 25 February 1992 on financial and technical assistance to, and economic co-operation with the developing countries in Asia and Latin America (“ALA Regulation”), indicates that five-year programming shall be established for financial and technical assistance and for economic co-operation. The Regulation also foresees that the indicative multi-annual guidelines that apply to the main partner countries shall be adopted in co-ordination with a committee composed of EU Member State representatives

The multi-annual strategic planning is based on a Country Strategy Paper (CSP) covering a period of five years and containing the priority areas where the Commission intends to implement its co-operation. The CSP is translated into operational guidelines, laid down in multi-annual National Indicative Programmes (NIPs).

The Council ALA Regulation applies to Indonesia. The focus is on strengthening the co-operation framework and on making an effective contribution, through institutional dialogue, economic and financial co-operation, to sustainable development, social and economic stability and democracy.

1.1.2 The Country Strategy Paper 2002-2006

The CSP 2002-2006 was drafted together with the relevant Indonesian authorities and in co-ordination with the EU Member State representatives. The overall aim is poverty alleviation. It introduced a flexible, sector-oriented programme, concentrating on two sectors: **Good Governance** and **Natural Resource Management**. There were also cross-cutting issues addressed through development co-operation: **Poverty Alleviation, Capacity Building and Human Resource Development, Civil Society, Gender and Conflict prevention**. The sectors and cross-cutting issues corresponded closely to the Government’s overall development agenda.

The current political situation is characterised by the transition from thirty years of autocratic leadership to a more democratic, pluralistic and open society. The reform process has already made remarkable progress. The on-going decentralisation process represents a fundamental change in the institutional set-up of the country. The main challenges are the introduction of good governance and the rule of law, the fight against corruption and containing regional unrest. In economic terms, the country is still

struggling to emerge from the 1997-98 crises, even if the country's macro-economic situation has been improving. The public debt burden is close to 100% of GDP¹.

A summary of the Country Strategy Paper is annexed to this document.

1.1.3 The National Indicative Programme 2002-2004 (€ 144 million)

The first National Indicative Programme (NIP) established in the framework of the CSP identified in general terms actions to be launched in the period 2002-2004. The NIP 2002-2004 focussed on the following actions:

Priority 1: Support to Good Governance and Decentralisation

Good Governance for the improvement of Basic Health Services. The overall objective is to improve the health and nutritional status of low-income families in particular areas of selected provinces in Indonesia, through improving the quality of and accessibility to basic health services. An indicative budget of €35 million was foreseen for this action, including capacity building, development of health strategies and improvement of funding mechanisms. **The initiative was launched in 2002 and 2003.**

Good Governance for the improvement of Basic Education. The overall objective is the improvement of the quality, indicators and performance of the basic education system, with special attention to the needs in Eastern Indonesia. The specific objective is to achieve the required education standards and the effective functioning of a school-based management system. The activities foreseen are the development of a management system, the establishment of pilot projects and the training of personnel. **The indicative budget for this action, starting in 2004, is €20 million.**

Support to Good Governance in the Judiciary. The overall objective is to support the democratisation process by supporting good governance actions and the rule of law, through a more professional, transparent and responsible judiciary. The action is meant to focus on training, capacity building as well as the review of laws, regulations and procedures. **An amount of €10 million has been earmarked for this action which was approved in 2003 and is due to start in 2004.**

Institutional support for local democracy. This action, with an estimated amount of €5 million, was meant to support the implementation of the decentralisation process in Indonesia. **This action was later re-orientated towards the support to the electoral process** (see point 2.1).

Priority 2: Sustainable Management of Natural Resources

East Kalimantan Natural Resources Management Plan. This initiative, which was launched in 2002 and for which € 15 million was foreseen, aims at assisting local communities, district government agencies, private sector companies and NGOs to

¹ World Development Indicators, World Bank, August 2003

develop and implement efficient management of district natural resources in an objective, planned, equitable and sustainable way. **Following the Mid-Term Review (MTR) of the CSP, funding has been increased to €17 million.**

Strengthening the role of the Directorate of Forest Fire Control. A sum of €1 million was earmarked in support of the Ministry of Forestry's efforts to develop strategies, procedures, standards and systems, including a database, to the benefit of fire managers in Indonesia. **Following the MTR, this activity was cancelled and funding transferred to the East Kalimantan Natural Resources Management Plan.**

Support to Biodiversity Conservation. The protection, conservation and sustainable management of one of Indonesia's most biologically diverse conservation areas is the overall objective of this action, to be developed in the Leuser forest/park ecosystem. The participation of non-governmental bodies is envisaged. The €15 million project would also assist the establishment of a foundation capable of assuring the sustainability of the management model. **This action was later re-orientated towards the Forest Law Enforcement Governance and Trade (FLEGT) Programme. This reorientation responds to a proper policy mix by introducing a clear reference to the trade dimension of the forestry issue in Indonesia. Moreover, the project is expected to concentrate on aspects of good governance and prevention of international crime.**

Social/Community Forestry. The overall objective of this action was to assure both equitable and sustainable management of the Indonesian forest resources, reducing rural poverty. A total of €10 million was earmarked for this action, which foresaw the establishment of inventories, mapping and training. **This action will not be implemented under the present CSP. It was considered that sufficient activities were foreseen under the NIP 2002-2004 in the forestry sector and that this action would be postponed for future commitment.**

River basin water resource-based poverty alleviation programme. A sum of €10 million has been earmarked for this action, aimed at introducing sustainable and efficient management of water resources under decentralised government. The development of a management model is accompanied by training, human and institutional capacity building and technical and financial support. **This action is expected to be approved in 2004.**

The NIP 2002-2004 also foresaw €5 million for small grants for initiatives in the framework of Good Governance and Decentralisation and Natural Resources Management. The activities were to be developed by the central and local governments, NGOs and other partners from the civil society. **Following the MTR and in order to ensure a proper policy mix, this action has been merged with the FLEGT Programme and the €1 million of the funds foreseen for it were transferred to the East Kalimantan Natural Resources Management Plan.**

Priority 3: Economic Co-operation

Technical co-operation programme in the field of trade and investment. €12 million has been allocated for this action. It is aimed at fostering the business environment and bolstering EU-Indonesia economic relations by removing obstacles to investment, co-operation in the field of customs and standards. Technical assistance in WTO matters is also foreseen. **The Trade Support Programme (€ 8.5 million) was approved in September 2003. The €3.5 million Customs Programme is expected to be approved in 2004.**

Small Projects Facility (SPF). With a commitment of €6 million, this instrument would permit the support of small scale activities in the field of economic co-operation and trade-related technical assistance. **The SPF was approved in 2002.**

1.2 The Mid-Term Review

The General Affairs and External Relations Council (GAERC) of March 2003 defined four criteria against which the validity of the Country Strategy Papers were to be assessed permitting, if need be, possible changes. Mid-Term Review (MTR) missions were fielded to verify the CSPs against these criteria. The MTR for Indonesia was carried out during the first quarter of 2003 and concluded that the CSP was still valid and that only minor changes to the NIP 2002-2004 were needed.

The final assessment is attached to this document.

1.2.1 Main Political, Economic and Social Developments in Indonesia

Since the CSP 2002-2006 and the NIP 2002-2004 were adopted, the political situation in the country has worsened due to terrorist attacks, the failure of the peace negotiations in the Aceh province and renewed tensions in Papua. The emergence of terrorism as a significant phenomenon in Indonesian society, efforts to reduce tensions with regions demanding autonomy and the forthcoming electoral process were considered by the MTR mission as important developments. In light of these observations, the strategy of the EC co-operation programme had to be re-examined.

The MTR concluded, however, that “these developments can all be catered for under the existing CSP and NIP (the latter with very minor modifications), and through the use of horizontal budget lines”. **The CSP therefore remains appropriate.**

1.2.2 New EC/EU Policy Objectives and Commitments

The CSP was analysed in the light of new priorities in external EU/Community policies: Trade Related Technical Assistance (TRTA); Justice and Home Affairs-related matters such as migration, counter-terrorism, conflict prevention; environmental issues.

The MTR observed the following:

- TRTA is clearly identified in the CSP and NIP as a focal sector activity
- A modification of the CSP is not necessary to accommodate a discussion of migration issues through a policy dialogue with Indonesia
- Counter-terrorism, anti-money laundering and conflict prevention are already among the priorities for EC co-operation with Indonesia
- Forest Law Enforcement, Governance and Trade (FLEGT) are specifically identified as a priority under the NIP 2002-2004

Therefore, the Strategy still remains pertinent.

1.2.3 Results, Performances and Lessons Learned

The commitments for 2002 and 2003, at the moment of the MTR, were slightly exceeding the levels foreseen in the NIP. Whereas in 2004 commitments will be slightly below programmed amounts due to the overall constraints in the Asia pipeline. The implementation of the strategy was proceeding smoothly and fully endorsed by the government thereby demonstrating the accuracy of the selected priorities. However, it also appeared that the CSP had been overambitious in terms of the quantity of actions to be implemented.

Therefore, based on the assessment of the situation, the MTR and the Delegation suggested a slight modification to the allocation of funds within the priorities of the NIP 2002-2004 (a table with the revision is attached to this document), which leaves the original balance in each sector unchanged.

The amount foreseen for the action “Good Governance in Education” was reduced by €2 million, which was in turn added to the €5 million allocated towards the project in “support local democracy”. Together, this yielded the availability of a sum of €7 million to support the preparation of 2004 elections. Indeed the 2004 elections are considered crucial in the process of consolidation of democracy in Indonesia.

In order to guarantee a greater focus and in response to the assessment of the implementation of the NIP, the separate action to support the Directorate of Forest Fire Control was merged with the Natural Resources and Management Programme. The €1 million earmarked for the former action was transferred to the latter. For the same reason, the €5 million foreseen for the small grants were transferred partly to the Natural Resources and Management Programme (€1 million) and partly to the FLEGT programme (€4 million).

Since the MTR was carried out, certain difficulties have appeared in the preparation of the FLEGT programme. However, this will only entail -for the moment- a postponement of the commitment to 2004.

As regards implementation of projects, there have been some problems with disbursements to the UNDP, which is a partner in the implementation of governance actions, particularly in meeting the disbursement targets of the annual work plans. These will have to be taken into consideration in the implementation of the NIP 2005-2006.

The MTR stated that with the proposed changes “all commitments, both actual and planned, are in line with the objectives and sectors of intervention defined in the CSP and NIP. Given that these objectives are still entirely relevant to the Indonesia context, progress can be considered to be satisfactory. The general direction of co-operation laid out in the Country Strategy Paper is still relevant given the progress and results to date made in implementation”.

1.2.4 Quality improvements

The minor adjustments to the NIP 2002-2004 reflected a sound assessment of the priorities stemming from the political environment in Indonesia (such as the forthcoming electoral process) and permitted a greater focus of the EC’s interventions. In particular, a more focussed concentration on certain (and potentially more effective) actions in the forestry sector represented a response to the political environment, a more rational approach to a highly complex sector and ensured a proper policy mix. They also reflected the importance attached to economic co-operation matters, by an adjustment in the financing plan that permitted the earlier commitment of funds foreseen for the Small Projects Facility.

1.3 Conclusions

1.3.1 CSP’s priorities are still valid

The basis on which the CSP was designed in 2001-2002 is still valid. Indonesia is still in a process of transition towards democracy and the rule of law; the decentralisation process is not yet completed; corruption is still a major threat to the stability of the country and the viability of the reform process; the economic recovery process has achieved results at the macroeconomic level, but investors are still reluctant to invest in the country; the depletion of the national forests has continued unabated and severe environmental and socio-economic consequences have been detected downstream from the deforestation areas.

Good Governance and Sustainable Management of Natural Resources continue therefore to be valid priorities for the EC co-operation with Indonesia.

1.3.2 Minor adjustments in the NIP 2002-2004

The adjustments to the NIP 2002-2004 permit to reduce the quantity of actions foreseen under the CSP 2002-2006 and, at the same time, respond to the quality improvements mentioned above.

The adjustments in the financing plan of the NIP 2002-2004 permit a timely prioritisation within the Small Projects Facility. However, it appears necessary to focus, in the next NIP, on the bigger picture of public finance management to ensure that the general environment in which the supported actions are implemented is sound, transparent and reliable. In view of the anticipated sector-wide approach-based activities, this aspect will be of particular relevance to the education sector.

The adjustments also contribute towards one of the more crucial stages of the political conjuncture of Indonesia: the electoral process.

Counter-terrorism activities have so far been carried out through specific ad-hoc, short-term mechanisms like the Rapid Reaction Mechanism and will not be taken into consideration in the 2002-2004 NIP. However, on the basis of these specific “one-shot” actions, more structured co-operation activities could be developed in the framework of the next NIP.

1.3.3 A new focus on the priorities

The focus of support on the electoral process in 2004 reflects the importance of that event in Indonesia’s path towards consolidated democracy. The 2004 general elections are significant, being the second after the introduction of competitive multi-party elections in 1999. They will be held under a new legal framework. It will be the first time that the President and Vice-President are directly elected. Voters’ choice is enhanced by the introduction of an open candidate list for the elections to Representative Councils at three levels. However, whilst the increase in voters’ choice is positive, this provision combined with the fact that the elections on 5 April affect four bodies is complicating election-day proceedings. Each voter will be allowed to cast four ballot papers, three of which are potentially very lengthy.

The more concentrated nature of the support in the forestry sector in the form of fewer actions is highly justified by the problems still faced by the sector: despite the positive results of the EC’s interventions in this area, illegal logging has continued unabated. For the same reason, it may be justifiable not to continue committing funds in the sector, if the government in its totality does not demonstrate a real commitment to the cause of conservation of the environment. Despite strong vested interests of certain parties, there are some positive signals that this situation may change in the future. For example other important stakeholders (like the Police, Navy and Office of the Attorney General) have started to be involved in the forestry working group of the Consultative Group on Indonesia. The NIP 2005-2006 does not, therefore, include actions directly related to the field of natural resource management, considering also that there are several projects on-

going or in the pipeline. In particular, the Forest Law Enforcement Governance and Trade (FLEGT) Programme is expected to be approved in 2004 and be implemented in the next five years, with an expected amount of €15 million.

Since there are significant synergies between natural resource management and the proposed action relating to strengthening the rule of law and security and the public finance management initiative, especially its customs component, in any case there will be a continuous involvement of the EC in the sector. Where possible, the EC will foster these linkages between the different lines of its co-operation with Indonesia, in particular between forestry and good governance. An evaluation of the Indonesian forestry sector projects should be undertaken in the near future. Based on the results of this evaluation and provided the GoI maintains its commitment to reform in this sector, natural resource management could again be among the priority sectors in the next Country Strategy Paper 2007-2011.

1.4 Consultation

The regular contacts of the Delegation in Jakarta with all the stakeholders involved in the implementation of EC co-operation provided useful inputs for the formulation of the NIP.

1.4.1 Co-ordination with the Member States in Jakarta

A first meeting with the Member State representatives was held in Jakarta on Friday 3 October 2003 (the minutes of the meeting are attached to this document).

The MS expressed their great interest in seeing the co-operation in the security sector as a very high priority of the EC co-operation with Indonesia.

The main conclusions of that first co-ordination meeting can be summarised as follows:

- Security should be a priority for EU co-operation.
- Co-operation should promote people-to-people actions and involve more SMEs.
- The education sector is a priority, (since it is a factor in improved social stability).
- Environment and forestry are sectors where international co-operation has not had the expected results.
- The promotion of foreign direct investment is a priority. The approach should be to increase trust and confidence in the country among EU investors.
- The visibility of the EU in the country has to improve.

1.4.2 The dialogue with the Government of Indonesia

A meeting with the Department of Foreign Affairs (DEPLU) was held in Jakarta on Monday 6 October 2003. During the meeting, the Director for Intra Regional Co-operation for America and Europe informed that the Department had reviewed the NIP 2002-2004 and its implementation and that they had reached the following conclusions:

- The judiciary is very important and still a priority for the Government of Indonesia (GoI).

- The education sector is very important and co-operation in this field would be most welcome. In the health sector, co-operation is needed for communal diseases.
- Trade is another priority, to “strengthen our capacity to stand on our feet”.

The government will in any case identify their priorities for international co-operation and DEPLU will forward the resulting document as soon as it is endorsed.

A second meeting with DEPLU was held on 9 December 2003 and the identified priorities of the NIP 2005-2006 were presented to the GoI. DEPLU agreed on the importance of the identified actions.

While there are assurances of a real commitment of the present government to the priorities identified in the NIP 2005-2006, it should be recalled that 2004 is an election year in Indonesia and that the orientations and priorities of the new government cannot be anticipated.

1.4.3 Consultations with civil society

On Saturday 11 October 2003, a meeting was held with representatives of NGO Co-ordinating bodies. The representatives expressed their opposition to the functioning of the forestry sector. They were of the opinion that the forestry-based industry should be “closed down”, because illegal logging is rampant. Donors, according to the NGOs representatives, should give a strong message to the GoI on deforestation and impose conditionality.

According to the NGO representatives, donors should concentrate on promoting domestic investment and creating a positive domestic investment environment. This would “diminish [Indonesia’s] the vulnerability to negative influence from external money” and prevent capital flight. Access to micro-credit for poor people and small enterprises should also be on the co-operation agenda. Donors should ensure that the Poverty Reduction Strategy Paper (PRSP) is genuinely participatory and that the networks of grass-root organisations (like the association of the urban poor) are associated with and permitted to appraise poverty assessment processes. The participatory approach should also be a condition for supporting the decentralisation process.

1.4.4 Consultations with other stakeholders

Additional consultations with important donors, in particular the World Bank (WB), indicated that while sector-wide approaches are feasible and suitable in Indonesia, present circumstances are not favourable for budgetary support.

The ADB confirmed its willingness to participate in a sector-wide programme in the education sector.

2 Summary of the NIP 2005-2006

Based on the CSP, the findings of the MTR and the dialogue with partners, it was decided that the NIP 2005-06 would focus on three priorities: (1) education, (2) strengthening the rule of law and security and (3) support to public finance management.

(1) The overall objective of the education action is to achieve sustained poverty reduction as a result of improved access to quality education, within the context of Indonesia's Basic Education Strategic Plan. The specific objectives are to contribute to the government policy/strategy to improve basic education, *inter alia*, (a) governance and management systems, (b) overall quality, (c) planning and budgeting process to ensure adequate financing for education and to upgrade the efficiency of those resources and (d) performance of teachers.

(2) The overall objective of the NIPs second priority is to strengthen the rule of law and security in Indonesia and rebuild trust of the general public in the law implementing agencies through improved quality of services in the judicial institutions. The specific objectives are:

- (a) improve quality of relations and co-ordination between law implementing agencies
- (b) improve the capacity of the law implementing agencies
- (c) improve quality of services in the Courts
- (d) improve access to justice

(3) The overall objective of the action to support to public finance management is to contribute to a sustainable development of the Indonesian economy through the improvement of the Government's ability to manage its public finances.

The specific objectives of the programme are:

- Improve accountability over public expenditures and overall financial control environment by the Ministry of Finance
- Strengthen the legal framework that regulates the investment environment and the public procurement process in order to promote the channelling of investment flows into the country
- Increase the participation and visibility of the European business community in the interventions that translate public finance management improvement into sustainable growth through more intense investment flows

These three priorities correspond to the budget lines for technical and financial co-operation (priorities 1 and 2) and economic co-operation (priority 3). Additionally, some flexibility may be required to meet emerging new priorities relating to trade-related technical assistance needs. During the period 2005-2006 additional actions will be supported through specific thematic and horizontal budget lines, programming for which

is established on a yearly basis. These thematic and horizontal budget lines include food security, reproductive health, co-financing with NGOs, human rights and democracy, gender, drugs, uprooted people, tropical forests, etc. Additional resources may be mobilised through the European Community Humanitarian Office (ECHO). Specific instruments like the Rapid Reaction Mechanism (RRM) could also be mobilised as emergency responses if the situation so requires.

Additional actions will be carried out at regional level, in the framework of the Indicative Regional Programme for ASEAN and the Multi-country Indicative Programme for Asia, in particular in the field of economic co-operation, trade, environment and higher education.

Since the €8.5 million Trade Support Programme was approved in September 2003 and will be implemented in the next four years, no specific action has been foreseen in the TRTA field. However, the Commission remains committed to TRTA. It is therefore foreseen that a proper needs assessment in this field will be carried out, focussing in particular on Doha Development Agenda issues and the fulfilment of Indonesia's WTO commitments, as well as facilitation of trade and investment and practical assistance for Indonesian exporters. This needs assessment will enable identification of priority activities. The Commission is willing to cover new priority activities, which are neither covered by the 2004-2004 NIP nor require implementation in the next CSP/NIP 2007-2011, within the flexibility foreseen under the current NIP 2005/2006, which could be revised to this effect, if necessary.

3 Indicative Budget

	<u>Planned (NIP)</u>
Strengthening the Rule of Law and Security	€10.0 – 14.0 million
Support to Public Finance Management	€8.0 – 12.0 million
<u>Total 1: 2005</u>	<u>€18.0 – 26.0 million</u>
Education	€45.0 – 55.0 million
<u>Total 2: 2006</u>	<u>€45.0 – 55.0 million</u>
<u>Grand Totals (1+2)</u>	<u>€72.0 million</u>

4 Priorities and Actions

4.1. Priority 1- Education

4.1.1. Strategy Context/justification

Background²

Indonesia's school system is large, spread out over many islands, diverse in the types of populations that it serves, and is managed by different government agencies. During the school year 2001/02, there were 28.9 million primary school students and 1.4 million primary school teachers in more than 171,000 primary schools across some 400 districts and municipalities. At the junior secondary level, there were 9.4 million students and about 680,000 teachers in more than 31,000 schools, including general, religious, public, and private schools. Since the 1970s, Indonesia has made remarkable progress in expanding enrolment in basic education. Primary school enrolment grew from 62 percent in 1973 to nearly universal coverage by 1983. In 2002, the gross primary enrolment rate exceeded 100 percent, and net enrolment rate was about 93 percent. The gross enrolment rate for junior secondary showed more marked increases, rising from 18 percent in the 1970s to 66 percent in 1995 and to 80 percent in 2002. In 2002, the net enrolment rate was roughly 62 percent.

Figures³: Indonesia ranks lowest among its Asian neighbours in terms of its share of public education expenditures in GDP, just 1.4% as compared with 4.7% for Thailand and 4.6% for Malaysia. Private expenditure, however, contribute largely to the resource envelope for non-salary expenditures which are 10 to 20% of the school's budget. For FY 2004, the APBN has allocated IDR 14.9 trillion (€1.49 billion) for education, an increase of 1.16% from IDR 12.8 trillion in 2003, yet far from the 25% of the state budget as proposed in the amended 1945 Constitution.

Indonesia's "big bang" decentralisation, ushered in by a succession of laws and regulations starting in 1999, has given the country one of the most decentralised systems of government in the world, at least in theory. By shifting the distribution of authority, resources, and responsibilities among levels of governments, this broad reform is transforming the nature and level of public service delivery throughout the country. In education, the reform, as reflected in the newly ratified Education Law 20/2003, takes two forms: the transfer of principal responsibilities, authorities, and resources for the delivery of services to lower levels of government, and the transfer of some decision-making power to individual schools. The central government has expressed its concerns about whether these changes are likely to strengthen or weaken the ability of the education system to meet the national objectives of (i) achieving the enrolment of all students through to the end of junior secondary level (the 9th grade), (ii) ensuring that the poorer and disadvantaged segments of society have full and equal access to education,

² Paragraph 1,3 & 5 are derived from the ESR draft report – September 2003

³ Ministry of National Education

and (iii) providing education that is of acceptable quality and that is relevant to the economy and society.

The international community has injected substantial support to education in Indonesia. Among the main Member States/donors are the Netherlands and Germany. Political and security reasons have again put education on the agenda, notably the role of religious education (madrasah – pesantren) with *inter alia* USAID entering (after withdrawing from the sector some years ago) with substantial financial and technical support.

The on-going *Education Sector Review* (ESR) is a joint effort between the government and the donor community in Indonesia. It aims to reflect and contribute to the on-going discussions within the country about how the decentralisation reform can be shaped and managed as it applies to the education sector. This effort is in response to a request to the donor community from the Ministry of National Education (MONE), to review the state of the basic education sector and to help formulate a national framework for improving its effectiveness under the decentralisation reform. The review focuses on several critical issues that relate to themes chosen in part because they correspond to the principal roles that governments generally play—as regulator, manager, and provider; as standard-setter and monitor; as employer; and as founder. The Review's *four themes of governance and management, finance and spending, standards and school quality, and teacher management and performance* are discussed in the context of understanding the new roles of the different levels of government and of local communities in the delivery of education services.

The GoI – as well as the EC - are committed to achieve the Dakar Education for All (EFA) target and the Millennium Development Goals (MDG). A report on the achievement of MDGs in Indonesia will soon be published as well as an EFA Plan of Action.

The GoI is currently preparing the next PROPENAS⁴ (2005 – 09) as well as a (more operational) 'blueprint' (PJM)⁵ for education. It is foreseen that this blueprint will be ready by September 2004. This strategic plan should incorporate the ESR, EFA and other policy studies and documents.

In March 2003 Indonesia completed its Interim I-PRSP. The PRSP is being prepared and is due in May 2004. The I-PRSP pointed out improvement of basic services - including health and education – among the priorities.

The EC is currently preparing a programme in Basic Education (budget year 2004). It is envisaged that this programme will focus on capacity building and contribute, among other objectives, to preparing the ground for a SPSP (Sector Policy Support Programme) in basic education.

⁴ Program Pembangunan Nasional

⁵ Perencanaan Jangka Menengah

4.1.2. Actions

4.1.2.1. Objectives

The overall objective is to achieve sustained poverty reduction as a result of improved access to quality education, within the context of Indonesia's Basic Education Strategic Plan.

The specific objectives are to contribute to the government policy/strategy to improve basic education, in particular with reference to (a) governance and management systems, (b) overall quality, (c) planning and budgeting process for education and to upgrade the efficiency of those resources and (d) performance of teachers.

4.1.2.2. Expected Results

Expected results are benefits across the (basic) education sector. Improving basic education for children in Eastern Indonesia will receive special attention. It will increase access to basic education and generate significant, sustainable, and nation-wide improvements in basic education outcomes, benefiting in particular millions of school-aged children. Overall this will, in turn, support and sustain the long-term social and economic development of Indonesia.

More specifically, it is expected that the results of this programme will be the following:

- improved planning, managing, monitoring and evaluation of education services, including active participation of communities/civil society participation,
- overall access to and improvement of basic education,
- adequate financing for education and improved funding mechanisms and allocation, especially to poor districts and schools,
- performance of teachers improved

4.1.2.3. Activities

It is important to ensure impact at district level given the far-reaching decentralisation policy. It will be equally important to strengthen linkages between district and central level.

The programme will build on the basic education intervention that the EC will launch in 2004. The first results of this basic education intervention and the final draft of the ESR, conducted in the framework of the sector programme co-ordinated with all other donors, will indicate the specific activities to be carried out. It can nevertheless be anticipated that these might include, among others, support to teacher training, curricula development, capacity-building and institutional support to the different stakeholders both at central and local level.

4.1.2.4. Implementation

The planning and development of the education sector programme shall involve all key stakeholders, *inter alia* government agencies (National Planning Development Agency (Bappenas), Ministries of National Education, Religious Affairs and Home Affairs, Finance), local governments, NGOs, civil society and other international donors involved in the education sector. The EU basic education programme 2004 will include TA to help prepare the ground for a SPSP. EC support will be co-ordinated and wherever possible harmonised with other donors.

4.1.2.5. Cross-cutting issues

Poverty: Poverty reduction is the overarching goal of EC development assistance. Disparities in enrolment rates exist among geographical areas and among income groups. The basic education strategy must be pro-poor and seek to accelerate progress in poorer areas (e.g. Eastern Indonesia).

Gender: Gender equity has improved over the last decades, particularly in primary education. However, inequalities at the junior secondary and senior secondary levels remain very high.

Conflict prevention: A strategy and resources for conflict-prone areas should be developed and included in the education sector programme.

Environment: Within the education program, due attention will be paid to environmental education as a mean to support the sustainable development of Indonesia.

4.1.2.6. Risks & assumptions

Assumptions – pre-conditions:

- Macro-economic and political stability
- A clear basic education strategy (2005-2009), including expenditure framework, prepared in 2004
- Donors working along the same strategy – willing to co-operate/pool funds/provide support for the SPSP
- Government willingness and commitment
- Transparency and accessibility of information on budget allocation
- Monitoring and evaluation strategies – based on sets of feasible and relevant indicators (see 4.1.2.7.)
- Policy provisions and implementation mechanisms that will make it possible to accelerate progress in poorer and weaker provinces and districts.
- It is assumed that the ground for a SPSP will be laid with support of the EU 2004 Education programme, thus preconditions, including the capacity to implement a SPSP, will be addressed in the course of 2005-06.

Risks:

- Corruption
- Elections in 2004 bring an element of uncertainty and unpredictability

- Basic education includes religious schools and education (madrasah, pesantren), which fall under the responsibility of MORA and is not yet decentralised. Lack of co-operation between MONE and the Ministry of Religious Affairs (MORA) would lead to a fragmented education system.

4.1.2.7. Main Indicators

Indicators will have to be defined and agreed during the preparation of the SPSP, but should make explicit reference to the MDGs – EFA targets (figures for Indonesia to be published soon). The refined indicators should cover the three main areas of the sector: government financial commitments (input), system delivery (output) and outcomes. These may include⁶:

- | | |
|----------|---|
| Input | -Public allocations to basic education as % of national recurrent budget increased
-Improved budget execution to basic education |
| Output | -Improved Ratio pupil/teacher in primary education
-Improved Ratio pupil/textbooks in primary education |
| Outcomes | - Higher gross enrolment ratio in primary education (girls, rural)
- Improved achievement and completion rates in primary education
- Higher literacy rate (all, women) |

Furthermore, indicators must be disaggregated for gender, region, school type. (private vs. public, ‘regular’ vs. madrasah, etc.)

Other indicators:

- functioning of school based management systems
- improvement of teachers’ capacity and skills
- (Basic) Education Management Information System (EMIS)

4.1.2.8. Estimated EU contribution

€45 – 55 million

4.1.2.9. Co-ordination

The EC will ensure full coherence between the proposed EC programme and other donor-supported actions in the education sector. This will be achieved through:

- Partners for Education regular meetings
- Co-ordination meetings between donor community and the Task Force/Unit/Department responsible for the implementation of the PJM for basic education

⁶ (DG Development “2004 Mid-term-reviews: *Methodology for country performance assessment in education and health in countries where health or education are focal sectors*” 16/01/2004)

4.1.2.10. Indicative timeframe

SPSP (budget year 2006) could stretch over a 4-year period: 2007-2011. EC support, intended to be committed in 2006, would follow this time schedule.

4.2. Priority 2- Strengthening the rule of law and security

4.2.1. Strategy context/ justification

Security concerns are manifold in the post-Reformasi Indonesia. These issues are directly related to the performance of the Indonesian law implementing agencies and they are interlinked with the rest of the country's reform agenda.

The government of Indonesia has defined five priorities for Indonesia for the years to come:

- continuation of the democratisation process
- economic reconstruction to allow the rebuilding of infrastructure
- promoting social harmony and religious tolerance
- strengthening law enforcement institutions and the fight against corruption
- guaranteeing national integrity and combating terrorism and trans-national crime.

Strengthening the rule of law and security is present in each of the five priorities. Security can be declined in three dimensions: human security (security of Indonesian individuals), national security (as regard to potential interior threats) and international security (as regard potential external threats). Indonesia is facing several challenges in all three layers of security.

During the years 1999-2000 Indonesia faced communal conflicts in several provinces: Maluku, Kalimantan, Central Sulawesi and West Timor. The situation has improved after 2002 in those provinces and the challenge for the government is to keep its promises of reconstruction and reconciliation and prevent any other similar conflict in the same provinces or other provinces.

Today, Indonesia is facing separatist movements in Aceh and Papua: in Aceh the Cessation of Hostilities Agreement came to an end after the failure to solve disagreement between the two parties, the Government of Indonesia and GAM, over key issues of the implementation of the agreement. Martial Law has been established for a first period of six months in May 2003 and then renewed in November 2003. In Papua, the Presidential Decree 1/2003 dividing the Province into three has put a halt to the implementation of Special Autonomy and has raised questions about the willingness of the government to implement the autonomy law which was previously praised. The challenge still remains for the government to define the best and long lasting strategy to keep the voting population of these provinces in an Indonesian context.

Trans-national crime, in particular people smuggling, piracy activities and illegal logging, is not only undermining the security of Indonesian nationals but also greatly undermining the economic development and potential of the country.

Terrorist activities have affected Indonesia long before the Bali bombing, although the impact of the latter was the biggest on the Indonesian economy and its international reputation. The security forces together with the help of some donors have shown resolve

and success in tracking down the terrorist networks responsible for the Bali bombing and other attacks.

Last but not least, Indonesian security is weakened by other civil disturbances created by a low level of violence or a potential level of violence, with the legitimized presence of militias or paramilitary groups representing interest groups or political parties. The existence of these groups is also challenging the capacity of the State to control any violent outburst.

An important proportion of the “low level violence” (mainly related to human and national security) throughout the country is due to the poor performance provided by the judicial institutions, including the Courts, and the lack of public trust in the law-implementing institutions. In many cases, the main reason for the increase of grassroots violence is the absence of a reliable State mechanism to solve disputes.

Progress achieved and challenges in law-implementing agencies

If major challenges remain in the improvement of the performance of law-implementing agencies, some progress has to be noted in several institutions and in the creation of new institutions.

Military – Police Relations: a crucial element for a transition from an autocratic to a democratic system and for a healthy security sector, the “normalization” of the relations between the police and the military has started with the constitutional amendment redefining the mission of the military in Indonesia and the law defining the roles, structures and relations of the military and the police. Major challenges remain however in reforming not only the text of the laws but also the mindsets, institutional structures and organizational cultures of both institutions. Relations between the military and the police are still marked by tensions over jurisdictions and definitions of roles, or worse by tensions over “outside of duty businesses”. “Cleaning up” of the military budget, including the transparency over “military foundations” remains a priority. Modernisation, effective management and capacity building are also needed in both institutions.

Police: The police have engaged in a reform programme, encouraged by some donors, including the Partnership for Governance Reform (funded *inter alia* by the European Commission), the United States, Australia, Germany, the Netherlands, France, the United Kingdom. The Police have regained some credibility particularly in the way it succeeded in tracking, although largely supported by the Australian Federal Police, some of the suspects of the Bali and Marriot bombings.

Courts: the Supreme Court has embarked on one of the most promising and encouraging reform agenda with the production of four blueprints providing a comprehensive reform of the judiciary. The blueprints were prepared in collaboration with an outside consultant and were presented to donors in October 2003. The implementation of the “One roof system” remains a challenge: the parliament has set the deadline for its implementation by the end of August 2004 at the latest. This includes the transfer of organizational and

administrative and financial of judicial power and the administration of religious and military courts to the Supreme Court. It provides a further opportunity to implement reform but will pose great administrative and other challenges. Proposing the most promising reform agenda so far, the Supreme Court efforts towards reform are supported by an increasing number of donors, including the EC, the Netherlands, UsAid, AusAid.

Attorney General's Office: The governance audit which was financed by the Asian Development Bank (ADB) in 2000 has remained unimplemented. The Attorney General's Office is clearly lacking behind in the implementation of reform.

The Ministry of Justice and Human rights could play a more active role in promoting reform and fighting corruption at policy development level, in particular in view of the implementation of the "one roof system", which will leave the administration of Courts to the Supreme Court (currently with the Ministry of Justice).

The Constitutional Court (composed of nine Justices) was established in August 2003. Its powers include judicial review of Acts of Parliament, jurisdictional conflicts between State Institutions, general elections disputes dissolving political parties, impeachment.

Anti-corruption Commission: created by a law in 2002 but established at the end of 2003. The Judicial Commission has yet to be established. All three institutions are promising institutions for the improvement of the legal and judicial framework but the selection process of the members will be crucial in guaranteeing their institutional credibility.

Corruption

Indonesia is strengthening its accountability framework, including through the creation of the above-mentioned institutions, but this effort is yet to have an impact on the fight against widespread corruption. Only a few individuals involved in corruption are being held responsible for their crimes. In 2003 Indonesia was still ranked by Transparency International as the 6th most corrupt country in the world.

New rules and practices have yet to be implemented in institutions still very much influenced by rules and practices of the previous regime. Agencies in charge of law enforcement are weak and poorly funded, ill equipped and riddled with corruption. Policy makers and politicians are still in a learning process and media and civil society have a limited impact on the implementation of reforms because of their own lack of capacity and the need to enhance their accountability. There has been however some encouraging movements to combat corruption, including from business organisations and religious organisations. EU assistance in this area will be based on the 10 principles on corruption as annexed to the Communication COM 317 final of 28 May 2003.

The on-going contribution of the EC to the strengthening of the rule of law

The EC has so far contributed to the Partnership for Governance Reform (EC contribution: €13.3 million) which supports reforms in the field of anti-corruption, police reform, legal and judicial reform, electoral reform, decentralisation. In addition the EC

has proposed a technical assistance programme to the Attorney General's Office in the field of assets tracing and anti-corruption measures (€1 million). More importantly the EC has committed support to the Supreme Court reform Agenda, the Blueprints, in particular in the fields of prior and on-going education of judges, case management and alternative dispute resolution (€10 million for a three-year programme). In addition the European Initiative for Democracy and Human Rights (EIDHR) programme for Indonesia has prioritized for the next years:

- strengthening of the justice system and the rule of law
- conflict prevention and resolution
- strengthening of media and press freedom

These priorities will be implemented in particular through a micro-projects facility administered by the Delegation in Jakarta (€1.6 million for 2 years).

The EC will ensure that the action "strengthening the rule of law and security" will take into account and build on these existing initiatives.

In addition the EC has started to evaluate what contribution it can make to the Indonesian authorities to support fulfilling their commitments in the fight against terrorism at the international level (implementation of UNSCR 1373), and at the regional and national levels. Technical assistance to the Indonesian Financial Intelligence Unit (PPATK) and Technical Assistance to the Counter-Terrorism Desk have started to develop possible follow up activities. Both Technical Assistance programmes are financed by the Rapid Reaction Mechanism facility.

Re-establishing trust in the judicial institutions is a key element of strengthening the rule of law and security in Indonesia. It requires long-term commitment and confidence-building between partners of the reform process, the Indonesian institutions, civil society and the donor community. Indonesia could benefit from European experience and expertise in the field of judicial and legal reform: many European Member States have legal systems or judicial institutions which have similarities with Indonesian systems or institutions. The proposed EC programme for 2005 will continue the EC commitment to supporting the long-term and difficult reform process of the judiciary. In addition the EC will respond to the needs of the Indonesian Institutions in the field of legal and judicial expertise, in particular in providing capacity building or expertise on counter-terrorism and human rights.

In general, Indonesia should ratify the relevant international conventions in the field of judicial co-operation.

4.2.2. Actions

4.2.2.1 Objectives

The overall objective is to strengthen the rule of law and security in Indonesia and rebuild trust of the general public in the law implementing agencies through improved quality of

services in the judicial institutions and follow-up actions of the counter-terrorism initiatives.

The specific objectives are:

- (a) improve quality of relations and co-ordination between law implementing agencies
- (b) improve the capacity of the law implementing agencies
- (c) improve quality of services in the Courts
- (d) improve access to justice
- (e) improve the capacity to fight against trans-national crime, in particular terrorism

4.2.2.2 Expected results

Expected results are benefits within the law implementing agencies in Indonesia. The programme will generate increased public trust in the judicial institutions. In particular the results of the programme will be:

- increased and improved relations and co-ordination between law implementing agencies
- increased capacity of law implementing agencies in several fields of law, in particular human rights and counter-terrorism
- improved quality of services in district Courts
- improved access to justice
- lower risk of local and international violence

4.2.2.3 Activities

Co-operation activities will include a European Facility for Legal and Judicial Reform. This facility will include exchanges between Indonesian and European Institutions in the field of legal and judicial reform, including through technical assistance to law enforcement agencies in the field of counter-terrorism and human rights. Assistance will be concentrated on a limited number of sectors of particular importance for Indonesia for fulfilling its obligations at the national and international levels in the field of counter-terrorism and human rights.

Co-operation activities will also include the implementation of a pilot project in a selected district Court aiming at setting best practices on Court management and access to Justice. This activity will be implemented in taking into account the lessons learned from the € 10 million programme for judicial reform. The main partners will be the Supreme Court and a selected district Court.

Assistance may take the form of seminars and conferences, provision of expertise, study tours, drafting/ provision/ translation of key legal texts and other relevant documents. Partnerships with law faculties, civil society organizations, research centres in Europe and Indonesia will be particularly encouraged.

Other specific activities will be designed on the basis of on-going anti-terrorism actions which for the moment focus on anti-money laundering strategies. However, additional actions could be identified in the year 2004.

4.2.2.4 Implementation

An identification mission will be launched in 2004 to outline and formulate the programme. Key actors for the Legal and Judicial Reform Facility are the Supreme Court, the Ministry of Justice and Human Rights, the Co-ordinating Ministry for Political and Security Affairs, the Attorney General Office, the Police, the National Law Commission, the future Judicial Commission, Anti-Corruption Commission and the Constitutional Court. Faculties of law, research centres and NGOs are also important partners.

4.2.2.5 Cross-cutting issues

Good governance is a cross-cutting issue aiming at responsible, effective and transparent management of public affairs for all actions proposed in this programme "strengthening the rule of law and security".

Conflict prevention is a cross-cutting issue in the programme strengthening the rule of law and security. By targeting to rebuild trust in the justice institutions the programme will contribute particularly to reduce the potentials of conflicts and violence in Indonesia.

Gender: The programme will promote activities aimed at ensuring that legal reform and the execution of the rule of law and access to justice take account of gender differences (especially the needs of women). In addition, it will ensure that equal opportunities are provided to male and female potential participants to the programme (training, seminars, discussions).

Poverty: poverty reduction is an overarching goal of EC assistance. By targeting better access to justice institutions the programme will support the poorest part of the population in accessing justice.

Environment: Strengthening of the judicial system will also enable better enforcement of legislation concerning the environment and natural resources. This should in turn contribute to improving living conditions in urban areas, and a reduction in conflicts over natural resources in rural areas.

4.2.2.6 Risks and assumptions

Assumptions:

- macro-economic and political stability.
- a continued political support and government commitment to the legal and judicial reform.
- a continued commitment for reform on the part of the Supreme Court.

Risks:

- The 2004 elections may interrupt the political commitment of the government to promote legal and judicial reform as well as reform of the security sector.

- Reforms do not go at the same pace in different justice institutions and disturb progress in the more advanced institutions.
- Fight against corruption does not progress significantly.

4.2.2.7 Main indicators

Indicators will be defined in details during the identification and appraisal missions but will be related to:

- number of better, more coherent and targeted new laws/ regulations/ administrative regulations improving/ clarifying the legal framework on counter-terrorism and human rights
- number of cases brought to Court in the pilot district Court, access to Court by marginalized population
- reports of lessons learned on pilot project and willingness to replicate the experience to other courts.
- number of successful cases in the fight against terrorism and organised crime (including environmental crime).

4.2.2.8 Estimated EU contribution

€10 – 14 Million.

4.2.2.9 Co-ordination

The European Commission will ensure full coherence between the proposed EC programme and government and other donor supported actions in the field of legal and judicial reform. The EC will ensure as well coherence between this programme and the European Initiative for Democracy and Human Rights. This will be achieved through:

- regular CGI working group on legal and judicial reform as well as through the CGI working group on security sector.
- regular information sharing meetings with EU Member States.
- regular meetings with government partners.
- regular consultation meetings with NGO partners.

4.2.2.10 Indicative timeframe

The EC programme “Strengthening the rule of law and security” (budget year 2005) may be a three year programme. Identification and appraisal missions will be launched in 2004 and a commitment made in 2005.

4.3 Priority 3. Economic Co-operation; support to public finance management

4.3.1 Strategy context/Justification

Indonesia's transition to a democratic, decentralized state has shown solid progress in economic policy-making and macroeconomic stability. However, public governance and corruption continue to be an issue. Neither investment levels, nor the quality of public services have returned to their pre-1997 crisis levels, which reflects the serious public sector management challenges that remain.

A 2001 Government White Paper (Reform of Public Financial Management System in Indonesia) calls for greater efficiency, transparency and accountability in the use of public resources. An efficient public finance management system supports the clear and transparent allocation of public resources to prioritized needs. It also ensures a rigorous control on the sources of legitimate revenue for the state. Overall, a sound public finance management system, together with other regulatory elements, contributes to the creation of a favourable environment to foreign and domestic investment and the channelling of required funds into the infrastructure investment needs of the country. The establishment of such a system is also an important factor to build confidence in international donors on the correct use of their assistance to the country.

The GoI has requested the World Bank (WB) to finance a project to support a set of core institutional reforms being initiated by the Ministry of Finance in the area of public finance management. The Ministry desires to implement the reforms rapidly, as it is important for the Government to have this initiative "locked in" before the start of the elections period in June 2004.

The MoF has also indicated its preference to build on current systems and processes as much as possible. Borrowing for technical assistance should be limited, and support should come preferably in the form of grants. The tentative areas to be financed will be embedded within a broader MOF reform programme that the IMF and the WB will support, in close co-ordination with other development partners, including ADB which plays a major role in the area of public finance management reforms in Indonesia.

The European Commission has already been involved in the initial scoping of this initiative. This involvement has taken place at the Delegation level, through a number of meetings of Delegation staff with IMF and WB officials. These initial contacts have concentrated on the design of the specific customs component of the overall programme. EC officials in Brussels have also had meetings with representatives of these and other donor organizations about the initiative and have already indicated their support. The overall initiative fits well with the strategic direction of the European Commission to integrate its interventions with major donors in the form of sector wide approaches, in order to maximize impact and influence in public policy.

4.3.2 Actions

4.3.2.1 Objectives

The overall objective of the programme is to contribute to a sustainable development of the Indonesian economy through the improvement of the Government's ability to manage its public finances.

The specific objectives of the programme are:

- Improve accountability over public expenditures and overall financial control environment by the Ministry of Finance.
- Strengthen the legal framework that regulates the investment environment and the public procurement process in order to promote the channelling of investment flows into the country.
- Contribute to Poverty Alleviation as a result of the positive impact that the action will have on investment and growth and consequently job creation.

4.3.2.2 Expected results

The Programme will produce the following results:

- improved governance and management systems of the Indonesian Government in general and Ministry of Finance in particular, in the area of Public Finance Management and Public Revenue Administration.
- more effective mechanisms in place to monitor and control public expenditure and government revenues.
- regulatory and technical measures defined and/or implemented, which leverage on improved public finance management system, and result on higher level of investment and growth.
- greater consideration given to the European business community in the Indonesian public policy decision making process, particularly as regards budgeting strategy and investment climate improvement.
- Greater confidence of donors and investors in Indonesia's public finance management capacity.

4.3.2.3 Activities

The initial scope of activities comprises:

a) The public expenditure management component could include financing for MOF re-organisation (including human resources aspects), treasury modernization and establishment of a Treasury Single Account; payment system reforms including automation of payment processes; modernization of fiscal risk management systems; and electronic procurement system for the central government.

b) The Tax administration modernisation component could finance implementation of new technologies and systems, upgrading management and information systems for tax tribunals/courts, upgrading training facilities, strengthening oversight and reporting and possible costs of retrenchment/severance.

c) The customs administration modernisation component could finance the modernisation of information technology systems and processes including trade facilitation measures (e.g. increase transparency of trade regulations, single window, simplification of import and export procedures); a valuation database; rationalisation of staff and incentives; trade facilitation measures; upgrading skills and capacity of customs staff; and upgrading customs training facilities.

d) A project implementation component would finance: (a) the design and implementation of a monitoring and evaluation framework and reporting system; (b) the implementation of a change management and communication strategy; and (c) project management and co-ordination.

e) Additional actions suggested by the Indonesian authorities that support the overall objective of strengthening the country's ability to allocate public resources efficiently to productive investments, and attract badly needed foreign direct investment. Within this context, priority areas to explore are:

- Actions intended to support the creation of a more favourable Indonesian investment environment (regulation, labour relations, etc), and the interaction of European and Indonesian business communities leading to the increase of investment flows.
- Actions intended to strengthen the processes by which private and public funding (domestic and foreign) is directed to investment in Indonesian infrastructure and public procurement in general.
- Actions intended to create a more transparent framework for the channelling of foreign development assistance in the form of budgetary support, grants or loans. An example could be the reform of the external audit system where ADB has the leading role among donors.

It should be noted that actions b and, in particular, c should be seen as supporting Indonesia in its endeavour to comply with its WTO commitments. It is also recalled that there will not be any specific activities in the field of TRTA for the reasons mentioned under section 2 above (the implementation of the four-year €8.5 million Trade Support Programme approved in late 2003 will cover the period of the NIP 2005-2006).

The enactment of new legislation in these areas would be seen as a positive sign of the commitment of the GoI to engage in reforms in the sector. The GoI will be informed of EC expectations of a more proactive attitude, in particular as regards the improvement of the investment environment. Actions described under point e) will only be justified if carried out pursuant to reforms in the investment area which should reflect improved conditions for foreign investors.

4.3.2.4 Implementation

The Indonesian Minister of Finance requested the WB to design a programme in the area of Public Finance Management and co-ordinate the contribution of donor partners by pooling resources. The programme will be managed by the WB and possibly the Asian Development Bank. The financial instrument chosen by the WB is an Adaptable Programme Loan (APL).

The programme is initially designed in two phases. The first one is to be launched in 2004. The second one is regarded as a continuation of activities beyond 2005. The participation of the EC in the first phase will likely be through the customs component. The EC is working together with the WB in the design of this customs intervention.

The provisional implementation as suggested by the WB is:

- WB and IMF will agree with Government of Indonesia on overall reform programme within which project financing will be embedded.
- IMF will partner with WB in design, review and quality assurance, in co-ordination with donor partners.
- WB will finance investment and core technical assistance.
- Donor partners' help needed for programme success in design and execution stages.

The provisional programme execution arrangements are:

- Key senior advisers for each programme component to be funded by WB.
- WB will fund project implementation consultants.
- IMF will assist WB with external review and quality assurance.
- Donors to fund technical advisors on the basis of: on-going agreements and agreements reached with the Programme team.

The EC contribution should in any event permit the safeguarding of the objectives of the programme as stated in 4.3.2.1. The EC should be involved in the design of any component where it will eventually contribute with funding, as is the case currently with the customs component. The possibility of entering co-financing agreements with the WB could be carefully considered, as long as the visibility and influence of the EC is ensured.

An alternative implementation modality to take into account is the "twinning", an innovative capacity building instrument successfully used to support the administration of candidate countries for accession to the EU. In the twinning system, civil servants from EU member states are sent to the partner country for a sustained period of time in order to work with the local partners along a clearly designed programme. The twinning system permits the transfer of European expertise, and is particularly appropriate to capacity building programmes in the area of public administration.

4.3.2.5 Cross-cutting issues

The main cross-cutting issue the programme will address is Good Governance, as the objective of the action is to improve the capacity of the GoI to manage its public resources in a more efficient and transparent way.

Opportunities for synergies with programmes supported by the EU in other sectors will be sought (for instance revenue collection in relation to logging), while also ensuring cross-cutting issues such as gender, human rights and environment are taken into account.

4.3.2.6 Risks and Assumptions

Assumptions:

- Macro economic and political stability
- Continuity in the overall policy of the Ministry of Finance

Risks:

- The proposed reform programme needs to be “locked in”, in an overall government improvement action plan. Non endorsement of this action plan by the legislative could jeopardize its implementation.
- Upcoming elections could mean a reorganization of the Ministry of Finance staff and structure.
- Donor overlap could impede progress.

4.3.2.7 Main indicators

More refined indicators on public finance management will be developed during the identification phase on the basis of the actual content of the designed programme. However, the main indicators as regards public finance management out-turns could include:

- Improved primary fiscal balance compared to the original budget.
- Improved aggregate budget expenditure out-turns compared to the original budget.
- Improved composition of budget expenditure out-turn compared to the original budget.
- Improved aggregate revenue out-turn compared to the original budget.

Indicators that reflect improved governance of the Indonesian public administration:

- Corruption indexes (Transparency International Corruption Perception Index, International Country Risk Guide - ICRG, others).

Indicators that reflect an improvement of investment climate and thus economic growth:

- FDI approvals, in number of projects and equivalent value, per year
- Actual value of FDI materialized per year, and as % of GDP growth

- Private investment/Gross Domestic Fixed Investment (%)
- ICRG composite risk rating
- Average time required to complete an FDI approval

Indicators that reflect the improved presence of European business community in budgeting and investment policy making:

- European FDI as % of total FDI into the country

4.3.2.8 Estimated EC contribution

The tentative contribution from the WB to the Programme is \$ 200 million.

An EC contribution of €3.5 million is likely to be committed already in 2004. This initial contribution will be directed to the Customs component of the Programme.

The additional estimated EC contribution for the period 2005-2006 is €8 - 12 million.

4.3.2.9 Co-ordination with Member States and other donors

The rationale behind the implementation modality adopted is the integration of donor efforts into an intervention in an area in order to achieve maximum impact and visibility. The WB is already co-ordinating the design of this programme with other donors and the expectation is that this co-ordination will continue during the rest of the design and the implementation phase.

4.2.2.10 Indicative timeframe

Even though the programme is still in its early stages of development, indications are that it will be part of a long term modernization agenda being addressed by the Ministry of Finance. The activities and actions involved should take place during many years.

In terms of the design phase, the aim is to have a draft design of the overall programme finalized by June 2004. The expectation is that the EC contribution to the customs component of the plan will also be designed by that date. The commitment is expected to be made in 2005.

5 Annexes

5.1 Objectives of the Indonesia Country Strategy Paper 2002-2006

Intensification of a comprehensive European Union dialogue with Indonesia, particularly as regards good governance and human rights;

Assistance in development particularly as regards forestry, water environmental resources, and the provision of health and other basic services to the poor reducing barriers to utilisation of existing services, and increasing their responsiveness for the needs of the poor;

Support to the trade and investment in a framework of more intensive economic co-operation with the European Union and,

To achieve a higher visibility for both European Union aid and the European Union as an economic, and political partner for Indonesia - commensurate with the scale of EU trade and finance for Indonesia.

In accordance with the Country Strategy Paper the focus of the National Indicative Programme (NIP) 2002-2004 is on:

Support to Good Governance and Decentralisation (€70 million)

Sustainable Management of Natural Resources (€56 million)

Economic co-operation (€18 million)

Total 2002-2004: €144 million

5.2 Table of the Mid-term Review of the CSP and NIP

INDONESIA			NIP 2002 - 2004			Shade highlights deviation from NIP					
Projects	NIP	2002	2003	2004							Comments
	144M (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
	Good Governance	70,00									
1.	Good Governance in Health		35,00	35,00			35,00			0,00	
2.	Good Governance in Education							20,00	18,00		€2m transferred to proj. no. 4
3.	Reform of the Judiciary				10,00	10,00	10,00			0,00	
4.	Support for local Democracy				5,00	7,00	7,00			0,00	Funding increased with transfer from project no. 2
	Sustainable Natural Res. Management	51,00									
5.	East Kalimantan Nat.Res. Management		15,00	17,00			17,00			0,00	Funding increased with funds

											transferred from project no 6 and 10
6.	Directorate of Forest Fire Control		1,00	0,00					0,00		Funding transferred to project no. 5
7.	Biodiversity Conservation (Now Forest Law Enforcement, Governance and Trade - FLEGT)				15,00	19,00	19,00			0,00	Financing to be increased with funds to from project no. 10
8.	Social/Community Forestry							10,00	10,00		
9.	River Basin Water Resources							10,00	10,00		
10.	Ad-hoc facility for Sust. Man. Nat. Res.	5,00			5,00	0,00	0,00				Funding transferred to proj. no 7 (€4m) and no 5 (€1m)
	Economic Co-operation	18,00									
11.	Technical Co-operation for Trade/Invest		4,00	0,00	4,00	8,50	8,50	4,00	3,50		
12	Eco. Co-op Small Projects Facility		2,00	6,00	2,00	0,00	6,00	2,00	0,00		

Totals	144,00	57,00	58,00	41,00	44,50	102,50	71%	46,00	41,50	29%
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(1) TOTAL NIP

(2) amount envisaged to be committed in year 2002 as per NIP

(3) amount committed as per Financing decision in year 2002

(4) amount envisaged to be committed in year 2003 as per NIP

(5) Commitment in 2003 (forecast)

(6) NIP committed end 2003 (forecast)

(7) % NIP committed end 2003 (forecast)

(8) amount envisaged to be committed in year 2004 as per NIP

(9) left over in NIP in 2004

(10) % of NIP to be realised in 2004

H/s-s-asia/Indonesia/Mid-Term Review/03-03 MTR NIP table

5.3 List of Thematic and RRM Projects

European Initiative For Democracy and Human Rights - INDONESIA					
<i>PROJECT NUMBER</i>	<i>TITLE</i>	<i>PARTNER</i>	<i>EC contribution</i>	<i>LENGT H</i>	<i>STATUS</i>
B7-707/T-2000/072	Promotion of democracy and support to the reconciliation process	N.C.H.R.P.	103,000	18 months	closed/final report to be submitted
2001/HRDH/A-0059	Empowering of Adat People	I.R.E.	1,233,000	36 months	On-going
2001/HRDH/A-0144	Promoting Democracy-capacity Building in Sumatra	F.N.S.	680,000	36 months	On-going
2001/HRDH/A-631	The Promotion and Protection of Women's Human Rights in Indonesia	Komnas Perempuan	613,000	24 months	On-going
RX 214	Peoples' Voices – Helping Indigenous People to Decide their own Development in Indonesia	Just World Partners	364,705		Contract not signed yet

European Initiative For Democracy and Human Rights - REGIONAL					
<i>PROJECT NUMBER</i>	<i>TITLE</i>	<i>PARTNER</i>	<i>EC contribution</i>	<i>LENGT H</i>	<i>STATUS</i>
B7-701/2001/0219	Protecting and promoting freedom of expression and freedom of information in the ASEAN region	Article 19	412,975	36 months	On-going

NGO Co-financing – INDONESIA					
<i>PROJECT NUMBER</i>	<i>TITLE</i>	<i>PARTNER</i>	<i>EC contribution</i>	<i>LENGT H</i>	<i>STATUS</i>
ONG-PVD/826/00/CSR	Support to YLBHI	NOVIB	900,000	40 months	On-going
ONG-PVD/436/01/NE	Capacity Building of Perdhaki Member Health Units on the Rational Use of Essential Drugs	Cordaid Netherlands	394,748	36 months	On-going
ONG-PVD/422/01/BE	The Development of a Training Programme for SBSI	WSM Belgium	997,769	48 months	On-going
ONG-PVD/2002/019-846/ID	Community Based Economic Development through Capacity Building and Income Generation for Marginalised Farmers and Small Scale Entrepreneurs in West Timor and Bali	Evangelische Zentralstelle fuer Entwicklungshilfe E.V.	750,000	36 months	On-going

NGO Co-financing – REGIONAL

<i>PROJECT NUMBER</i>	<i>TITLE</i>	<i>PARTNER</i>	<i>EC contribution</i>	<i>LENGT H</i>	<i>STATUS</i>
ONG-PVD/2002/019-958/RAE	Disability Rights, Empowerment, Awareness and Mobility in Indonesia and Thailand – DREAM IT	Voluntary Service Overseas	703,142	36 months	On-going

Aid to uprooted people/ Refugees- INDONESIA

<i>PROJECT NUMBER</i>	<i>TITLE</i>	<i>PARTNER</i>	<i>EC contribution</i>	<i>LENGT H</i>	<i>STATUS</i>
IDN/AIDCO/2000/2563 - AS3/RELEX/2000/2238-2	Assistance to the Refugees in West Timor	UNHCR	6,000,000	24 months	On-going
IDN/AIDCO/2001/0480	Primary Education project for IDP and local children in Maluku	Save the Children	1,720,000	36 months	On-going
IDN/AIDCO/2001/0479	Peace and tolerance magazine, North Maluku	World Vision	860,000	36 months	On-going
ID/2002/2984	Support for reintegration and economic recovery in Maluku and Central Sulawesi	Mercy Corps Scotland	1,489,227	24 months	On-going
ID/2002/2985	School reconstruction/rehabilitation in North Maluku	Danish Refugee Council/ CARDI	580,893	24 months	On-going

Tropical Forests – INDONESIA

<i>PROJECT NUMBER</i>	<i>TITLE</i>	<i>PARTNER</i>	<i>EC contribution</i>	<i>LENGT H</i>	<i>STATUS</i>
B7-6200/02/0560/TF	Berau Forest Bridging Project - Indonesia - Government of Indonesia	GoI - DHV consultants	697,986	17 months	On-going
B7-6200/02/0639/TF	Improving the Rattan resource management and trading system in Kalimantan	SHK Kaltim	1,793,871	60 months	On-going
IDN/B7-6201/IB/1999/0349/DEV/FT	The Underlying Causes and Impacts of Fires in Indonesia	CIFOR	981,625	48 months	On-going
B7-6200/02/0640/TF	Promotion of ecologically sustainable, socially equitable and economically viable Forest management in Indonesia	Indonesian Ecolabelling Institute (LEI)	924,647	24 months	On-going

B7-6200/02/0641/TF	Communal management of tropical forests and reforestation of degraded grasslands as an integrated strategy for rural development	Yayasan Dian Tama	836,365	60 months	On-going
AIDCO/B7-6200/01/0389/TF	Participatory land use planning for sustainable forest resource management in the Tanimbar Islands, eastern Indonesia	CIRAD-Forêt	991,905	36 months	On-going

RRM PROJECTS

RRM – INDONESIA					
<i>PROJECT NUMBER</i>	<i>TITLE</i>	<i>PARTNER</i>	<i>EC contribution</i>	<i>LENGT H</i>	<i>STATUS</i>
n/a	TA - Implementation of the Special Autonomy	CR (consultant)	n/a	6 months	cancelled
RRM/2002/02-0024.00	Local government accountability in the implementation of Special Autonomy in Papua	ICS	59,814.30	6 months	Completed (November 2002-April 2003)
RRM/2002/02-0025.00	Promoting the rights and role of women towards conflict prevention in Papua	ELSHAM	108,241.88	6 months	Completed (January-June 2003)
N/a	Monitoring of the Cessation of hostilities agreement in Aceh	Henry Dunant Center	2,300,000	6 months	Completed (December 2002 –May 2003)

5.4 On-going ECHO Projects in Indonesia

N°	TITLE	PARTNER	BUDGET	ENDS
1	Protection of women and girls in conflict-affected regions	ICMC	263.712	31-janv-04
2	Informed Decision making for East Timorese refugees	OXFAM GB	278.221	12-janv-04
3	Strengthening humanitarian protection and reconciliation through Institution building	IOM	346.662	15-févr-04
4	West Timor emergency relief aid	CARE UK	600.000	28-févr-04
5	Emerg. Preparedness and response in Papua	MSF/B	244.000	03-févr-04
6	Primary school education W Kalimantan	SC UK	160.000	31-mars-04
7	Assistance to the Maluku provincial government in finding durable solutions for IDPs	OCHA	90.000	30-avr-04
8	Land rehabilitation and capacity building support to Madurese IDPs	IOM	119.000	30-juin-04
9	Aceh and North Sumatra IDP preparedness and assistance.	OXFAM GB	280.000	10-mars-04

5.5 Minutes of a meeting with EU Member States for the preparation of the NIP 2005-2006

A meeting with member States' representatives took place on 02.10.2003, to have a first exchange of views on the preparation of the NIP 2005-2006.

Were present: It (Presidency, Deputy HoM); NL (dy HoM); UK (DfID); Aus (Amb.); Fin (Amb.); D (dev. Cslr); P (cslr); Sw (young "stagiaire"); B (dy HoM); Sp (Amb.); Dk (Amb.); Czech Rep. (dy HoM); Hun. (Amb.) Pol. (dy HoM).

The Chargé de Mission presented the programming process at the EC (CSP, NIP, MTR, etc.) to introduce the purpose of the meeting. The figures of the CSP and the NIP 2002-2004 were mentioned as well as the steps in the formulation of the NIP 2005-2006. He also presented briefly the EC reform process, with the "deconcentration" and its consequences on project implementation, referring to the new, accrued role of the Delegation; and the new financial regulations with the stress on ownership by the beneficiary of the co-operation. The new co-operation approach, favouring sector wide approaches was also explained.

During a first "tour the table" it appeared clearly that there is an important deficit of information about EC procedures and serious flaws in the flows of communication between the Delegation and the MS (despite the continued efforts of the Delegation, and mainly due to the configuration and functioning of MS Embassies in Jakarta), internally in the Embassies (where there seems to be a clustering between sections) and between the Embassies and their capitals.

Most of the participants were not aware of the levels of EC commitment in Indonesia; they did not seem to be acquainted with the mechanisms of EC aid programming and their own role in the process. They did not seem at all aware of the CSP mid-term review. Moreover, there was a serious confusion about the EC co-operation instruments available.

The most common request by the MS was to "update" our co-operation with Indonesia, taking into consideration the Bali and the Marriot bombings. The "approach has changed" (Italy) and the EC should "adjust" its programmes and focus on security issues. The nr.1 challenge in the country is terrorism and the EC programming should reflect it. The "UK-NL non-paper" was repeatedly mentioned (It; B; Dk) as the guidance that should be followed for the present programming phase.

The chargé de Mission explained that the purpose of the MTR had been, among others, to adjust the CSP, if needed; and if not, to provide the input to assure that the new NIP would take into consideration the evolution of the situation. And this was precisely the purpose of the present meeting. He added that there were specific budget lines and instruments, like the RRM, to deal with the issue of fight against terrorism and conflict

prevention⁷. He clarified that the NIP was meant as an instrument for identifying sectors of intervention for the technical and financial budget line and for the economic co-operation budget line. He also recalled the legal basis for such co-operation (art. 177 of the EU Treaty). The horizontal/thematic budget lines would complete the scope of EC co-operation in the logic of the CSP.

But the UK-NL non-paper came reiteratively back as a reference “to establish where we are and where we want to go” (Italy). The Commission’s reply to the non-paper was considered as “unintelligible” by the Belgian representative, who could not see “what is the reason behind the ‘reluctance’ towards the document”. Moreover, according to the MS, other aspects mentioned in the non-paper deserve particular attention: the necessity of establishing better connections with the business community and the need to improve the visibility of the EU in Indonesia (as it has been the case, according to the Italian representative, in India and in China: “Indonesia also deserves it”).

While the Italian representative agreed that the non-paper was not a good document, he considered it in any case a “good starting point” to “establish where we are in our co-operation with Indonesia” and as an input for the programming exercise. The Danish Ambassador added that “Brussels (the COASI and the ALA committee) should listen to what is said here”.

The Chargé de Mission explained the sense of the Commission reply to the non-paper, clarifying that the co-ordination mechanisms proposed in it did already exist as a matter of fact and that the present meeting was actually part of these mechanisms. The Chargé de Mission also explained that all these aspects were already taken into consideration both in the present programming strategy and in the Communication on the New Partnership with South East Asia (and the MS did not seem to be very familiar with this document either).

The discussion was further complicated by the intervention of the acceding states (Czech Rep. Hungary and Poland) that are also (legitimately) unaware of the EC procedures.

Even though, at the end of the meeting there was a general satisfaction on the side of the MS about the explanations received, it is clear that to be really productive, this kind of exchange should be based on a much better understanding of the programming mechanisms of the EC.

The meeting with the MS permitted in any case to gather elements to be taken into consideration in the programming exercise. In particular were mentioned:

The need to promote security through EC co-operation
The need for a closer co-operation between the EU and Indonesia

⁷ Several participants criticised the RRM as not rapid at all and mentioned the fact that the repeated visit by consultants carrying out identification missions was badly perceived locally. The EU “is not a player when it comes to security”, contrary to US, Japan and Australia.

The need to promote people-to-people co-operation and to involve more SMEs
The fact that initiatives in the education sector would contribute to consolidate security
The fact that environment and forestry are sectors where the international co-operation as an irrelevant impact and where there is a lack of convincing strategies.
The need to promote investments in Indonesia, by increasing trust and confidence in the country among EU investors
The need to improve the visibility of the EU in the country
The need to include a consideration on how to promote employment and how to take into consideration the “grey economy”